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Collection of additional and updated information related to the potential impacts of implementing accrual accounting in the public sector

*Report by PwC on behalf of Eurostat
– for discussion*

Support for the development of harmonised European public sector accounting standards and analysis reports to support the implementation of EPSAS

November 2018

Additional and updated information related to the potential impacts of implementing accrual accounting in the public sector



At a glance

Following a September 2014 study carried out by PwC¹ detailing the costs and benefits of the implementation of European Public Sector Accounting Standards (EPSAS) this survey provides additional elements to support its effective implementation by the European Union.

This study analyses the more specific and critical issues necessary to avoiding deployment costs arising from risks either insufficiently understood or inadequately mitigated. Capitalizing on the experience of a panel of eight public sector institutions² the objectives are to provide thoughtful and practical suggestions for addressing or mitigating critical issues and help secure an effective and sustainable implementation of EPSAS.

Our analysis is presented in three distinctly focused sections of this report as follows:

- **Section 2** describes the lessons learned from accrual accounting reforms in EU Member States
- **Section 3** discusses capacity issues faced by the Member States when implementing accrual reforms
- **Section 4** explains how the EPSAS can support financial audit and control in the Member States in the context of the EU.

An abstract of each section is presented below:

Section 2 - Lessons learned from accrual accounting reforms in EU Member States

This section describes the different reforms designed and implemented by the eight institutions of the panel, before suggesting recommendations for the implementation of EPSAS.

The study of the objectives, scopes and stakeholders shows that in almost every case the introduction or modernization of accrual accounting is a way to leverage a wide reform of financial management.

The role of each stakeholder involved in the design and implementation of the reform is described. The central accounting departments and Ministries of Finance had a crucial role in the design and implementation of the reform in cooperation with policy makers, civil servants and other stakeholders³.

For the eight institutions the timeframes for implementing the reform vary from one to seven years⁴. The experience of the institutions surveyed by PwC confirms that, during the three stages of a typical implementation approach (gap analysis, initial conversion and embedding) the four key dimensions of accounting reforms identified by PwC in 2014 have been considered by the institutions surveyed:

- Accounting policies
- Processes
- People
- IT systems

The design of new regulations and policies, the implementation of IT systems, initial conversion processes, as well as training and support were the main milestones of the reforms, and have been scheduled differently. The

¹ PwC study to inform the impact assessment of EPSAS implementation (2014)

² Austrian central government, city of Barcelona, Czech central government, city of Essen, Estonian central government, EU institutions, Flemish government, French central government.

³ These other stakeholders are consultants, HR and training bodies, external auditors and national statistical offices.

⁴ This is the time lag between the decision to put in place an accrual accounting framework and the first publication of financial statements in accordance with this new accounting framework. In all cases, post-implementation adjustments were made to improve reform outcomes over time.

modernization of IT systems and the estimation of the reform costs (cost/benefit analysis) were crucial to elaborate a strategy and to meet the objectives and deadlines of the reform.

The interviews conducted and PwC's desk research identified the potential of accrual accounting reforms and the ways to realize their benefits. Providing more reliable data accruals reforms enable many concrete benefits in terms of decision-making, implementation of more efficient control and processes as well as an increase in the accountability and transparency of public decisions.

Surveyed respondents varied in their estimation of the benefits.

- All of them highlighted the improvement of the quality of their financial accounts and the reduction of costs and the administrative burden. Secondary benefits, such as continuous improvement of financial functions, were also achieved.
- Responses in the areas of cost accounting or budget planning have, however, been more mixed. To realize these benefits it was necessary to overcome a number of difficulties such as the need to mobilize management and short deadlines. Even after the reform, persistent difficulties are observed in a regular use of accounting data to manage public performance and to inform public decisions, including in the most mature countries.

Considering these key findings the report suggests several recommendations. They aim at suggesting guidelines for facilitating the implementation of EPSAS, highlighting good practices and key factors of success.

Section 3 – Tackling skills and training issues

Section 3 presents how the group of public entities addressed capacity issues in the implementation of their accounting reform. It deepens the analysis related to capacity issues, as identified in the PwC 2014 survey (policies, people, processes and systems).

Based on recent data and feedback from interviewees, the present survey highlights that people (skills, appropriation, and management) and policies (training policies, human resources) are the most important capacity issues.

Section 3 develops these two aspects of the reform and identifies four areas for strengthening capacities on which a specific effort is required:

- Recruitment policies
- Performance of people management
- Training policies and responsibilities
- Change management and cultural transformation.

Section 4 – How EPSAS can support financial audit and control in the Member States in the EU context

Section 4 details the current issues of financial audits and controls in the EU public sector. It also shows how they can be addressed through the implementation of EPSAS. The main challenges for each type of audit or control are listed below:

- **External financial auditors** are constrained in their capacity in harmonising and comparing their practices, and lack a common reference to compare the quality of financial statements within and across Member States
- **Internal control and internal audit** are still being deployed due to the very different starting points of implementation of internal controls and audits in the EU public sector. These control functions rely on very different methods due to their institutional specificities. In addition, internal controls need reliable accrual data

- **Internal and external budgetary controls** are faced with an unavailability of reliable and accrual data. Moreover, it can be more difficult to monitor budgetary execution when financial statements and budgets are prepared on a different basis
- **Budgetary control over EU expenditure** is made difficult by the lack of comparability for both financial statements and budgets, and by the absence of common criteria to recognize non-exchange transactions throughout the EU
- **Performance auditing and public policy evaluation** face the same challenges as budgetary control over EU expenditures. Most of the time, the unavailability of accrual data, and the lack of available data about the costs of public services are also a challenge

Section 4.3. suggests how EPSAS can contribute to mitigating current financial audit and control issues in the EU:

- EPSAS are a way to mitigating issues related to the quality and availability of financial data, mainly for facilitating internal control, budgetary control at different levels, performance auditing and public policy evaluation
- These standards can also significantly improve the comparability of the financial data published by public sector entities in the EU Member States
- They can be an enabler to mitigate other issues, such as the lack of comparability of methods of auditors and controllers, the ongoing deployment of internal control and internal audit, or the lack of analytical data for performance audit and public policy evaluation
- They should make it possible to define and disseminate good practices shared EU-wide.

The EPSAS will be a common set of reference standards for preparing public sector accounts, and against which internal and external audit processes could be improved, with a view of providing better audit quality between and within EU Member States.

Finally, EPSAS will prove to be a virtuous circle in closing a gap in the current public sector financial accountability and transparency.

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1. Foreword

1.1. Context and objectives

1.1.1. The advantages of an accrual-based accounting framework for public financial management

An accrual accounting framework provides a reliable and comprehensive picture of what public entities have done during a given reporting period⁵ with the resources entrusted to them by taxpayers and other stakeholders⁶. Accrual accounting frameworks also enable public service recipients to better assess the extent to which public institutions will be capable of delivering public services in the future. The introduction of accrual accounting gives a more complete view of the financial situation of a public institution because:

- **Accrual accounting standards aim at recording all events in the reporting period that have an influence on all types of assets⁷ and liabilities⁸ that a public sector entity may hold. These standards do not only focus on liquid assets or liabilities.** Assets in accrual-based balance sheets include financial investments, buildings, equipment, land and other various assets⁹, whereas governments following pure cash accounting only record their cash on the assets side¹⁰.
- **The effects of events affecting the amount of cash that could be paid or received in the future are also recorded under accrual accounting standards.** For instance, the delivery of a taxable service by a private company is recorded in the accounts of public sector entities reporting under an accrual basis of accounting because it will generate revenue for the entity in the future. Governments following pure cash accounting standards do not have a comprehensive picture of such events because they do not result in cash payments or receipts during the reporting period.

Under cash accounting transactions having an impact on the financial position and performance of a public institution are only recognized when cash is received or paid during a reporting period.

1.1.2. A necessary preparation of the deployment of accrual-based EPSAS¹¹

In order to prepare the implementation of harmonised accrual-accounting standards in EU Member States article 16 (3) of Directive 2011/85/EU requires that an assessment of the suitability of IPSAS (International Public Sector Accounting Standards) for the Member States be made by the Commission. The Commission undertook a first study and issued a report to the Council and the European Parliament in March 2013 (COM (2013) 114). The

⁵ Usually between the 1st of January and the 31st of December

⁶ Including, for instance, investors and donors.

⁷ An asset is a resource presently controlled by the entity as a result of a past event (IPSAS Board, Handbook of International Public Sector Accounting Pronouncements, 2016 Edition Volume I, Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities, paragraph 5.6. | p75)

⁸ A liability is a present obligation of the entity for an outflow of resources that results from a past event (IPSAS Board, Handbook of International Public Sector Accounting Pronouncements, 2016 Edition Volume I, Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities, paragraph 5.14. | p76)

⁹ The assets held by a public sector entity may be difficult to value due to their specific characteristics. However, not knowing the value of these assets does not prevent appropriate short term financial decision-making. This is why some governments have decided to stay under a cash basis of accounting rather than implementing a more complex accrual accounting framework.

¹⁰ Also called “statement of financial position” a Balance Sheet is a document that summarizes the entity's assets, liabilities, and equity at a given point in time.

¹¹ European public sector accounting standards

report highlighted the need to have high-quality harmonised accounting standards in the EU. It concluded that, although IPSAS (as it then stood) could not be easily implemented in EU Member States' Central governments, IPSAS standards would be suitable as a reference framework for the possible future development of European Public Sector Accounting Standards (EPSAS).

Eurostat was given a clear mandate by the Ecofin council in 2013 and 2014 to work with Member States' experts and other stakeholders to discuss future EPSAS standards and governance. 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 establish a more permanent forum concerned with the development, introduction and operation of EPSAS in the medium to long term.

The Commission requested a second study with the view of informing its impact assessment of EPSAS implementation by the Member States and the related Communication, and the legislative process planned by the Commission. Published in September 2014 and carried out by PwC on behalf of the Commission the study analysed the potential costs and benefits of implementing EPSAS in the Member States' Central governments, the suitability of the IPSAS standards as a basis for developing EPSAS, and provided proposals for implementation. The study confirmed the suitability of IPSAS in general as a reference to develop EPSAS. The costs were considered significant and mainly short term, whereas the benefits - while still difficult to quantify, were sustainable and expected in the medium to long term.

