



*Universidade Federal de Paraíba (UFPB)
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Public sector accounting reforms: Portugal in the European context



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Agenda

1. CIGAR – a network of public sector accounting research
2. Public sector accounting reforms, IPSASs and EPSASs
3. Public Sector Accounting reform in Portugal towards IPSASs – the new SNC-AP
4. Reforms challenges – «does one size fit all»?
 - PORTUGAL
 - EUROPE

1. CIGAR Network

- **Mission** to promote worldwide discussion and research on comparative governmental accounting
- ...Through the organisation of **biennial conferences, biennial workshops** dedicated to more specific research themes, and a regularly appearing **Newsletter**
- ...encourages the production of individual and joint papers, preferably in an international comparative perspective, and the **publication of books and journal special issues** comprising selections of papers presented at our conferences and workshops
- ... has stimulated **debates about international comparative governmental accounting research**, but it has also hosted presentations and discussions on a **broad spectrum of public and not for profit accounting research**, including financial reporting, management accounting and auditing
- **Long-lasting openness to practitioners and standard-setters** (e.g. IPSASB, Accountancy Europe, Eurostat, as well as a significant number of individuals in charge of accounting in public institutions or working in the accounting and auditing profession) – this is an asset for the development of knowledge

“TASK FORCE OF NETWORKS”

OBJECTIVE:

Reply to the ED and CP of IPSASB, in an attempt to reinforce the impact of academics on the standard-setting and practice of public sector accounting.



COMMENTS:

- HERITAGE (led by Johan Christiaens)
- REVENUE AND NON EXCHANGE (led by Marco Bisogno)
- SOCIAL BENEFITS (led by Yuri Biondi)
- LEASES (led by Isabel Brusca)
- IPSASB STRATEGY AND WORK PLAN 2019-2023 (led by Francesca Manes Rossi)

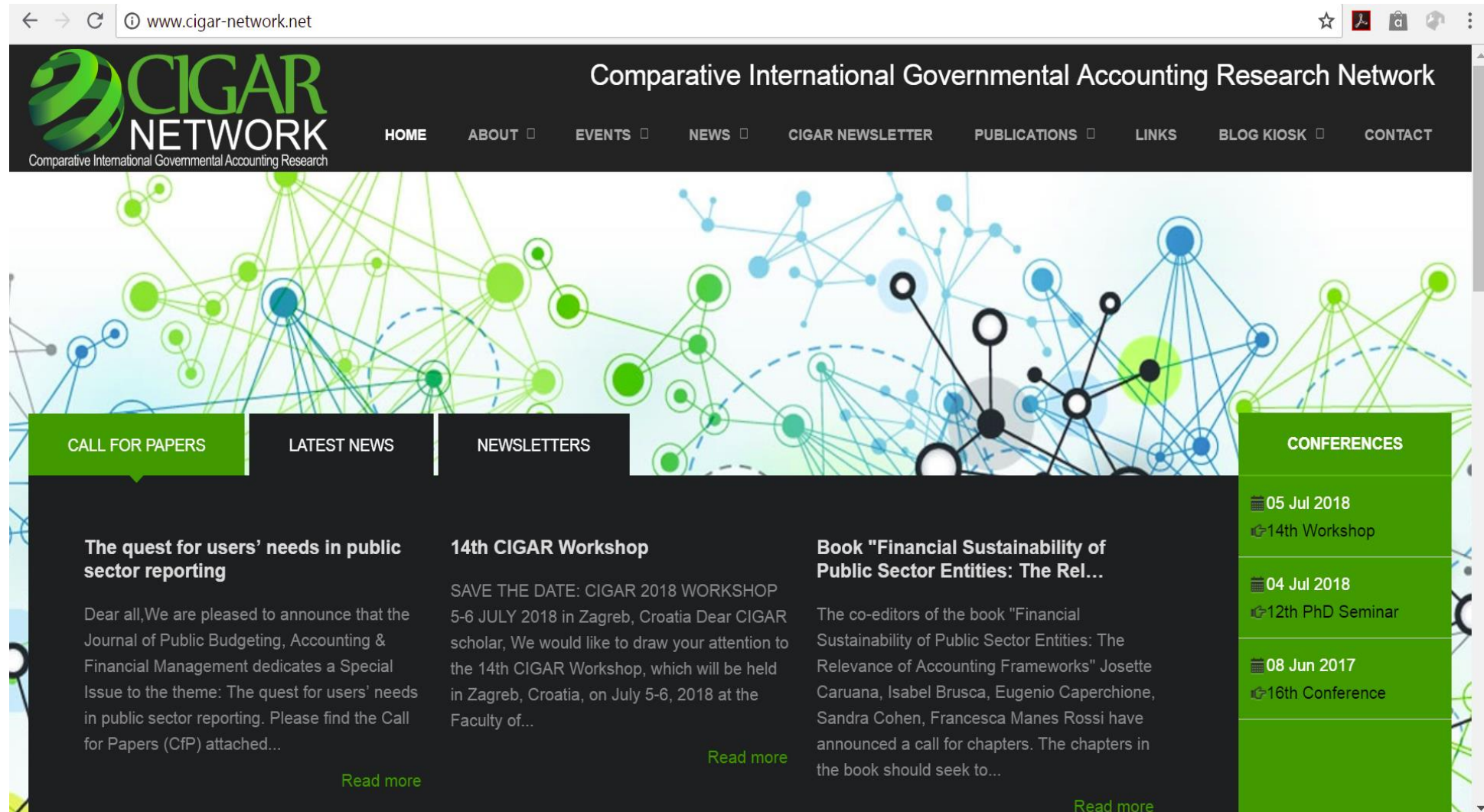


COMPOSITION:

15 researchers from these networks, representing their individual views.