The present study aims at analysing more specific and critical issues in order to avoid excessive deployment costs. Capitalizing on a panel including 7 EU Member States and the institutions of the EU, the studies objectives are to provide thoughtful and practical suggestions for addressing or mitigating the critical issues and help secure an effective / sustainable implementation of EPSAS in order to facilitate the acceptance and buy-in by all Member States within the necessary timeframe.

This survey covers the following subjects:

- ***The lessons learned from experiences of accrual accounting reforms*** and the avoidable risks, costs and mitigation actions. A particular focus is placed on the implementation timelines and approaches, the governance of the reform and the ways followed to improve processes and practices. The contribution of the reform to the financial services modernization of EU Member States are detailed and recommendations for the implementation of EPSAS also suggested.
- ***The capacity issues*** faced by the Member States when implementing accrual reforms focusing on policies, people, processes and systems. While these four dimensions remain important in the overall management plan of the accrual implementation project, recent data and interviewees answers underlined that the capacity issues related to the implementation of EPSAS were mainly related to people (skills, ownership of the reform and management) and policies (human resources and training policies). The analysis focuses on these two aspects and identifies four areas for strengthening capacities on which a specific effort has been made (recruitment policies, performance management, training policies, training responsibilities).
- ***The means for EPSAS to support financial audit and control in the Member States in the EU context.*** This analysis describes the current financial audit and budgetary control issues faced by auditors, inspection and control bodies in the Member States and explores how EPSAS implementation could help address these current issues.

1.2. Methodology

1.2.1. Panel of selected Member States and institutions

The present survey takes insights from the situation of specific institutions in 7 EU Member States and the European Union. The following criteria were applied for selecting the panel:

- A mix of recently completed and currently running accounting / financial management reforms (Austria, France)
- At least one country sufficiently engaged in accounting or mature in reform implementation
- At least one regional level in a MS, the local level in another

<i>EU Member State</i>	<i>Institution</i>	<i>Status of the last accounting reform¹²</i>
<i>Austria</i>	<i>Austrian central government</i>	First implementation
<i>Spain</i>	<i>City of Barcelona</i>	Implementation of new accrual standards
<i>Germany</i>	<i>City of Essen</i>	First implementation
<i>Czech Republic</i>	<i>Czech central government</i>	First implementation
<i>Estonia</i>	<i>Estonian central government</i>	First implementation
-	<i>EU institutions</i>	First implementation
<i>Belgium</i>	<i>Flemish government</i>	Implementation of new accrual standards
<i>France</i>	<i>French central government</i>	First implementation

¹² A “first implementation” corresponds to the shift from a cash based or modified cash based accounting framework to an accrual-based accounting framework. An “implementation of new accrual standards” corresponds to a reform or a replacement of an existing accrual-based framework by another.

1.2.2. Sources

Information, data and insights from relevant stakeholders

PwC collected the required information and data prioritising interviews of stakeholders directly or indirectly involved in, or impacted by, accrual accounting reforms.

PwC took into account the point of view of different types of stakeholder in each of the institutions listed in the table below. Depending on the context two methods were used to gather and value the insights of these stakeholders:

- **Face to face or distance interviews:** interviewees were provided with a questionnaire before meeting face-to-face or, in some cases, by phone or video conference. The core team contacted local PwC referents who facilitated identification and initial contact (including translations)
- **Online questionnaires:** interviewees were asked to complete the questionnaire online in order to make it easier for them to contribute to the assessment

The questionnaire used for this data collection (cf. *Section 5, Annex – Questionnaire*) included different types of open and closed questions for each of the assessed topics. Participants were encouraged to respond to as many questions as possible given their current position and their experience. Whenever possible a deep dive on specific experiences and the background of each person met/interviewed was undertaken by asking open questions to identify good practices or pitfalls to be avoided.

	<i>Lessons learned</i>	<i>Skills and training issues</i>	<i>Support of financial audit and control</i>
Accounting and finance departments	✓	✓	✓
Budget planning departments	✓	✓	✓
Court of Auditors	✓	✓	✓
EPSAS working group and other accounting standard boards	✓	✓	✓
HR and training departments		✓	
Inspection and audit bodies			✓
Members of Parliament			✓

Literature review

Provided the following criteria are observed literature proved a reliable source of information for the collection and analysis of documents, data and information:

- The reports, studies and surveys listed as sources for this report are authored or sponsored by established experts and organizations (be they in the public sphere, in universities, in Think Tanks, in professional associations, in research institutes or in international audit and consulting firms)
- The most up-to-date documents (preferably published in the last 4 years) are selected for analysis and recommendations. Older relevant sources were collected to give contextual background information or general advice and recommendation

- Any necessary quantitative data was collected from the interlocutors, obtained from reports or sourced documents, and from official public open data websites

Although the literature used for this report mainly focuses on the institutions chosen relevant out-of-scope examples have been retained when necessary or illustrative of good practices - as in the case of Australia, the UK, New Zealand or Canada.

1.3. Content of this survey

In order to address the specific areas of questioning relating to the implementation of the EPSAS this study is divided into three sections dealing with particular subjects:

Section 2. Lessons learnt from accrual accounting reforms in EU member states

- Objectives, scopes and stakeholders
- Implementation timelines and approaches
- Expected and achieved benefits
- Common difficulties
- Recommendations for the implementation of EPSAS

Section 3. Tackling the skills and training issues

- Assessing the capacity situation from the start
- Implementation strategy and milestones
- Addressing the capacity building blocks
- Positive effects
- Common difficulties
- Recommendations for securing the capacity issues

Section 4. How the EPSAS can support financial audit and control in the Member States in the EU context

- Current issues by audit and control function
- Contribution of EPSAS to mitigating current financial control and audit issues in the EU

2. *Lessons learned from accrual accounting reforms in EU Member States*

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2.1. Introduction

2.1.1. Situation of accruals reforms in the selected panel










Three quarters of OECD countries declared they had implemented, or were implementing, accrual-based accounting standards in 2016¹³. In 2003 this share was of only 23%.

In the European Union public institutions still do not unanimously enforce accrual standards. Within each Member State the four subsectors of general government defined by the European System of accounts (ESA) - central, state, local governments and social security funds¹⁴ can have different practices.

The eight institutions represented in the panel are in two different situations:

- Six of them completed their first implementation of accrual-based accounting standards between 2004 and 2016
- The Flemish regional government and the City of Barcelona implemented new accrual accounting standards between 2009 and 2013. They already had accrual-based accounting standards in place beforehand.

Table 1 – Date and status of the last accrual accounting reform in the institutions selected

	<i>Institution</i>	<i>Date of completion of the last accrual reform¹⁵</i>	<i>Status of the last accounting reforms¹⁶</i>
	<i>Austrian central government</i>	Completed in 2013	First implementation
	<i>City of Barcelona</i>	Completed in 2016	Implementation of new accrual standards
	<i>City of Essen</i>	Completed in 2008	First implementation
	<i>Czech central government</i>	Completed in 2010	First implementation
	<i>Estonian central government</i>	Completed in 2004	First implementation
	<i>EU institutions</i>	Completed in 2005	First implementation
	<i>Flemish government</i>	Completed in 2010	Implementation of new accrual standards
	<i>French central government</i>	Completed in 2006	First implementation

- A “first implementation” corresponds to the shift from a cash based or modified cash based accounting framework to an accrual-based accounting framework
- An “implementation of new accrual standards” corresponds to a reform or a replacement of an existing accrual-based framework by another

¹³ OECD/IFAC (2017), Accrual Practices and Reform experiences in OECD Countries, OECD Publishing, Paris; 2014 PwC study to inform the impact assess the impact of EPSAS implementation

¹⁴ ESA 2010, paragraph 2.111

¹⁵ The date of completion of the last accounting reform given in the central column of table 1 is the date of issue of the first set of financial statements following the introduction of the new accrual-based accounting standards.

¹⁶ A “first implementation” corresponds to the shift from a cash based or modified cash based accounting framework to an accrual-based accounting framework. An “implementation of new accrual standards” corresponds to a reform or a replacement of an existing accrual-based framework by another.

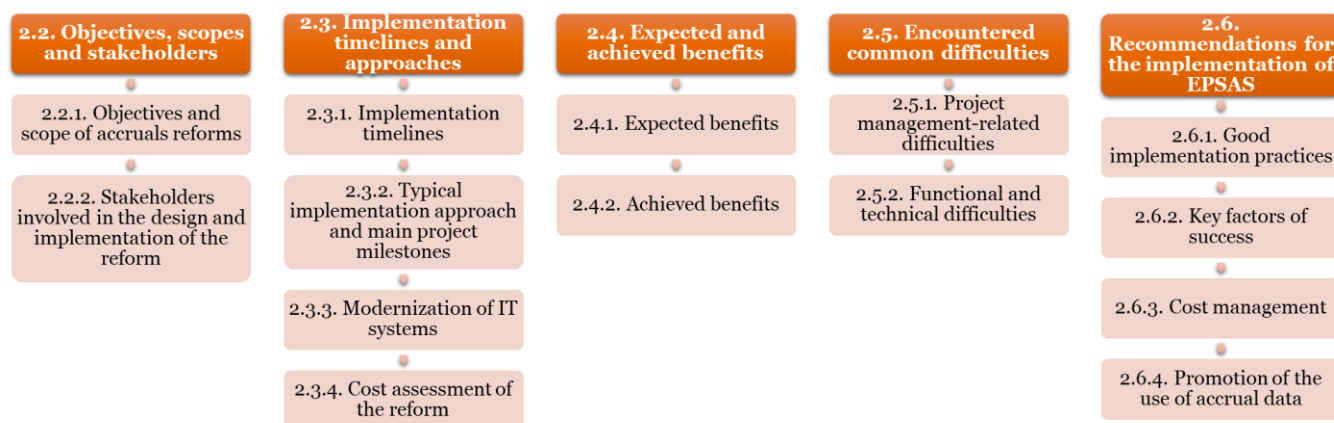
2.1.2. Methodology and content

Section 2 aims at shedding light on specific aspects of the reform’s project management. In order to facilitate the implementation of EPSAS relevant stakeholders were interviewed and specialized literature was analysed. The interview grid for this report focused on the following subjects:

- **Implementation strategy:** objectives, timeline and milestones of the reform; communication strategy, administrative and political context
- **IT strategy and governance:** relationships between the IT strategy and the implementation project; elements of governance used
- **Approach to balancing the costs and benefits of the reform:** assessment of the costs of the reform, benefits expected and benefits achieved, and costs which were controlled as a priority
- **Successes of the implementation strategy:** the most advanced elements of the reform in terms of implementation, and the indirect beneficial outcomes of the reform
- **Good ideas and difficulties:** elements that facilitated implementation plus explanations of the successes and failures in implementing the standards
- **Good practices and conditions for success:** subjects that should have been given more thought, lessons learned in order to limit costs, and priorities to improve the reform’s efficiency in the future

This section presents an overview of the design and preparation of the reform as well as the implementation timelines and approaches. The outcomes of the reform (expected and achieved benefits, difficulties) are analysed and followed by recommendations to help facilitate the implementation of EPSAS. The structure of section 2 is shown below.