<http://www.cigar-network.net/>



← → ↻ ⓘ www.cigar-network.net ☆ 📄 🛒 🔄 ⋮

CIGAR NETWORK
Comparative International Governmental Accounting Research

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CALL FOR PAPERS LATEST NEWS NEWSLETTERS CONFERENCES

The quest for users' needs in public sector reporting

Dear all, We are pleased to announce that the Journal of Public Budgeting, Accounting & Financial Management dedicates a Special Issue to the theme: The quest for users' needs in public sector reporting. Please find the Call for Papers (CfP) attached...

[Read more](#)

14th CIGAR Workshop

SAVE THE DATE: CIGAR 2018 WORKSHOP 5-6 JULY 2018 in Zagreb, Croatia Dear CIGAR scholar, We would like to draw your attention to the 14th CIGAR Workshop, which will be held in Zagreb, Croatia, on July 5-6, 2018 at the Faculty of...

[Read more](#)

Book "Financial Sustainability of Public Sector Entities: The Rel..."

The co-editors of the book "Financial Sustainability of Public Sector Entities: The Relevance of Accounting Frameworks" Josette Caruana, Isabel Brusca, Eugenio Caperchione, Sandra Cohen, Francesca Manes Rossi have announced a call for chapters. The chapters in the book should seek to...

[Read more](#)

CONFERENCES

- 05 Jul 2018
14th Workshop
- 04 Jul 2018
12th PhD Seminar
- 08 Jun 2017
16th Conference

Newsletter (I)



- 2019 Conference (SAVE THE DATE!)

Our next biennial conference will be in Amsterdam (Vrije Universiteit), in June 13-14, 2019 (PhD seminar, June 12), hosted by our colleague Tjerk Budding, under the theme “Alternative views on Public Sector Accounting and Financial Management”. Special issues of journals are already being considered and a website is under construction. For further information at this stage, please contact Tjerk Budding directly (g.budding@vu.nl).

Newsletter (II)

CIGAR Network: CALL FOR BOARD MEMBERS AND VENUES FOR FUTURE EVENTS

The CIGAR Board will be renewed next year (by June 2019), so it is time to raise candidacies for **volunteering in the Board**. A call for interest is open from now on. Those interested should send a summarized CV, as well as a letter highlighting the contributions expected to be given to our Board and Network, to our Chair, Eugenio Caperchione at cigar2009@unimore.it.

We are also opening a **call for venues and themes for CIGAR future events**, namely the Workshop in 2020 and the Conference in 2021. Those interested should contact Eugenio Caperchione as soon as possible, as we have a standard format for this proposals. ■

2. Public sector accounting reforms, IPSASs and EPSASs (I)

- **INTERNATIONAL SCENARIO**

- Early 1980s – NPM and accruals
- Late 1980s – harmonization in PSA – IPSASs project started in 1997 by IFAC-PSC (2008 became IPSASB)
- Encouragement and lobbying for the adoption of IPSASs across the world, pushed by the global financial crisis

- **EUROPE – ORIGIN OF EPSASs**

- Single currency requires for fiscal discipline, monitored via GFS/NA
- **Public sector accounting is the source for NA regarding the GGS**
- Reliability of the GFS is a crucial issue – *Six Pack (November 2011)*
- 2012 – Eurostat led a public consultation about the suitability of IPSASs for EU-MS (only 68 answers, 38% favourable, 31% partially favourable) – **resistance**
- 2013 – conference in Brussels discussing PSA harmonization in the EU

2. Public sector accounting reforms, IPSASs and EPSASs (II)

(...)

- Studies of E&Y 2012 and PwC 2014, on the use of accruals, proximity to IPSASs and cost-benefit of EPSASs
- 2013 – Eurostat contracted a study to analyse the potential costs and benefits, taking IPSASs as a proxy for future EPSASs
 - *Towards implementing harmonised public sector accounting standards in member states, the suitability of IPSAS for the member states. Report from the Commission to the Council and the European Parliament [COM(2013) 114 final], Brussels, Belgium, March 6.*
 - *Commission staff working document, accompanying the report from the Commission to the Council and the European Parliament. Towards implementing harmonised public sector accounting standards in Member States, The suitability of IPSAS for the Member States, [SWD(2013) 57 final], Brussels, Belgium, March 6.*



IPSASs, as they are, are not appropriate for the EU, but they are an important reference to EPSASs