Figure 1 - Overview of the different subsections of section 2



2.2. Objectives, scopes and stakeholders

The reforms had different objectives and scopes (2.2.1.). The stakeholders involved in the design and implementation of the reforms had specific roles (2.2.2).

2.2.1. Objectives and scope of accruals reforms

A majority of EU Member States recognise that increased transparency and accountability are key benefits of the implementation of accrual-based accounting standards. However in the eight institutions studied the introduction of accrual accounting always had wider objectives. The promoters of accounting reforms often considered them as a part of - or a way to leverage - a wider reform of public financial management.

In this regard, these institutions followed a well-established trend among OECD countries¹⁷ to include accrual accounting reforms within the scope of a wider reform. As noted in an earlier study conducted by PwC in 2014¹⁸, the benefits most commonly reported and discussed put emphasis on and prioritised the value of accrual-based financial information in accountability and decision-making.

Depending on the context, each institution followed specific objectives at the time the decision to implement accrual accounting was taken. The reforms also involved different institutional and public financial management scopes.

2.2.1.1. Austrian central government

Description of the reform

- **Date of the decision to implement the reform:** 2009-2010
- **Date of publication of the first accrual-based accounts:** 2013
- **Date of publication of the first accrual budget:** 2013
- **Main objectives of the accounting reform:** better budgetary decisions

The Ministry of Finance developed reform ideas in the late 2000's with the goal of improving budgetary decision-making and increasing transparency for the Parliament and the general public. Austrian reform-makers aimed mainly at designing better fiscal-decision policies by:

- Creating a binding, medium-term, perspective for budgeting because its absence created planning problems both for the Ministry of Finance and the line ministries
- Creating a performance budgeting framework
- Benefiting from commitment data in order to monitor the budget more efficiently

Two unanimous decisions of Parliament in 2007 and 2009 enabled these objectives to be pursued. In the first stage of the reform a clear focus on ex ante expenditure controls was made by setting binding statutory expenditure ceilings under five 'headings'¹⁹. In the second stage of the reform in 2013, a modification of the Federal Organic Budget Act (*BHG Bundeshaushaltsgesetz*) was enacted. This modification of the Federal Organic budget act introduced accrual budgeting and accounting in all federal entities, including the Federal Chancellor, ministries organized in departments, and subordinate agencies and institutions.

After beginning the implementation process in 2007 the first accrual accounts were published in 2013, as well as the first annual budget law including an income statement on a full accrual basis. National accrual accounting standards were adapted from international public sector accounting standards (IPSAS).

¹⁷ OECD/IFAC (2017), *Accrual Practices and Reform experiences in OECD Countries*, OECD Publishing, Paris.

¹⁸ PwC, Study to inform the impact assessment of EPSAS implementation (2014) | pp. 40 - 41

¹⁹ Law and security; labour, social affairs, health and family; education, research and culture; economy, infrastructure and environment; and cash and interest (cf. PwC, 2014, Study to inform the impact assessment of EPSAS implementation (2014) | p. 27 and p.61.



2.2.1.2. City of Barcelona

Description of the reform

- **Date of the decision to implement the reform:** 2015
- **Date of publication of the first accrual-based accounts:** 2016
- **Main objectives:** implementation of mandatory standards

Following the reform of public sector accounting instituted by the Spanish central government in 2003 the City of Barcelona implemented new accrual-based accounting standards in 2015-2016.

Barcelona's reform must be understood in the context of the enactment of budget law n°47/2003, which introduced revised accrual accounting principles for the whole public sector. This budget law was completed by a new general accounting plan for the public sector in 2010²⁰, based on the International Public Sector Accounting Standards (IPSAS) and International Financial Reporting Standards (IFRS). The goals were to align public accounting with private accounting standards and IPSAS²¹.

In this context the central government issued a new accounting instruction for Spanish local governments in 2013²² which came into force on the 1st January 2015. The municipality of Barcelona enforced it for the first time during the preparation and publication of its 2015 financial statements in 2016. The accounting department conducted the project between 2015 and 2016 in order to adapt the accounts and IT financial systems of the city to the new mandatory framework for local governments.



2.2.1.3. City of Essen

Description of the reform

- **Date of the decision to implement the reform:** 2004
- **Date of publication of the first accrual-based accounts:** 2008
- **Main objectives:** implementation of standards, basis for better budgetary decisions and financial management

The City of Essen moved from cash-based to accrual-based accounting standards between 2004 and 2007. This shift followed the federal Interior Minister's decision in 2003 to promote the voluntary implementation of accrual accounting in local governments. The North-Rhine Westphalia Land was the first to pass an act in 2004 making the transition to accrual accounting mandatory for the local governments of Westphalia. The City of Essen, which started preparing the implementation of accrual accounting in 2004, was one of the pilot local governments that published accrual-based financial reports for the fiscal year 2007²³.

The City considered the implementation of accrual accounting as a way to both fulfil the City's obligation to apply accrual accounting by January 2009 and modernise financial management - specifically asset management. This reform was meant to provide a clearer view of the municipality and its related entities' assets - including tangible assets such as roads, bridges or railroad tracks - thus improving financial decision-making.



2.2.1.4. Czech central government

Description of the reform

- **Date of the decision to implement the reform:** 2007
- **Date of publication of the first accrual-based accounts:** 2013
- **Main objectives of the accounting reform:** more transparent accounts, basis for consolidation of public sector's accounts

With the support of the Government and the Ministry of Finance the decision to implement accrual accounting at the level of the central government was taken in 2007. The reform of accounting was part of the "Central government treasury project - Integrated information system of central government treasury" (or "IISSP"). This

²⁰ Ministry of Finance Regulation EHA/1037/2010.

²¹ Ministry of Finance Regulation HAP/189/2013 intends to facilitate this harmonisation of public accounts.

²² Order HAP/1781/2013, of 20 September 2013.

²³ PwC, Study to inform the impact assessment of EPSAS implementation (2014) | p.30

project's goal was to consolidate the accounts of public sector entities in the Czech Republic using a central system operated by the central government's Ministry of Finance.

The implementation of accrual accounting aimed at improving the quality of public accounting (reliability and timeliness etc.) as well as providing a complete picture of the financial position of the public sector. The first fully consolidated annual financial statements were published in 2016 for the financial year 2015. These reports consolidate the accounts of ministries and central offices, public agencies and local governments.



2.2.1.5. Estonian central government

Description of the reform

- **Date of the decision to implement the reform:** 2002-2003
- **Date of publication of the first accrual-based accounts:** 2004
- **Date of publication of the first accrual budget:** 2017
- **Main objectives:** more transparent accounts, basis for consolidation of public sector's accounts and better financial management

The objectives of the accounting reform of the Estonian central government - designed and prepared between 2002 and 2003 - was to increase the reliability of the financial statements of the public sector and provide solid figures for ESA national accounts.

The new accounting act passed in 2003 applied to all public entities, which represented at that time, over 430 central authorities (ministries and agencies) with independent financial and personnel accounting, as well as 241 local governments (900 independent accounting entities). In 2004 accrual-based consolidated financial statements were voted for central government and, in 2005, extended to the whole public sector.

Later the improved accounting methods were the basis for wider financial management reforms including budgetary reforms, cost accounting and strategic management systems. A reform proposal was made for the implementation of accrual budgeting. This reform was part of a broader initiative that included activity-based budgeting and a new system of strategic planning and management. The implementation of accrual budgeting was expected to improve cost awareness and management control at the operational level.

Following experimentation with several agencies since 2010 the decision to adopt accrual budgeting was taken at the end of 2015 and the first accrual budget voted for in 2017.



2.2.1.6. EU institutions

Description of the reform

- **Date of the decision to implement the reform:** 1999-2000
- **Date of publication of the first accrual-based accounts:** 2005
- **Main objectives:** more transparent accounts of the institutions of the European Union

The year 1999 was the starting point of a major reform of financial management including the adoption of accrual accounting. The immediate benefit sought was an improvement in the confidence of stakeholders, and primarily of the European Parliament, in the reliability of EU financial figures.

The European Union opening balance sheet was published on January 1 2005. A decision of the European Commission of December 2002 enacted the principle of the implementation: a modernization of accounting standards and practices of the European Commission that was implemented between 2003 and 2005. The reform encompassed all EU entities – its institutions, agencies and Joint Undertakings²⁴.

²⁴ According to article 187 TFEU, Joint Undertakings are independent legal entities for “the efficient execution of union research, technological development and demonstration programmes”.

2.2.1.7. *Flemish government*

Description of the reform

- **Date of the decision to implement the reform:** 2008
- **Date of publication of the first accrual-based accounts:** 2009
- **Main objectives:** more transparent accounts, basis for better financial management (purchases)

The Flemish government prepared an implementation of new accrual accounting standards in 2008. This reform followed the enactment of two laws for the adoption of common accounting principles at the federal²⁵ and regional level²⁶ in Belgium in 2003.

Before the start of the reform, the Flemish regional government had already partly implemented accrual accounting. In addition legal entities under the control of the Flemish government had published accrual-based accounts for a long time. Nonetheless the Flemish government sought to modernise its financial processes and IT system in order to correct several inaccuracies and inefficiencies:

- Different entities were split up within the system which made the consolidation of the accounts of the entities difficult
- Several supplier accounts included information about the same suppliers because there was no unique identification system
- The ERP system did not facilitate the development of a future-oriented budgeting framework

The reform project aimed at modernising and securing accrual accounting processes in order to provide a comprehensive and reliable picture of the financial situation of the Flemish government. The project encompassed three main aspects:

- Changes in accounting principles leading to adjusted financial statements consistent with Belgium's generally agreed accounting principles (GAAP) and the official ESA codes²⁷
- Update of the IT system - mainly to include data related to suppliers and debtors in a single system
- Creation of a new future-oriented budget framework

The reform project was conducted with the goal of implementing the new principles and processes in a single financial year.

2.2.1.8. *French central government*

Description of the reform

- **Date of the decision to implement the reform:** 2001
- **Date of publication of the first accrual-based accounts:** 2006
- **Main objectives:** more transparent accounts, basis for better budgetary decisions and financial management

The French central government (the French State without its related entities²⁸) started the implementation of accrual accounting in 2001 in order to overcome several shortcomings of its cash-based accounting framework regularly pointed out by the Court of Auditors:

- The cash-based accounting standards did not allow efficient performance based management of the State's resources

²⁵ Law of 22 May 2003 on the organization of the budget and the accounts of the Federal State.

²⁶ Act of 16 May 2003 laying down general provisions applicable to the budgets, the control of subsidies and the accounts of the Communities and Regions.

²⁷ The Flemish government consulted the Institute of national accounts of Belgium in order to create new ESA financial statements.

²⁸ The State's related entities in France are significantly funded by the State budget, and the State has an important power to influence their decisions. These entities include, for instance, universities and national research facilities.

- The cash accounting framework artificially delayed the payment of some expenses to reduce the nominal deficit for a given year
- Trade payables, pension liabilities or the central government's intangible assets were neither recorded nor valued on a regular basis

The adoption of accrual accounting was one of the core aspects of a wide agenda of public financial management reforms, initiated by the enactment of a new budgetary constitutional bylaw in 2001 -*the Constitutional bylaw on budget acts dated 1st August 2001 (LOLF [Loi organique relative aux lois de finances])*.

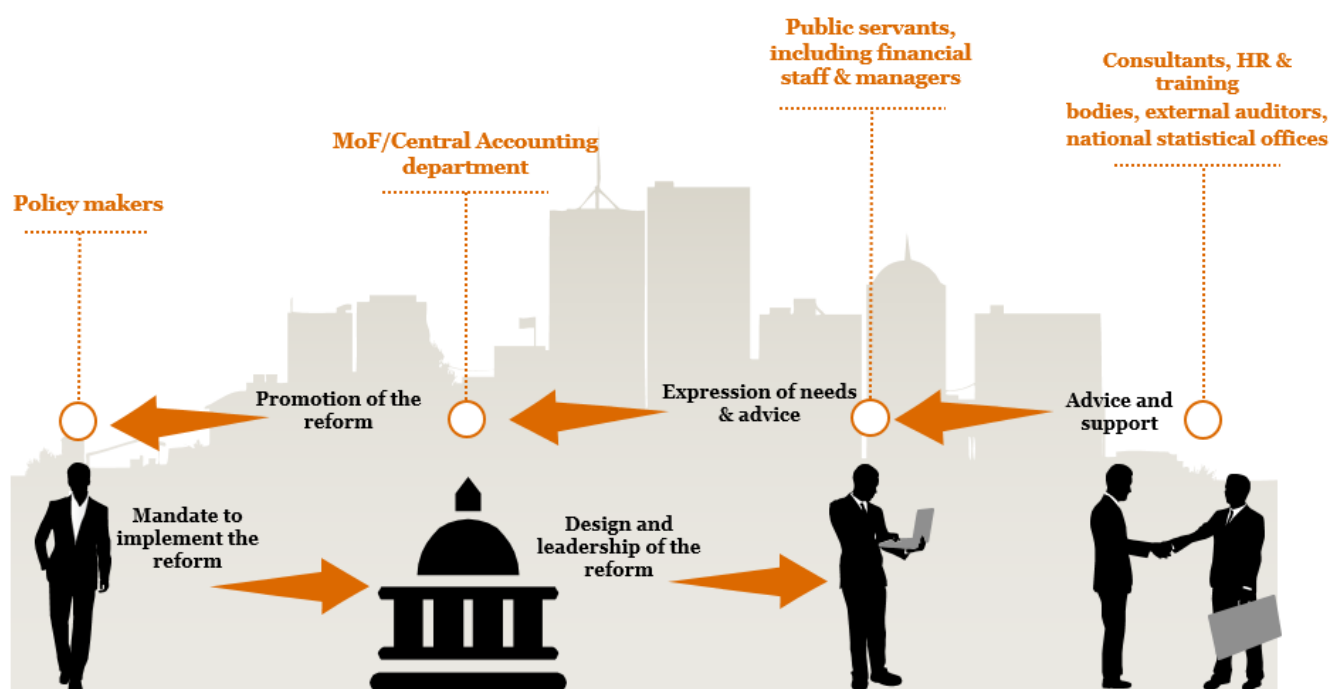
The reforms included the introduction of a performance budgeting scheme based on the allocation of budget authorisations in programmes. These budget authorisations must fulfil specific objectives. The achievement of these objectives is measured by indicators included in year-end financial reports. In addition, the 2001 budgetary bylaw made the external financial audit of the Central government's accounts by the Court of Auditors ('Cour des Comptes') compulsory. New responsibilities were also given to public managers in the field of staff and resources management.

The implementation period covered six years (2001-2006) and the first accrual-based financial reports published for the central government in 2006.

2.2.2. Stakeholders involved in the design and implementation of the reform

The different reforms presented in section 2.2.1 required the involvement of a wide range of stakeholders in the design and implementation of the reform. The four main clusters of stakeholders are detailed below.

Figure 2 – Involvement of stakeholders in the reform



Source: Received answers to the 2017 questionnaire, PwC's analysis

2.2.2.1. Role of policy makers

The involvement of policy makers is necessary for the reform to take place, at least at the beginning of the process. The main decisions for implementation are legally binding and provide a clear mandate to the MoF to implement the reform. The Ministry of Finance or a central accounting department can play a role in promoting the reform to policy makers.²⁹

2.2.2.2. Role of Ministries of Finance and central accounting departments

Ministries of Finance or central accounting departments are the key designers of the reform

Ministries of Finance are responsible for defining the principles of the reform, and its guidelines in particular.

For example, the Estonian and Austrian Ministries of Finance, as well as the accounting department of Essen, discussed the reform at a very early stage with selected competent auditors and accountants of relevant public sector entities in order to create comprehensive guidelines. These guidelines were clarified and complemented by examples of accounting entries for different transactions. They also included a unified chart of accounts.

In France the *Central Government Standard-setting Committee of public accounts* of the Ministry of Finance was responsible for discussing the new accounting principles with other ministries between 2001 and 2006. The Czech central government's Ministry of Finance had the mandate to modify Czech accounting principles for

²⁹ The leadership of the MoF or the central accounting department was generally a key facilitator of the reform: in Austria, the MoF was one of the promoters and initiators of the reform at the beginning of the years 2000's (see section 2.2.1.).

public sector entities. It issued a resolution that was binding for all actors (i.e. the public sector entities including municipalities).

Ministries of Finance or central accounting departments were also leading the implementation process

In each central government, the Ministry of Finance was the key actor responsible for the leadership of the implementation process.

Accounting departments or centralised teams for the management of the reform played an equally important role in local governments:

- In the City of Barcelona the Chief financial officer was in charge of the project, including its IT aspects
- In the Flemish government and the City of Essen a steering committee was appointed to conduct the reform. This committee was subdivided into working groups which had unique points of contacts in every entity concerned with the reform
- In Essen the City council granted extensive authorisation to the project management team to implement the reform. This team was allowed to issue work orders regarding necessary organizational changes in the decentralized units. It had authority to take decisions about the project objectives, duration, equipment and costs, and to purchase consultancy services for the needs of the process

Because Estonia and the Czech Republic aimed at consolidating the financial statements of all public-sector entities (since 2005 and 2010 respectively) the role of their Ministries of Finance was particularly important. The Czech central government's Ministry of Finance had the mandate to modify Czech accounting principles for public sector entities. It also had a key role in the drafting of the technical implementation guidance set by decrees and standards in 2009³⁰. The Estonian and Czech Ministries of Finance were responsible for the creation of specific helpdesks and for the management of a central IT accounting system to collect accounting data from all the public sector entities included in consolidated accounts.

2.2.2.3. Role of public servants, including financial staff and managers

The Ministries of Finance and accounting departments created project management processes relying on regular dialogue with civil servants in operational departments and ministries in order to take their advice and address their difficulties³¹.

For instance, the Directorate General for Budget (DGBUDG) of the European Commission and the Directorate General for Public Finance (DGFIP) of the French Ministry of Finance organised regular meetings with accounting departments of other ministries or Directorates General (DGs). In France these meetings were meant to discuss the design of the new accounting standards³² with all ministries and take into account their specific needs.³³ In the European Commission these regular meetings permitted the financial units of the DGs to communicate the difficulties encountered by financial actors in the context of the implementation of accrual accounting, and to address these issues.³⁴

In both the Flemish government and EU institutions a key contact among financial staff was identified in every operational department. These key contacts were informed more regularly, and worked more closely with the DG BUDG and the accounting department. In Barcelona the central accounting department ensured coordination with internal operational departments by publishing information about the project on the municipality's intranet.

³⁰ PwC, Study to inform the impact assessment of EPSAS implementation | p.66

³¹ More details on this subject are provided in section 3.3. of this report.

³² Thirteen accounting standards for the State were defined by a 2004 regulation, in order to prepare the opening balance sheet for the fiscal year 2005.

³³ For instance, subjects such as the treatment of historical assets were discussed with the Ministry of culture. The valuation of military assets was addressed in collaboration with the ministry of defence.

³⁴ It was noted in this case that this process helped overcome some reluctance from others DGs.

2.2.2.4. Role of consultants, HR & training bodies, external auditors and national statistical offices

Consultants or external experts advised and supported public servants for the implementation of the reform

Consulting firms were involved at various stages of implementation, and specifically in the definition of new IT systems. The city of Essen and the Flemish government hired organization and project management consultants. The Austrian central government was an exception in keeping the involvement of consultants to a minimum. External experts, such as scholars specialised in public accounting or budgeting issues, were consulted by the Austrian central government's Ministry of Finance on an informal basis³⁵. In Estonia IT companies, qualified accountants, and auditors of public sector entities were consulted by the Ministry of Finance at every important step of the process.