2. Public sector accounting reforms, IPSASs and EPSASs (III)

Standards that might be implemented with minor or no adaptation	Standards that need adaptation, or for which a selective approach is needed	Standards that are seen as needing to be amended for implementation
<p>IPSAS 1 — Presentation FS</p> <p>IPSAS 2 — Cash flow</p> <p>IPSAS 3 — Fundamental errors and changes in accounting policies</p> <p>IPSAS 4 — Changes in foreign exchange rates</p> <p>IPSAS 5 — Borrowing costs</p> <p>IPSAS 9 — Revenue from exchange transactions</p> <p>IPSAS 10 — Hyperinflationary economies</p> <p>IPSAS 11 — Construction contracts</p> <p>IPSAS 12 — Inventories</p> <p>IPSAS 14 — Events after the reporting date</p> <p>IPSAS 16 — Investment property</p> <p>IPSAS 19 — Provisions, contingent liabilities, contingent assets</p> <p>IPSAS 27 — Agriculture</p> <p>IPSAS 32 — Service Concessions</p>	<p>IPSAS 7 — Investments in associates</p> <p>IPSAS 8 — Interests in joint ventures</p> <p>IPSAS 13 — Leases</p> <p>IPSAS 15 — Financial instruments: Presentation</p> <p>IPSAS 17 — Property, plant and equipment</p> <p>IPSAS 18 — Segment reporting</p> <p>IPSAS 20 — Related party disclosures</p> <p>IPSAS 21 — Impairment of non-cash-generating assets</p> <p>IPSAS 22 — Disclosure general government sector</p> <p>IPSAS 23 — Revenue from non-exchange transactions¹⁰⁹</p> <p>IPSAS 24 — Presentation of budget information</p> <p>IPSAS 25 — Employee benefits</p> <p>IPSAS 26 — Impairment of cash-generating assets</p> <p>IPSAS 31 — Intangible assets</p>	<p>IPSAS 6 — Consolidated financial statements</p> <p>IPSAS 28 — Financial instruments: Presentation</p> <p>IPSAS 29 — Financial instruments: Recognition and measurement</p> <p>IPSAS 30 — Financial instruments: Disclosure</p>

2. Public sector accounting reforms, IPSASs and EPSASs (IV)

Pontoppidan, C. A. & Brusca, I. (2016) The first steps towards harmonizing public sector accounting for European Union member states: strategies and perspectives, *Public Money & Management*, 36:3, 181-188

- Origin and conception of EPSASs:
 - **Public consultation** on the suitability of IPSASs (accounting **technic**) and on EPSASs **governance** (structure and process) with **low participation**
 - IPSASs might be the basis, because of the proximity to IFRSs, but **not consensus** (adequacy and political legitimacy)
 - Even **accruals are not consensual**
 - IPSASs allow for **too many options and flexibility** – EU needs more harmonization, including with NA
 - “EU is creating a **regional governance** of their public sector accounting”, deviating from IPSASs – **regionalism v. globalization** (not only in EU) – **national institutional arrangements and economies affecting global regulation in PSA; regional priorities and conflict of interest between local and global standard-setters**
 - **EUROSTAT (EC) is taking the lead** – EPSASs committee (standards and interpretations) and advisory board

2. Public sector accounting reforms, IPSASs and EPSASs (V)

EPSASs Working Group (EUROSTAT) – progressive approach to EPSASs (project started in 2016)

- Until 2020 MS shall adopt accruals (IPSASs?) and in parallel developing EPSASs
 - *GUIDANCE FOR THE FIRST TIME IMPLEMENTATION OF ACCRUAL ACCOUNTING*, 5 April 2017
- EPSASs Governance principles
- EPSASs CF
- EPSASs issues papers 2016-2018 (15 – E&Y): small as less risky entities; options in IPSASs; taxes; heritage assets; employee benefits (pensions); social benefits; infrastructure assets; segment reporting; military assets; social contributions; national harmonization of chart of accounts; discount rates; intangible assets; grants and other transfers; disclosures

... BUT, there are no EPSASs yet!!!

2. Public sector accounting reforms, IPSASs and EPSASs (VI)

(From a presentation of the Head of the EPSAS Group – Zagreb, July 2018)

- **ECOFIN** (Nov 2017) – respect the principles of subsidiarity and proportionality on a clear legal basis; detailed impact assessment; comprehensive account of both positive and negative impacts
- Several impact studies (some already mentioned) – PwC 2016-18 (capacity issues in MS; how can EPSASs support financial audit and control; methodology to measure financial reporting transparency in MS)



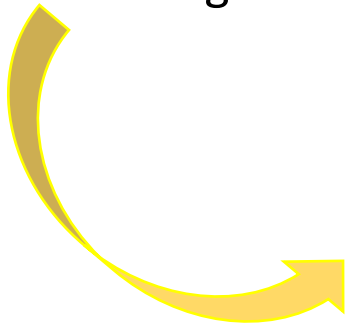
OPTIONS FOR ANALYSIS (!)

- Binding European CF and binding EPSASs
- Binding European CF with recommended EPSASs
- Recommended European CF with recommended EPSASs
- Discontinue work on completely on EPSASs

3. Public Sector Accounting reform in Portugal towards IPSASs – the new SNC-AP

Previously to the reforms...

- Public sector accounting standards (cash + accrual) **fragmented and inconsistent**
 - Co-existence of accounting systems based on *principles* with accounting plans in the public sector, essentially based on *rules*
 - Absence of a conceptual framework
 - Cost/Management Accounting rules only for Local Government and Education sector
 - Consolidation – only in accounting rules for the Education sector; need for further and general guidance by the former public sector accounting standard-setter (Orientation 1/2010)



- Affects **efficiency in consolidated accounts** in the public sector
- Implies several non-desirable **adjustments** that question **information reliability** when to be integrated
- **Problem** felt overall public sector, particularly in entities as **DGO, DGAL and INE**, who have to **aggregate information prepared on the basis of budgetary and financial information systems that are inconsistent**, to built macroeconomic indicators indispensable for decision-making within the scope of fiscal and monetary policies at the EU level

Why an IPSAS-based system?