HR and training bodies supported public servants in implementing the reform

In almost every case HR and training departments were not sufficiently involved at the beginning of a reform mainly perceived as a matter of defining accounting standards, guidelines and regulation.³⁶ Nonetheless their support in implementing the reform rapidly proved unavoidable as training became necessary to complete the reform.

The involvement of external auditors remained limited

National Audit Offices and Courts of Auditors had a limited involvement in the design of the reform for independence reasons. However, the importance of communicating with public auditors at an early stage of the reform was underlined as a success factor in preparing the first audits of the new set of accrual accounts.

In a few cases national statistical offices had an important role in the design of the reform

In the case of the Flemish government, one of the important objectives of the reform was to improve the quality of ESA national accounts. The enhanced level of control by the Institute of National Accounts of Belgium on ESA statements was a way to improve the quality of accrual data and facilitate the reform.

³⁵ Some discussion took place directly between the MoF and the professors, while other contacts happened at public conferences related to budget reform issues.

³⁶ For more details regarding specific skills and training issues, please refer to section 3.

2.3. Implementation timelines and approaches

The institutions had various implementation timelines (2.3.1). Each entity has focused on various points during implementation although there were commonalities between the different approaches (2.3.2). The modernization of IT systems (2.3.3) and cost management (2.3.4.) were critical aspects of the implementation approach for every institution.









2.3.1. Implementation timelines

2.3.1.1. The timeline of the implementation process lasted between 1 and 7 years

Once a legislative or regulatory act was passed to make the reform mandatory³⁷ a timeline for the reform was established.

This timeline was between 1 and 7 years. Less than two years passed between the legally-binding decision for the adoption of accrual accounting and the first publication of accrual-based financial reports in Estonia. By contrast, in Austria, 7 years passed between the first constitutional budget reform (2007) and the publication of the first accrual-based budgets and financial reports for the central government (2013).

Table 2 – Timelines for the implementation of accruals reforms

	<i>Institution considered</i>	<i>Implementation timeline</i>
	<i>Austrian central government</i>	2007 – 2013
	<i>City of Barcelona</i>	2015 - 2016³⁸
	<i>City of Essen</i>	2004 – 2007
	<i>Czech central government</i>	2007 - 2010 (2017)³⁹
	<i>Estonian central government</i>	2002 - 2004⁴⁰
	<i>EU institutions</i>	2003 - 2005⁴¹
	<i>Flemish government</i>	2008 – 2010
	<i>French central government</i>	2001 – 2006

Note: The implementation timeline is defined in this report as the period between the start of the reform implementation (and/or the setting of the standards) and the first publication of the accrual-based financial statements complying with the new accounting framework.

³⁷ For example, the French 2001 constitutional bylaw for budget acts, and the 2011 Flemish accounting decree.

³⁸ *Publication du compte général 2015 préparé en fonction de la nouvelle norme comptable.*

³⁹ The first consolidated financial reports for the whole of government were issued in 2010, but they only partially the accounts of the Czech public institutions. The reform was due to be completed in 2017 with the publication of fully consolidated financial statements for the whole of government.

⁴⁰ Accrual-based consolidated financial statements were published for the Central government subsector and, in 2005 coverage was extended to the whole public sector.

⁴¹ The opening balance sheet was published in 2005.

2.3.1.2. Two main aspects of the reform explain these durations

The size and complexity of institutions involved is one of the aspects influencing the period of reform

A link between the size of institutions and the length of the reform can be inferred. Less time was taken between the decision to implement the reform and the first publication of compliant financial statements⁴² in regional and local governments. The duration of the reform was three years in the city of Essen, two years in the Flemish government, one year in the city Barcelona, compared to other institutions where the reform took four years on average. The reform was also quicker in the smaller central governments - two years in Estonia and three years in the Czech Republic - than in the larger central governments (seven years in Austria, six years in France).

This situation could be explained by the fact that it is generally simpler for smaller governments, and especially for local governments, to implement accrual accounting. Reforms in the smallest institutions involves less regulation, development of IT systems and training programmes, as well as less complex procedures.

The scope of the reform (number of consolidated entities, objectives) is another key aspect to take into account

All institutions in the panel tried to adapt the duration of the reform to its objectives.

The need to include numerous entities in consolidated financial reports led to the anticipation that a long transition period would be necessary. In the Czech Republic, it took over six years (2010 - 2016) to progressively consolidate the accounts of all the reporting entities of the public sector⁴³. In the case of Austria the wide ranging objectives of the reform, defined by the constitutional reform of 2007, also partly explains their duration⁴⁴.

In contrast, when a limited number of objectives were selected, reform was usually easier and took less time to implement. In the case of European institutions the reform's scope was limited to the objectives of providing a more reliable and comprehensive picture of the financial position and performance of the EU. These limited objectives explain the short period of time before the launch of the reform and subsequent publication of the opening balance sheet. In the case of Estonia the initial objectives of the reform were limited to obtaining reliable financial reports of the situation in the public sector and providing accurate figures for national accounts in statistical reporting. As a result the preparation process - including the draft of new guidelines, the adoption of new regulations and the evolution of IT systems and training - took less than two years.

2.3.1.3. Post-implementation adjustments were planned and carried out

Some governments such as Austria and Estonia specifically anticipated a post-implementation phase to improve the outcome of the reform over time.

Since the end of the reform in Austria, regulation, guidance and internal controls have been gradually improved thanks to the lessons learnt during the first years of implementation. Actors of the central Estonian government assumed from the beginning that it would be necessary to capitalise on the first outcomes of the reform over the years. The City of Essen also designed its new IT systems to be able to implement new e-government solutions in the future. In addition a description of the operations conducted by the French central government after the publication of its opening balance sheet in 2006 is made in Box 1 below.

⁴² This period is taken as an estimate for the time of the reform, although in some cases later stages were, or are still, necessary to achieve the initial objectives.

⁴³ In 2010 the Czech central government was alone in publishing accrual-based accounts. Financial statements consolidating the accounts of the central government, central agencies, local government entities and various agencies were published for the first time in 2016 for the financial year 2015.

⁴⁴ The fact that the Austrian central government also mainly relied on internal staff to perform the necessary tasks, including the design of the reform and training, can also be a factor to explain this duration.

Box 1 - The three post-implementation phases of the French accrual accounting reform

Following the publication of the opening balance sheet of the French central government in 2006, three post implementation phases have taken place:

- **An initialization phase (2006-2008)** led to completing the opening balance sheet by gradually applying the new accounting standards. The Court of Auditors, which is responsible for the certification of the central government's account since 2006, certified the accounts with "substantial" qualifications. The number of these qualifications has gradually decreased (13 substantial qualifications for the first certification of accounts in 2006, compared to 12 qualifications in the following two years)
- **A phase of transformation and modernization of information systems (2009-2012)** with a new State financial and accounting information system, called "Chorus", and deployed over several years
- **Since 2013, there is another phase of maturity and optimization of the accounting reform.** This phase is characterised by an optimization of the processes: implementation of billing services leading to the centralization of invoice processing by accountants, dematerialization of procedures and acts, infra-annual closing and pre-closing exercises.

Source: Received answers to the 2017 questionnaire sent to the French Directorate General for Public Finance

Post-implementation adjustments were made by the eight institutions studied in this report, even though not explicitly planned at the beginning. The answers to the questionnaire given by seven of these institutions permitted PwC to conclude that a continuous process of modernization of financial functions is ongoing⁴⁵.

Moreover, in the countries where accrual accounting has been in place for a long time debates are arising about how it might be possible to enhance the use of accrual reports and data. In a March 2017 study⁴⁶ the OECD underlined the efforts made by countries such as the UK, New Zealand, France and Australia to improve the clarity of financial reports and make them more widely used in decision-making and for accountability purposes - especially by legislative authorities. According to this study there is a common opinion that the presentation of accrual-based financial reports, the IT systems or the processes remain too complex.

⁴⁵ See section 2.4.2.3., Secondary benefit 1: Continuous process of modernisation of financial functions

⁴⁶ OECD, Better Addressing Users' Needs: Lessons learned from Australia, Canada, France and the United Kingdom, paper presented at the 17th annual meeting of OECD senior financial management officials at the OECD Headquarters, 2-3 March 2017

2.3.2. Typical implementation approach and main project milestones

2.3.2.1. Typical implementation approach

The interviews conducted by PwC confirm that accrual accounting reforms typically follow the three stages previously noted by PwC in 2014⁴⁷. These three stages are the following:

1. **Stage 1: An initial diagnostic or gap analysis:** the objective of a gap analysis (comparison of the 'as is' situation with the 'to be' situation) is to gain a detailed understanding of the impact of the new accrual accounting framework on the organization, highlight key accounting and reporting issues that need to be addressed. A roadmap allows the organization to develop a detailed project plan, define its needs and estimate the cost of the entire conversion process (including from an information system point of view) and inform the investment decisions that need to be taken

Following this gap analysis, in order to enable the organization to implement all aspects of the project and solve every issue identified while continuing to run its usual activities, a project management structure is set up, conversion tools are tailored and the project strategy is communicated throughout the entirety of the project. This project management structure enables the initial conversion and embedding processes:

2. **Stage 2: Initial conversion enables preparation of the entity's accrual-based opening balance sheet(OBS) and first financial statements to comply with the new accounting standards**
3. **Stage 3: Embedding** encompasses all activities that are designed to enable the government to move to a new 'business-as-usual' operation, using its 'new language' comfortably and authoritatively. Embedding the change involves continuing training throughout the entities involved, completing systems design, build and testing, designing and rolling out new business processes and procedures, including internal control and risk management processes

The implementation of accrual accounting standards needs to be undertaken with a holistic view. Indeed, at every step of the project, the four dimensions of the implementation of new accounting standards need to be considered. These four dimensions are:

- **Policies:** the transition to accrual accounting makes it necessary for every organisation to review and amend its accounting policies and related guidance and instructions (adapting existing financial rules and regulations; documenting accounting policies and developing comprehensive guidance and manuals)
- **People:** implementing accrual accounting standards implies a change in the mind-set of management, staff and other stakeholders. For this change of mind-set to be successful, it is necessary that a good change management program, including training, knowledge transfer on key accounting areas, communication and awareness campaigns, is put in place and operates efficiently
- **Processes:** implementation implies management of the transition period, monitoring the implementation phases, checking data quality with designed quality control procedures, establishing data collection procedures⁴⁸ and ensuring compliance with the existing regulatory framework.
- **Systems (including IT systems)** need to be adapted to produce specific sets of new financial information. The processing of new data flows will in most cases require adaptations to the existing IT environment. For governments reporting on an accrual basis at the beginning of the reform the evolution of information systems needed will be less significant and less costly overall

⁴⁷ PwC, Study to inform the impact assessment of EPSAS implementation (2014) | Section 10.1.3. EPSAS implementation

⁴⁸ The new accounting policies require additional or other accounting data to allow recognition and measurement of the accounting elements and to present the required disclosures. Specifically for the first opening balance sheet, a data collection exercise will be carried out to collect all required information.