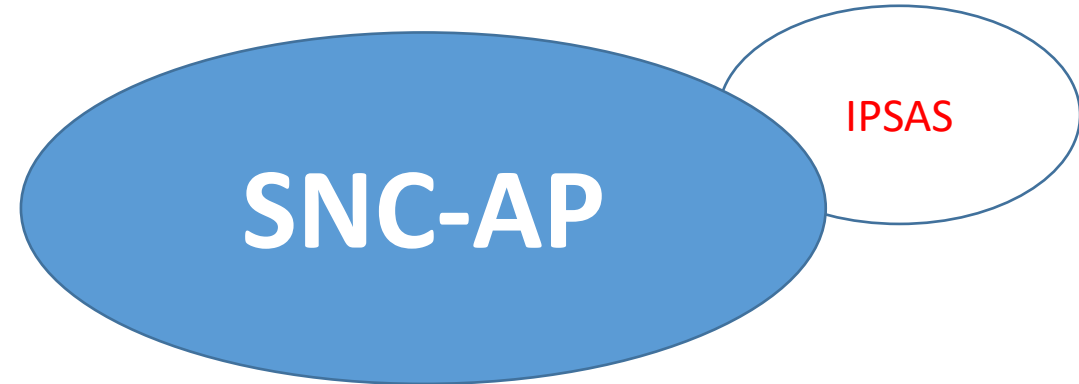
- ✓ Incongruences and insufficiencies of the current system – new informational needs
- ✓ Reformed happened in business accounting
- ✓ **External imposition – “troika” (lenders’ requirements)**
- ✓ *“Political entrepreneur”* – SEAO
- ✓ IPSASs are the only legitimised international reference
- ✓ Legitimation to follow “best practices”

‘Sistema de Normalização Contabilística para as Administrações Públicas (SNC-AP)’

General Characterization

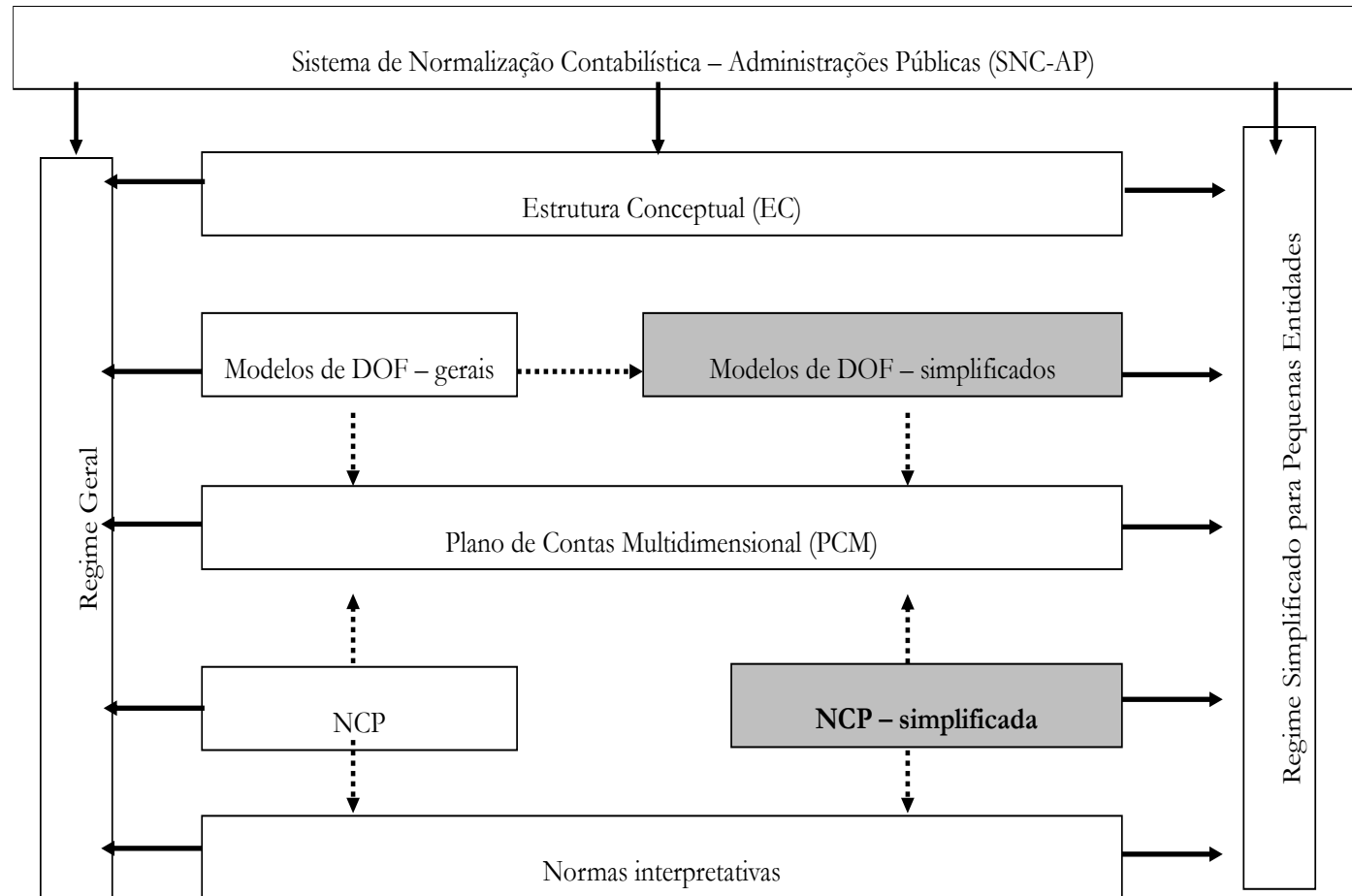
SNC- AP (Law-decree 192/2015, September 11)