The answers given by the institutions studied confirmed the value of this general framework to describe a generic transition process.

Moreover, in order to detail the implementation approach in each institution, PwC asked the eight institutions surveyed to describe their main project milestones.

These milestones were presented according to the answers given by respondents and PwC's analysis. The "training and support" milestone was often a parallel task conducted in coordination with other tasks. According to the experience of many of the stakeholders interviewed and PwC's conclusions, a successful training plan is generally carried out during all phases of the project and along the four dimensions of accrual reforms (policies, processes, people and systems).

N.B. The description of these milestones do not include all the tasks conducted by the institutions to implement accrual accounting along the four dimensions identified. They only reflect the main milestones that can be distinguished by PwC on the basis of the answers given to the following question of the questionnaire sent to the eight institutions surveyed: «What were the main milestones [of the project]? The key organizational elements for leading and implementing the reform, including the IT strategy?» The main milestones of the seven institutions that answered this question are described below. Only the milestones of the project in between the decision to implement accrual accounting and the publication of the first accrual accounts complying with the new accounting framework are described.

2.3.2.2. Main project milestones for the City of Barcelona (2015 - 2016)

IT systems implementation The reform process in Barcelona was mainly focused on the adaptation of the IT systems necessary to implement the new mandatory accounting instruction for Spanish local governments of 2013⁴⁹, which came into force on 1 January 2015. The chief financial officer of the city was in charge of conducting and implementing the reform, including its IT aspects.

2.3.2.3. Main project milestones for the City of Essen (2004 - 2007)

Initial conversion Following the start of the implementation project in 2004 the establishment of the opening balance sheet was the priority⁵⁰. Assets and pensions registration and valuation were specifically targeted.

IT systems implementation The project then focused on the definition of a new budget and accounting structure compliant with the accounting principles defined by the Land of North-Rhine Westphalia.

Design of new regulations and policies The project also focused in parallel on new accounting processes and their implementation into modernised IT systems (new software and hardware for accounting).

Training and support Finally, training and support schemes were implemented for centralised and decentralised accounting and budget actors.

⁴⁹ Order HAP/1781/2013, of 20 September 2013.

⁵⁰ The reform's main goal was indeed the mapping of the actual assets and liabilities in municipal budgets.



2.3.2.4. Main project milestones for the Czech central government (2007 - 2010)

A binding government resolution issued in 2007 defined the scope of the project (all public entities), the main principles of the new accrual-based accounting framework and general aspects related to governance. The implementation phase started in 2010 with some rules being postponed for three years to reduce the impact of the change. Following the binding government resolution three important milestones characterised the project.

Design of new regulations and policies

Many regulatory steps sequenced the implementation process and more than fifty decrees were issued. In particular decrees were published to define the features of the centralised IT accounting system of the central government, as well as the rules for consolidating the accounts of public sector entities. Legislative pronouncements were also necessary to approve the new financial statements and rewrite the Czech accounting standards for public sector entities at different stages of the project (four in 2010, three in 2011, one in 2012 and two in 2013).

IT systems implementation

Public sector entities were responsible for adapting their IT systems to the new principles and standards. An IT system launched in 2016 and operated by the Ministry of Finance was created as an interface for the consolidation of the financial data of public sector entities into the Central System of Accounting Information of the State (CSAIS).

Training and support

Specific emphasis has been placed on providing a wider and more thorough methodological support to the key stakeholders involved in the implementation of the reform.



2.3.2.5. Main project milestones for the Estonian central government (2003 – 2005)

Design of new regulations and policies

The reform process started with the definition of harmonized accounting guidelines for the public sector which included a unified chart of accounts, trading partner codes, activity codes, financing and cash flow codes (in order to prepare the consolidation of public financial statements)⁵¹. The guidelines were published as a regulation of the Ministry of Finance.

IT systems implementation

Public sector bodies were responsible for adapting their IT systems to be compliant with these new guidelines. The central government's Ministry of Finance was in charge of implementing an IT system for the collection and consolidation of the financial data of the entities of the public sector.

Training and support

The adoption of the standards was supported throughout the reform by a great deal of training and by the organisation of a helpdesk in the Ministry of Finance. In particular accountants were trained to be able to use the new IT systems and respect the standards. Audit and consulting firms were involved.

⁵¹ The Estonian MoF created the guidelines with the technical advice of competent accountants and auditors, as well as by consulting all public sector entities. During these discussions, guidelines were completed and clarified, and examples of accounting entries for different transactions were prepared.



2.3.2.6. Main project milestones for the EU institutions (2003-2005)

The reform was implemented quickly. The different aspects of implementation shown below were conducted in parallel.

Design of new regulations and policies

The accounting framework including principles, rules and procedures, were defined at the beginning. An inventory and documentation of all flows and transactions was then carried out in order to define how the new accounting framework would apply to them.

IT systems implementation

IT systems were then adapted to reflect the proposed approach. Finally, relevant actors were trained to use the new IT systems and become familiar with the new accounting framework.

Initial conversion

An opening balance sheet complying with the new accounting framework was prepared. All relevant assets and liabilities, as well as invoices, were recorded in the accounting system.

Training and support

The implementation project relied on the involvement of HR and training bodies from the beginning. Training and support tasks were performed at the same times as other aspects of the implementation.



2.3.2.7. Main project milestones for the Flemish government (2008 - 2010)

The reform relied on a change of accounting principles and the adoption of a forward- looking budget in line with the Belgian Generally Agreed Accounting Principles and the ESA framework.

Definition of project management

The reform started with the definition of a project-based organisation around a steering committee and the creation of working groups. These groups identified single points of contact in every entity and operational department concerned with the reform.

IT systems implementation

The financial information system was updated to include a harmonised system for following suppliers and debtors across the organisation and its related entities. A unique identification of these debtors and suppliers (following the structured accounts of the Belgian GAAP and the official ESA-codes) was created.

Training and support

Training was provided by the centralized accounting department at the beginning of the reform. The training department then provided programme management training at a later stage. Training and support activities included the development of an accounting manual giving explanations of every account and supported by real-life examples and links to the ESA manual. An educational programme based on a “train the trainer” approach was also created.

■ ■ 2.3.2.8. Main project milestones for the French central government (2001-2006)

Design of new regulations

After August 2001 (and enactment of the Budgetary constitutional bylaw) the main task was the elaboration of 13 accrual-based accounting standards for the central government (excluding its related entities). These standards were defined by the public sector accounting standard setter (*Central Government Standard-setting Committee of public accounts*) and approved by the Ministry of Finance in a May 2004 regulation. Operational ministries were consulted on a regular basis during this process.

Initial conversion

The preparation of the opening balance sheet was the second major milestone, in between 2004 and 2006. A registration of inventories, and the valuation of numerous assets and liabilities of the central government had to be performed.

In 2004-2006, the government also worked intensively on the development of accounting instructions, the reliability of the control environment, process reengineering, the adaptation of IT systems and deployment of internal control and audit.

These main milestones permitted the publication of the opening balance sheet as of 1 January 2006, and the preparation of a long modernization process of IT systems (see Box 2 below regarding the “Chorus project”). The mandatory certification of the central government’s accounts by the French Court of Auditors was also achieved for the first time in the year 2006.

2.3.3. Modernization of IT systems

Beyond all the specific milestones that characterised the implementation strategies of each institution, the modernization of IT systems was a cross-cutting issue of particular importance.

The modernization of IT systems was a key aspect of the implementation of accrual accounting

The modernization or redesign of IT systems was a key factor of the successful deployment of accrual accounting. New enterprise-resource planning (ERP) systems enabled the enforcement of the new standards efficiently by facilitating the automation of the production of financial statements. They helped save costs and reduced cut-off delays. This aspect of the reform was considered in several ways:

- In the Austrian central government an ERP, based on SAP EAP-Software implemented in an earlier reform, provided a comprehensive and well-developed cash management system. The accrual reform involved an upgrade of the existing SAP system to acquire new modules and ‘add-on’ accrual elements⁵²
- In the Estonian central government and EU institutions IT systems and user management were two pillars of the reform project
- In the case of the Flemish government, where accrual accounting was only partly applied before 2008, the reform project was mainly a modernization of its IT systems. It aimed at harmonising and securing reporting processes as well as implementing new accounting principles and standards⁵³
- In Barcelona, the most important part of the project was the upscaling of financial systems in order to publish financial statements complying with the new accounting instruction for local governments

Accounting reforms were sometimes a key incentive to significantly upgrade their system and/or set up an ERP system. In Estonia every public sector entity was responsible for the renovation of its IT systems, or the purchase of new IT systems to meet the requirements of the new accounting framework. In Essen the new financial management (NKM) initiative, including the implementation of accrual accounting, was an opportunity for the modernization of both software and the hardware IT infrastructure. This new infrastructure, implemented at the beginning of 2007, was suitable for future e-government solutions.

Box 2 - Implementation of a new IT system in the French government following the publication of the first accrual-based accounts (2006-2012)

Following the issue of the first accrual-based accounts from 2001 to 2006 the existing IT systems of the central government were adapted from 2006 to 2008 in order to take account of the new accounting framework.

A new ERP system called “Chorus” (based on SAP) was then deployed between 2009 and 2012. In 2012 Chorus enabled the consolidation of accounting data to prepare the balance sheet of the central government (without its related entities) automatically. This system allowed the closing in a more secure and less time-consuming manner. Finally, Chorus enabled a collection of data necessary to the creation of an analytical accounting framework implemented in 2014.