- **27 NCP** (general regime) + **1 NCP** (simplified regime)
- **Conceptual Framework** (Financial Accounting)
- **Multidimensional Chart of Accounts (PCM)**



- Individual, consolidated and segment reporting
- 25 NCP IPSAS-based; 2 innovative – **NCP 26 – Budgetary Accounting and Reporting and NCP 27 – Management Accounting**
- Multidimensional Chart of Accounts (PCM) – financial accounting transactions, nature of budgetary expenditure and revenue and National Accounts aggregates (“tri-dimensional” reporting)... and also **assets inventory**

SNC-AP – Structure



SNC-AP – Standards

Normas de Contabilidade Pública (NCP)	IPSAS
NCP 1 – Structure and Content of Financial Statements	<i>IPSAS 1; IPSAS 2</i>
NCP 2 – Accounting Policies, Changes in Accounting Estimations and Errors	<i>IPSAS 3</i>
NCP 3 – Intangible Assets	<i>IPSAS 31</i>
NCP 4 – Service Concession Agreements: grantor	<i>IPSAS 32</i>
NCP 5 – Tangible Assets	<i>IPSAS 17</i>
NCP 6 – Leases	<i>IPSAS 13</i>
NCP 7 – Borrowing Costs	<i>IPSAS 5</i>
NCP 8 – Investment Property	<i>IPSAS 16</i>
NCP 9 – Impairment of Assets	<i>IPSAS 21; IPSAS 26</i>
NCP 10 – Inventories	<i>IPSAS 12</i>
NCP 11 – Agriculture	<i>IPSAS 27</i>
NCP 12 – Construction Contracts	<i>IPSAS 11</i>
NCP 13 – Revenue from Exchange Transactions	<i>IPSAS 9</i>
NCP 14 – Revenue from Non-Exchange Transactions	<i>IPSAS 23</i>
NCP 15 – Provisions, Contingent Liabilities and Contingent Assets	<i>IPSAS 19</i>

SNC-AP – Standards (cont.)

Normas de Contabilidade Pública (NCP)		IPSAS
Financial Investments and Consolidation	NCP 16 – The Effects of Changes in Foreign Exchange Rates	IPSAS 4
	NCP 17 – Events After the Reporting Date	IPSAS 14
	NCP 18 – Financial Instruments	IPSAS 15; IPSAS 28; IPSAS 29; IPSAS 30
	NCP 19 – Employee Benefits	IPSAS 25
	NCP 20 – Related Parties Disclosures	IPSAS 20
	NCP 21 – Separate Financial Statements	IPSAS 34
	NCP 22 – Consolidated Financial Statements	IPSAS 35
	NCP 23 – Investments in Associates and Joint Ventures	IPSAS 36
	NCP 24 – Joint Arrangements	IPSAS 37
	NCP 25 – Segment Reporting	IPSAS 18
	NCP 26 – Budgetary Accounting and Reporting	-----
	NCP 27 – Management Accounting	-----
	NCP-PE – Public Sector Accounting Standard – Small Entities	-----

SNC-AP Subsystems

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Budgetary Accounting

Allows for a detailed record of the whole budgetary process – MODIFIED CASH BASIS, NOMINAL VALUE, CLASSE 0 (budget management vs. budget accomplishment)

Financial Accounting

IPSAS-based; allows recording transactions and other events affecting the entity's financial position, financial performance and cash flows – ACCRUAL BASIS, COST AND MARKET VALUE, CLASSES 1 TO 8

Management Accounting

Allows assessing the outcomes of activities and projects that contribute to the effectiveness of public policies, and the accomplishment of objectives in terms of service provision to citizens – ACCRUAL BASIS

Budgetary Accounting

✓ *NCP 26 – Budgetary Accounting and Reporting (+LEO e RFALEI):*

- Conceptual structure
- Chart of Accounts – Class 0 comprising all phases of execution of revenue (budget, liquidation and receipt) and expenditure (budget, “*cabimento*”, commitment, obligation and payment), and future commitments and liquidations
- Economic classification remains, but it is to be revoked in the future by PCM
- Estimated and actual statements (accounts)

INDIVIDUAL ACCOUNTS

➤ **Estimated statements:**

1. Budget, within a **budgetary multiannual program**
2. Multiannual investment plan (PPI)

➤ **Reporting statements:**

1. **Budgetary performance statement**
2. Revenue budgetary execution statement
3. Expenditure budgetary execution statement
4. Statement of the execution of the Multiannual investment plan (PPI)

Notes to the budgetary statements

CONSOLIDATED ACCOUNTS

1. Consolidated statement of budgetary performance
2. Consolidated statement of receivables and obligations by nature

Financial Accounting

- ✓ Conceptual framework
- ✓ PCM – Classes 1 to 8, approaching the business accounting chart of accounts, with accounts to transactions particular to the public sector
- ✓ *NCP 1 to NCP 25* – **accruals regime and substance over legal form**
 - Consolidated accounts (NCP 21 to NCP 24)
 - Segment reporting (NCP 25)
 - Certain transactions particular to the **REPORTING ENTITY “STATE”**
 - Financial statements (individual and consolidated)

Balance Sheet (Assets, Liabilities, Net Assets/Equity)

Income Statement by Nature (Revenue, Expenses and Net Income)

Statement of Changes in the Net Assets/Equity

Cash flow statement (with a conciliation between the final balance of cash and equivalents – accrual basis, and the budgetary balance to the following year – cash basis)

Notes to the financial statements

**There is an encouragement
to prepare estimated
financial statements**

Conceptual Framework (Annex I of Law-decree 192/2015)

1. Introduction
2. Distinctive characteristics of Public Administrations
3. Purposes of the CF
4. Objectives and users (addressees?) of general purposes financial statements
5. Qualitative characteristics of financial information
6. Reporting entity
7. Elements of the financial statements
8. Recognition of the elements of the financial statements
9. Measurement of the elements of the financial statements

PCM – characteristics (Annex III of Law-decree 192/2015)

- **Structure, as much as possible, close to the chart of accounts for business accounting**, to facilitate consolidation of accounts
- **Accounts for transactions specific to the Public Administrations** (e.g., public domain assets, transfers and grants, and revenues from taxes, contributions and fees), generally in accounts which second digit is “0” (zero)
- **Specific levels of disaggregation to fulfil the needs of some subsectors** (e.g., sub-accounts to health, education, municipalities or social security), nevertheless assuring homogeneity with the main accounts

PCM – components (Annex III of Law-decree 192/2015)

- A **synthetic table with accounts** from Classes 1 to 8 to record transactions and events in the financial accounting subsystem and, *in the future*, to classify budgetary operations according to their nature
- An **accounts codified list** (Accounts Code) from Classes 1 to 8
- A **table of correspondence between budgetary items and the accounts of the PCM**
- A **table of correspondence between the accounts of the PCM and the main accounts of ESA (National Accounts)**
- A **classifier of the entities** (Complementary classifier 1)
- A **classifier of goods and rights for the purpose of assets inventory and useful lives** (Complementary classifier 2)

Consolidated accounts

- The perimeter for **budgetary consolidation** embraces the sub perimeters referring to **central and local administration, social security and autonomous regions**.
- Entities included in each sub perimeter are, in the case of central administration and social security, **those which, in each accounting period, are integrated within the scope of the State's Budget** and, in the case of the **autonomous regions, those entities that are included in the regional budgets**.
- In the case of **local administration, the consolidation perimeter comprises all entities included in this subsector in the last sectorial accounts** published by the national statistics authority, in accordance with ESA.
- The perimeter for **financial consolidation** embraces the entities referred to in n.1, as well as the **entities controlled** by public administrations. (NCPs...)

Management Accounting

✓ *NCP 27 – Management Accounting:*

- Guidance to the **compulsory application** in all public sector entities of a cost and management accounting system, aiming at
 - Determining the cost (and, when applicable, the income) per activities, functions, goods and services, underlying prices and fees
 - Determining the production cost of fixed assets
 - Determining environmental costs
 - Providing economic justification to decision-making
- Conceptual framework – definition and types of costs and costing systems
- **Costs allocation** – *Activity Based Costing (ABC)*
- **Indicates the information to be disclosed in the annual reporting**
 - Actual vs. estimated costs
 - Costs vs. prices
 - ...


Chart of accounts – Class 9
Income statement by functions/activities

SNC-AP – scope of application

- Applies to **all services and bodies within central, regional and local administration**, which do not have the nature, form and designation of government business enterprise, as well as to the social security subsector, and to the **RECLASSIFIED PUBLIC SECTOR ENTITIES (RPE)**.
- **“Reclassified public sector entities” are those that, regardless their form or designation, have been included in the subsectors of central, regional and local administration and social security, according to the scope of ESA – European System of Regional and National Accounts, in the last sectorial accounts published by the national statistics authority.**
- Still, SNC-AP does not apply to government business enterprises with financial instruments listed in a regulated market, except as to the accomplishment of the requirements concerning budgetary accounting and reporting.
- SNC -AP does apply to RPE from the year following that of its inclusion in the respective subsector; it does not apply from the year following that of its exclusion out of the respective subsector.

Simplified Regime and NCP-PE

Applicability

- 
- Entities with minor dimension and budgetary risk – **OPTION**
 - **SMALL ENTITIES (PE)** or **MICROENTITIES (ME)**, if the former do not choose to apply the SNC-AP general regime and the latter do not choose to apply the general regime or that of the small entities.
 - But... possibility of, on the basis of a risk analysis, a PE comes to apply the general regime, or a ME comes to apply the simplified regime for PE
 - Simplified accounting and reduced reporting (disclosure) obligations compared to the general regime
 - Limits for the materiality of the budgetary execution – established by the **Court of Accounts**

Small Entities

1 Million euro <

Total amount of **budgetary paid
expenditure**
(accounts of the last two periods)

≤ 5 Million euro

Standards:

- NCP-PE
- NCP 26 – Budgetary Accounting and Reporting
- NCP 27 – Management Accounting
- Multidimensional Chart of Accounts (PCM)

**Budgetary,
Financial and
Management
Accounting**

... and also the **CONCEPTUAL FRAMEWORK**

Microentities

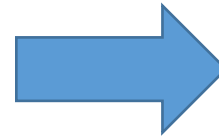
Total amount of **budgetary paid
expenditure**
(accounts of the last two periods)

≤ **1 Million euros**

Standards:

- NCP 26 – Budgetary Accounting and Reporting
- Disclosure of the list of all property

...