Source: Answer to the 2017 questionnaire sent to the French Directorate General for Public Finance

⁵² The legal technical implementation of accrual systems started in 2009 and the ‘old’ and ‘new’ systems were run in parallel during 2012. The total implementation period covered five years and the new integrated budgeting and accounting system was fully operational in 2013.

⁵³ The reform aimed at standardising reporting in IT systems, by creating single and shared databases for the identifications of suppliers, debtors and personnel. It also aimed at creating financial statements complying with the structured accounts according to Belgian GAAP and the ESA framework.

IT systems of the entities involved in the reform were coordinated

In the Czech Republic the IT systems of public sector entities were coordinated under the supervision of the Ministry of Finance. These entities however did not have to implement the same software. In the context of the accounting reform, the Ministry of Finance launched a project for the development and implementation of a new software (xml/xsd based) for the collection and storage of accounting data. This software defines an interface to which the accounting software of individual public sector entities have to connect in order to transfer data to the Central System of Accounting Information of the Central government (CSAIS), owned by the Ministry of Finance. In 2016 a process of consolidation of the accounting data was added to the solution.

By comparison, in France and Estonia, the implementation of a unique software at the level of the budgetary central government minimized costs. In the French central government IT systems were overhauled through the Chorus project. This project, executed in six waves between 2008 and 2011⁵⁴, led to the implementation of an SAP-based integrated information system (ERP) shared by all the ministries of the central government for accounting, budgeting and financial management.

⁵⁴ Nonetheless, as the Court of Auditors emphasises in its audit report for the certification of the central government's accrual accounts, the implementation of Chorus is still ongoing, as the progressive shift from 300 previous IT systems to the unified Chorus framework is not complete.

2.3.4. Cost assessment of the reform

The institutions included in the panel applied different methods to manage the costs of the reform, depending on their objectives and context.

The Estonian and Austrian central governments, as well as the city of Essen, considered the prior assessment of the costs to be one of the key elements of the implementation strategy. For example an assessment of the costs, including IT and training costs, was carried out in Estonia for all public sector bodies before implementation.

The city of Essen and the Flemish government determined the costs before and during the implementation process and budgeted them every year.









The Ministry of Finance of the Austrian central government weighed the costs and benefits of the implementation of accrual accounting at all stages of the project. For example, national accounting standards chose not to transpose the IPSAS standards due to an estimated excessive workload compared to their expected benefits. Some assets and liabilities, as well as the accounts of some entities, were not included in the opening consolidated balance sheet issued for the fiscal year 2013 due to limited resources available for performing inventories and valuation.

Other institutions did not see prior cost assessment as a key enabler of the implementation strategy. Two main reasons can explain this situation:

- **A strong political and administrative support.** In the case of France the reform was implemented after the enactment of the budgetary constitutional bylaw of 2001, passed in Parliament with a sweeping majority. In the EU Commission, Commissioners and Directors-General strongly supported the reform
- **A priority allocation of resources available for IT projects to the reform implementation, as in the case of the European Commission.** The high level of political priority enabled the European Commission to focus the resources available for IT projects on the implementation of the new ERP system

Institutions that have not made costing a priority or key aspect of the implementation strategy monitored some of the greater costs. The European Commission assessed the cost of consulting services necessary to the implementation, while the French budgetary central government assessed the costs of the new ERP software⁵⁵.

Table 3 – Characterisation of practices in terms of cost assessment

Institution	Cost assessment	Type of costs assessed	Timing
 Austrian central government	Yes	Overall costs	At all stages
 City of Barcelona	No	N/A	N/A
 City of Essen	Yes	Overall costs	At all stages ⁵⁶
 Czech central government	Yes	Overall costs ⁵⁷	After
 Estonian central government	Yes	Overall costs	Before
 EU institutions	Yes	Consulting costs	Before
 Flemish regional government	Yes	Overall costs	Budget discussions ⁵⁸
 French central government	Yes	IT costs	Before and after

⁵⁵ The General Inspectorate of Finance (IGF) estimated the costs of the ERP project “Chorus” in 2006, and compared it with the yearly costs savings and productivity gains derived from the system implementation. The Chorus implementation costs were estimated again before 2013 by the government in the Discharge bill for the fiscal year 2012.

⁵⁶ The management of the project included a monitoring of the reform costs.

⁵⁷ The costs incurred by individual public sector entities to implement new accounting software’s were not included in this global assessment.

⁵⁸ The costs were assessed during and after the reform and included in municipal budgets. They could not exceed the authorised amounts.

2.4. Expected and achieved benefits

In order to evaluate the successes and positive effects of the reform process this section presents a comparison of the expected (2.4.1.) and achieved (2.4.2.) benefits.

2.4.1. Expected benefits

2.4.1.1 Primary benefits in financial reporting and financial management

The eight institutions surveyed were asked to highlight the priorities of their accounting reform by identifying in the questionnaire:

- The primary benefits expected at the beginning of their accounting reform from a list of six typical benefits in the field of financial accounting and financial management⁵⁹
- The rank of the priority given to each primary benefit (from 1 to 6, 1 being the benefit with the highest priority)

The results of 7 completed questionnaires out of 8 panelled institutions are presented in Figure 3 below:

Figure 3 – Priority given to each primary benefit on average



Source: Received answers to the 2017 questionnaire

⁵⁹ The benefits suggested by PwC focused on the concrete potential of accrual accounting in terms of financial accounting and public financial management. According to PwC's experience they are among the most common benefits expected when accruals reforms are decided.

N.B. Figure 3 presents the given priorities on each expected benefit, classified by the respondents (the city of Barcelona, the city of Essen, the Czech central government, the Estonian central government, the institutions of the EU, the Flemish government and the French central government) from 1 to 6, at the beginning of the reform.

2.4.1.2. Secondary benefits

Respondents of the institutions surveyed were also asked whether other benefits had been achieved, and their responses provided as follows:

- An improvement on other accounting methods, including cash-based accounts, the accounts compiled under the European System of Accounts (ESA) and the introduction of analytical accounting (or cost analysis methods);
- An improvement of financial processes including:
 - Cost practices methods
 - Internal control and risk management
 - Production of accounts (organization, workload, deadlines)
 - Modernization of financial services
 - Financial communication and accounts transparency
 - Use of financial information by key stakeholders (citizens and their representatives, investors, etc.)

2.4.2. Achieved benefits

In the questionnaire and/or during interviews, panelled interlocutors were asked to select:

- The expected priority benefits
- Those benefits that have been achieved so far
- A qualification for each benefit achieved: “substantial”, “moderate” or “negligible/non-existent”.

In almost every case respondents to PwC’s survey emphasised that the benefits expected at the beginning of the reform were achieved. This result is consistent with that of the OECD’s 2016 Accruals survey (at that time, none of them classified the intended benefits of the reform as “not achieved”⁶⁰). Moreover, many of the secondary benefits of the reform were considered achieved.

Benefits considered as achieved are regrouped in the following items (selected to be consistent with PwC’s 2014 study):

- Accountability and transparency
- Better decision-making
- Impacts on control and administrative processes

When necessary primary and secondary benefits of the reforms are distinguished within these categories.

⁶⁰ See *OECD/IFAC, Accrual practices and Reform Experiences in OECD countries, OECD Publishing, Paris, pages 30-31*

2.4.2.1. Accountability and transparency

Primary benefit: Efficient financial statements production, better quality of financial reporting

<i>Institutions</i>	<i>Benefit expected</i>	<i>Benefit achieved</i>	<i>Qualification of the benefit</i>
<i>City of Barcelona</i>	Yes	Yes	Substantial
<i>City of Essen</i>	Yes	Yes	Substantial
<i>Czech central government</i>	Yes	Yes	Substantial
<i>Estonian central government</i>	Yes	Yes	Substantial
<i>EU institutions</i>	Yes	Yes	Substantial
<i>Flemish government</i>	Yes	Yes	Substantial
<i>French central government</i>	Yes	Yes	Substantial

Source: Received answers to the 2017 questionnaire

In a majority of cases, **the first** (although not the only) **goal of the reform was to increase the reliability and transparency of public accounts**. The current survey also shows that most of the accounting departments of the Ministries of Finance or central accounting departments judged that the quality of financial statements improved after the reform⁶¹. Finally, the higher accuracy and comprehensiveness of these financial statements enabled a more accurate and fairer view of the financial position, financial performance and cash flows of these institutions.

These findings are in line with those of the OECD's 2016 Accruals Survey, as well as those of PwC's previous study in 2014: a majority of Ministries of Finance in OECD countries recognize that accrual reforms enable higher accountability and transparency⁶². These reforms indeed enable compliance with most international standards in terms of transparency, including the OECD's *Best Practices for Budget Transparency (2002)* and the IMF's *Fiscal Transparency Code (2014)*.

Accrual accounts also enable a longer-term fiscal view. They limit the temptation of governments to use fiscal schemes that will apparently limit or reduce public expenditures and deficits, but with potential negative financial consequences in the future. Indeed, under accrual accounting, many events that will have an impact on the financial situation of an institution in the future are recorded at the date at which they occur, rather than at the time they result in a movement of cash. For example the sale of non-financial assets will have less impact on the reported deficit in an accrual-based environment: any increase in cash from the sale of a non-financial asset will be partially offset by the removal of the asset from the balance sheet at the time of sale.

⁶¹ The accounting departments of Barcelona, the Estonian central government, the city of Essen the central Czech and French central governments, as well as the DG Budget of the European Commission shared this point of view.

⁶² PwC, Study to inform the impact assessment of EPSAS implementation (2014) | Section 5.2.

Secondary benefit 1: Improvement of cash-based accounting

<i>Institution</i>	<i>Qualification of the benefit</i>
City of Barcelona	Moderate
City of Essen	Substantial
Czech central government	Non-existent
Estonian central government	Substantial
EU institutions	Moderate
Flemish government	Substantial
French central government	Substantial

Source: Received answers to the 2017 questionnaire

N.B. The columns “benefit expected” and “benefit achieved” were removed and respondents to the questionnaires not asked whether the improvement of cash-based accounting was one of the benefit expected at the beginning of the reform. In PwC’s experience this type of benefit is more of a secondary benefit than a direct expected benefit in the context of accrual reforms.