**Only Budgetary
Accounting**

4. Reforms challenges - «does one size fit all»?

PORTUGAL

Apparently YES... but, there is a simplified regime,
despite derived from the same basis

Particular issues



Implementation
Manual

- **Standard-setting – “participative process”**, by several stakeholders, **BUT...**
- **Standards that were simplified**
 - Financial instruments – minor applicability, though might have high materiality
 - Employee benefits – many things do not apply (e.g. in Portugal pensions schemes are of fixed contributions, not of fixed benefits)
- Standards believed needed
 - Budgetary and financial reporting – heavy **influence of budgetary issues**
 - Management accounting
- Objectivity in some alternatives – fair value replaced by property tax value (VPT)
- **Certified accountant** – political/bureaucratic issue (Government vs. Accountants Institute)
- Budgetary and financial statements are **independently and legally audited**, except those of the entities within the simplified regime.
- Entities without any accruals expected to be of major concern

Challenges

- HARMONIZATION – Implementation from January 2017 (**postponed to 2018!**), despite pilots in 2016
- CONCEPTUAL
 - *Principles over rules* in a bureaucratic (vs. management) world
 - **Substance over legal form** – concept of control; more collaboration between accountants and law representatives
 - Risk and uncertainty situations
 - New measurement criteria
- PROFESSIONAL JUDGEMENT
 - Assessing risks and uncertainties, and provisions and contingent liabilities; choosing between recognition and measurement criteria
 - **Change of paradigm, requiring a different professional attitude – MORE COMPETENCIES AND RESPONSABILITIES**
- TECHNICAL
 - New terminology, new accounts, new models for statements...
 - Staff training and ICT adaptation – in progress
- REPORTING
 - More **simplified**, but more informative, endorsing **transparency** and accountability improvements
- **ENFORCEMENT** – new entity within the Ministry of Finance – UniLEO and PFM framework

Overall, the SNC-AP will allow... (I)

- ✓ Implementing the **accrual basis** in the public administrations financial accounting and reporting, articulating with **modified cash-based** budgetary accounting and reporting
- ✓ Establishing the **fundamentals to an accrual-based State's Budget**
- ✓ **Institutionalize “the State” as a reporting entity**, through the preparation of budgetary and financial statements, both in an individual and in a consolidated basis – basis for WGA
- ✓ Increase the **alignment between Public Sector Accounting and the National Accounts**
- ✓ Increase **horizontal and vertical harmonization** in the public sector
- ✓ **Bring the procedures to be identical and increase consolidated accounts reliability**, while approaching to SNC and SNC-ESNL

Overall, the SNC-AP will allow... (II)

- ✓ **More synthetic budgetary statements** (“big lines”), **but more informative** – eventual *information overload* is overcome
- ✓ **More complete financial and budgetary reporting** – with budgetary and financial information, but complemented with considerable **narrative in the notes (disclosure)** – “numbers do not talk by themselves”
- ✓ Reporting of **Cost and Management Accounting information**
- ✓ **Standards to prepare consolidated accounts more suitable and harmonized with SNC** – better evaluation of the financial position and performance of the “Public Group”



SNC-AP brings into the light what may be hidden and dissimulated, although not always measurable (e.g. contingent liabilities), but that must, even so, be disclosed and made accessible to citizens and other recipients of the public sector financial information – TRANSPARENCY AND ACCOUNTABILITY

Purposes of the SNC-AP

Allows accomplishing **objectives of management, analysis , control and information**, namely (article 6):

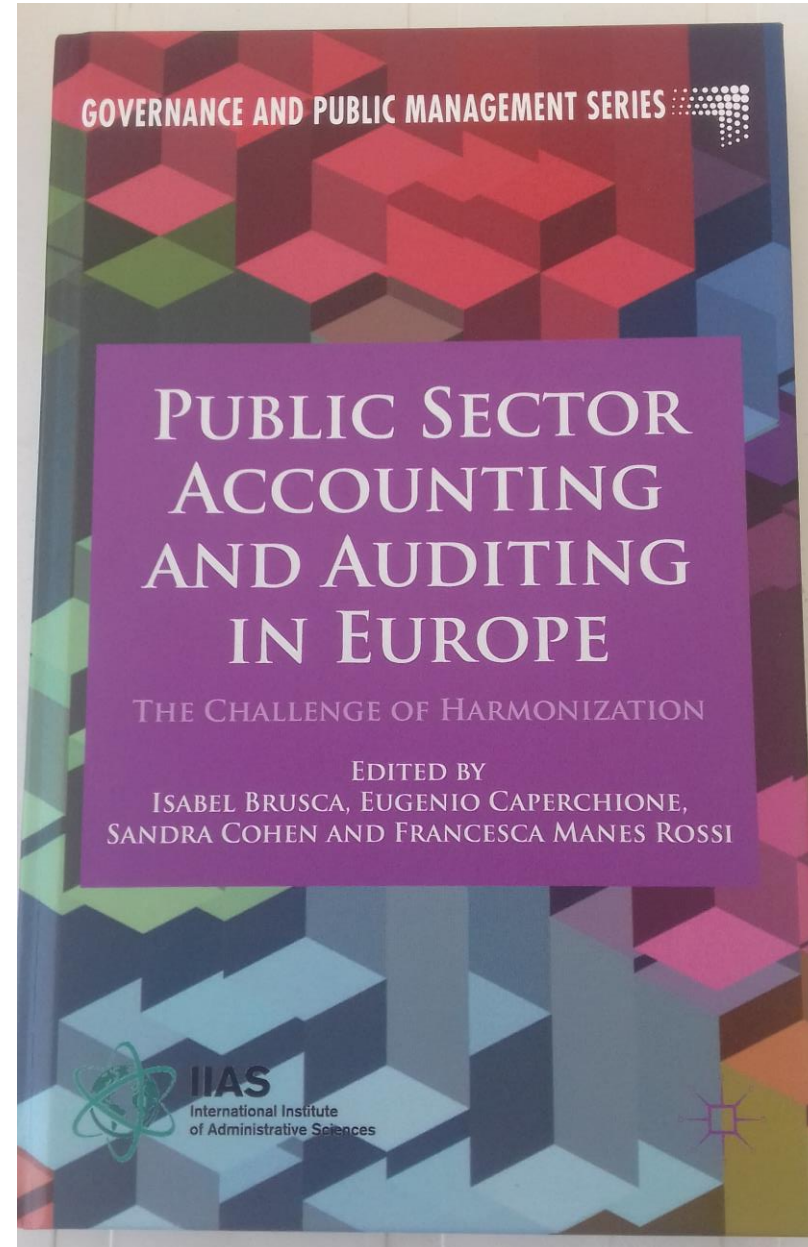
- a) Evidences **budgetary execution and performance**, in face of the objectives of fiscal policy;
- b) Allows for a **true and fair view of the financial position and changes in the financial position, financial performance and cash flows** of a certain entity;
- c) Offers information to **determine public services expenses and cost**;
- d) Offers **information** to prepare all sorts of accounts, financial and budgetary statements and documents to be sent to the Parliament, the Court of Accounts and to any other **control and oversight authorities**;
- e) Provides **information** to prepare the National Accounts in accordance with the **ESA**;
- f) Allows for the **control of public expenditure in financial, legality, economy, efficiency and efficacy** terms;
- g) Offers information useful for the purpose of **management decision-making**.

EUROPE

- Apparently NO... some favourable, some very sceptical about the usefulness and applicability of a single system...
- POLITICAL NEGOTIATION... difficult
- SOME CONVERGENCE perhaps BETTER THAN HARMONIZATION

Challenges of Harmonization in Europe (I)

2015



Challenges of Harmonization in Europe (II)

Table 16.6 The adoption of international accounting principles

Issue	AUT	BEL	DEN	FIN	FRA	GER	GRE	ITA	NED	POR	SPA	SWE	SWI	UK
There is a reform underway to adapt to IPSAS	Yes	Differences by regions	No	No	Yes	No	No	No	No	Yes	Yes	No	Yes, partly	No
There is a reform underway to obtain internal harmonization	Yes	Differences by regions	No	No, already realized	Yes	No	Yes	Yes	No	Yes	No	No	Yes	No
Reform underway inspired by IPSAS	Yes	Only Flemish local entities	No	No	Yes	No	No	No	No	Yes	Yes	To some extent	Yes	No
Reform underway inspired by IFRS	No	No	No	No	Yes	No	No	No	No	No	No	To some extent	No	No

Source: Brusca et al. (2015: 249)

Challenges of Harmonization in Europe (III)

- Large diversity of situations (Brusca et al., 2015: 247-248):
 - Countries that **have moved or are moving** towards IPSASs (Austria, France, Portugal, Spain and Switzerland)
 - Countries that are **unlikely to follow IPSAS** in the near future (they have chosen different approaches cash or accrual and do not believe IPSASs are the right answer to the information needs (Denmark, Finland, Germany, Sweden and The Netherlands)
 - Countries with **diversity across regions and government levels**, and resistance to change (Belgium and Greece)
 - A country going for **harmonization but still with cash accounting as the base**; waiting for EPSASs (Italy)
 - A country **not expecting any change**, as they have IPSASs indirectly via IFRSs (UK)



«... there is a long way to go both before international harmonization within the specific countries and from a wide adoption – or willingness to adopt – of a common set of international accounting standards».

Challenges of Harmonization in Europe (IV)

- **Training needs** – despite some progress, there is still limited knowledge of civil servants and politicians with the accruals and IPSASs (except UK, Switzerland and northern countries, such as Denmark, Finland and Sweden)
- **IT adoption**, especially for those coming from only cash
- **Different levels of readiness to change to accruals, but some more “mature” countries already denied the IPSAS** (these are not the proper solution for the public sector and the prudence principle and historical cost should prevail)
- **Lack of political support** because: decisions are mainly made on the basis of budgetary (cash) information; they have already “their own” accruals
- **Very complex legislative frameworks** in some countries and binding EU regulations that may conflict with IPSASs
- **Recent reforms in most countries** on budgeting, accounting and reporting systems
- **Technical and consulting support** from professional expertise
- **Implementation costs** (IT, staff training, consulting, ...) vs. budgetary constraints

Challenges of Harmonization in Europe (V)

BUT...

Strong role of the **EU regulations, namely the Stability and Growth Pact**, requiring

- improvement in fiscal coordination between levels of government
- committing to new fiscal rules
- medium-term budget frameworks
- reporting requirements



Strengthen the need for strong accounting harmonization, taking into account:

- A clearer role for budget execution
- Mitigate the use of options within the standards
- The use of fair value would be difficult to apply

(Brusca et al., 2015: 251)

Thank you for your attention!