Even if the improvement of cash accounts was not a top priority, the modernization of IT systems, policies and processes led to a positive impact on cash accounting. This was the case in France, where the reform was the occasion of implementing the Chorus ERP software (2009-2012), used for keeping both accrual-based and cash-based accounts.

The provision of new types of data presented in accrual-based accounts also had a positive impact on budgetary cash-based accounting. In particular the monitoring of accrued expenses, other non-financial debts, prepaid expenses and receivables enables a better view of some of the data presented in cash-based accounts.

Among respondents/interviewees, Estonian, French and Flemish governments, as well as the city of Essen, are of the strong opinion that the quality of their cash-based accounts substantially gained from the implementation of accrual accounting.

Secondary benefit 2: Improvement of ESA accounts

<i>Institutions</i>	<i>Qualification of the benefit</i>
City of Barcelona	Moderate
City of Essen	Not applicable ⁶³
Czech central government	Substantial
Estonian central government	Substantial
EU institutions	Not applicable ⁶⁴
Flemish government	Moderate
French central government	Moderate

Source: Received answers to the 2017 questionnaire

⁶³ Considered by respondents as not a relevant issue, because ESA accounts are compiled using the cash-based accounting data of the city of Essen.

⁶⁴ Not considered as a relevant issue by interviewed stakeholders.

N.B. The columns “benefit expected” and “benefit achieved” were removed, and respondents to the questionnaires not asked whether the improvement of ESA accounts was one of the benefit expected at the beginning of the reform. In PwC’s experience this type of benefit is a more secondary benefit than a direct expected benefit in the context of accrual reforms.

The introduction of accrual accounting enabled some improvements in the production of the ESA accrual-based accounts; in some cases, improvements have been tagged as “substantial” (for example in the Czech and Estonian situations).

In the case of the Flemish government this improvement was one of the secondary objectives of the reform. The new Flemish set of accounts were designed to match the official ESA-codes and explains the improvement in the quality of the Flemish government’s ESA accounts.

However some additional progress has still to be made. For instance, accrual-based accounts can be made available too late to be used for the compilation of ESA accounts. In this regard the French central government is striving to publish its accrual accounts in a timelier manner.

2.4.2.2. Better decision-making

Primary benefit 1: Better asset management

<i>Institution</i>	<i>Benefit expected</i>	<i>Benefit achieved</i>	<i>Qualification of the benefit</i>
<i>City of Barcelona</i>	Yes	Yes	No qualification
<i>City of Essen</i>	Yes	Yes	Substantial
<i>Czech central government</i>	Yes	Yes	Moderate
<i>Estonian central government</i>	Yes	Yes	Moderate
<i>EU institutions</i>	Yes	Yes	Moderate
<i>Flemish government</i>	No	-	-
<i>French central government</i>	Yes	Yes	Substantial

Source: Received answers to the 2017 questionnaire

Four institutions selected asset management as one of the three top priorities of their accounting reform: the Czech Republic, the city of Essen, the EU institutions and the French central government. Three respondents estimated the benefits as moderate (the EU institutions, the Estonian and Czech central governments), while France and the city of Essen considered that it was one of the substantial benefits of the reform.

These results can be partly explained by the fact that **the regular recording and valuation of assets was sometimes an important first step towards an efficient management of assets**⁶⁵. In Estonia, reliable data about the assets and their values enabled improved internal control procedures and the establishment of a better control over the assets owned by the nation. A value of €800 million for forests available for harvesting was recorded into the Estonian central government's balance sheet based on the present value of the cash flow to be obtained from future sales of forest products.

The city of Essen made great efforts to recognize and measure the value of assets such as streets, bridges, historical buildings, railroads or tracks.

⁶⁵ Even though the EU institutions already performed yearly registrations and valuation of debts and assets.

Primary benefit 2: Improvement of medium to long term budgetary planning

<i>Institution</i>	<i>Benefit expected</i>	<i>Benefit achieved</i>	<i>Qualification of the benefit</i>
City of Barcelona	Yes	No	-
City of Essen	Yes	Yes	Substantial
Czech central government	Yes	Yes	Negligible/Non-existent
Estonian central government	Yes	Yes	Moderate
EU institutions	No	-	-
Flemish government	Yes	Yes	Negligible/Non-existent
French central government	Yes	Yes	Moderate

Source: Received answers to the 2017 questionnaire

The improvement of long term budgetary planning was supported by the introduction of accrual accounting; five out of the six institutions that pursued this benefit considered this benefit as achieved.

The implementation of accrual accounting was seen as substantially supporting medium-term budgetary planning in the Austrian central government and the city of Essen. A first-time allocation of short term and long term budgetary appropriations facilitated a better account of the fiscal consequences of investments and their impact on the debt load for future generations.

The contribution of accrual accounting to the improvement of medium and long term budgeting was seen as negligible by the central government of the Czech Republic, and as moderate by the Estonian and French central governments⁶⁶.

The accrued liabilities were considered by French central government representatives to have improved the budget planning processes. For instance, the provisions for future liabilities reported in the French budgetary central government's accounts has been increased almost threefold between the end of 2006 (7 billion euros) and 2014 (19.4 billion euros). This is partly the result of a better recording of extra-budgetary commitments (for instance of the total liabilities for state employees' pensions, amount of debt guaranteed by the French State or other financial commitments).

⁶⁶ These results can be partly explained by the fact these objectives were not seen as a priority for the Estonian and French central governments.

Primary benefit 3: Implementation of cost analysis

<i>Institution</i>	<i>Benefit expected</i>	<i>Benefit achieved</i>	<i>Qualification of the benefit</i>
City of Barcelona	Yes	Yes	No qualification
City of Essen	Yes	No	-
Czech central government	Yes	Yes	Negligible/Non-existent
Estonian central government	Yes	Yes	Moderate
EU institutions	No	-	-
Flemish government	No	-	-
French central government	Yes	Yes	Moderate

Source: Answers received from the 2017 questionnaire

Confirmed as a key objective of the reform the implementation of cost analysis methods was considered to be achieved by four out of five panelled institutions⁶⁷. Assessing costs on an accrual basis provides a better view of the cost of public services delivery and a basis for assessing the outcomes achieved. The detailed financial costs information captured also provided a key input into cost accounting systems.

French and Estonian central governments promoted the introduction of cost analysis methods at the beginning of their accounting reforms as a way of improving the efficiency of public services in the context of a “culture of performance” among public managers. In the city of Barcelona the introduction of a renewed cost analysis model ran parallel to the implementation of new accrual standards in 2014. This change of cost analysis methods was presented as a means of informing the municipal council and the citizens of the cost of services in the context of Barcelona’s other public transparency initiatives.⁶⁸

Cost analysis can however be pursued distinctly from the introduction of accrual accounting:

- The Czech central government emphasised that the introduction of analytical accounting was not an explicit objective of the reform
- Respondents from the institutions of the EU underlined that in their case the introduction of cost analysis methods was considered a completely separate process
- The Flemish government did not see the accounting reform as a means of introducing cost analysis methods either

As cost accounting is more complex and less commonly used in the public sector Flemish government respondents underlined that analytical accounting was not easily accepted within the organisation. In addition, among the six objectives of the reform studied by PwC for this assessment, the implementation of cost analysis methods was, on average, ranked by respondents as the objective with the lowest priority (cf. Figure 3 *supra*).

Several factors can limit the willingness of government organisations providing goods and services to the public free-of-charge to implement analytical accounting:

⁶⁷ In PwC’s 2014 study, the main impact of the introduction of accrual accounting in terms of decision making was the introduction of cost analysis and performance measurement (PwC Study to inform the impact assessment of EPSAS (2014) | p. 45).

⁶⁸ The city of Barcelona was one of the first *ajuntaments* (municipalities) in Spain to introduce activity-based costing, and is also a leading member of the City Economic and Financial group created in June 2014. The cost analysis methods introduced has the specificity of presenting costs of public services by activity (city planning, environment, sport...), as well as by city districts. The municipality facilitates the accessibility of cost indicators to citizens and decision-makers through the “*Transparencia*” portal of the city.

- The government serves all citizens without charge. Goods and services provided by governments are often free of charge
- Many costs cannot be reliably calculated (e.g. natural resources)
- Criteria for meaningful performance evaluation are lacking, even if costs are known
- Government programmes and projects are politically driven and costs often seen as irrelevant or secondary
- Government budgets are established on a cash basis and control of budgetary funds, not costs, is the only or primary interest of legislators

In addition, **several operational factors limit the use of accrual accounting data for cost analysis:**

- *The use of accrual data by managers for analytical purposes may be made difficult by several factors.* Firstly, when ERP systems are designed the first objective is to guarantee the quality of data and the compliance of accounts with the new accounting framework. The use of accrual accounting data for analytical purposes can be a secondary objective, and is sometimes more difficult to achieve due to the complexity of the analytical structure and design constraints of the accrual-based ERP software
- *The involvement of financial controllers' in public financial management generally has to be more highly valued.* The use of accrual accounting data for the design of management indicators is a recent evolution for financial controllers. Financial functions remain mainly focused on the production of financial information and do not have an active role in supporting management decisions. Accountants, financial controllers and managers still have limited communication regarding accrual accounting data for cost analysis and management purposes
- *Public managers are often still on the learning curve in using cost and management indicators.* When too many indicators are in place, or evolve frequently, or are perceived as too complex and/or not adapted, managers tend to disregard them.

2.4.2.3. Control and administrative processes

Primary benefit 1: Reduction of costs and administrative burden

<i>Institution</i>	<i>Benefit expected</i>	<i>Benefit achieved</i>	<i>Qualification of the benefit</i>
<i>City of Barcelona</i>	Yes	Yes	Unmeasurable
<i>City of Essen</i>	Yes	Yes	Unmeasurable
<i>Czech central government</i>	Yes	Yes	Substantial
<i>Estonian central government</i>	Yes	Yes	Substantial
<i>EU institutions</i>	No	-	-
<i>Flemish government</i>	Yes		Substantial
<i>French central government</i>	Yes	Yes	Unmeasurable

Source: Answers received from the 2017 questionnaire

The six institutions that tried to cut costs and reduce the administrative burden of their accounting reform all managed to reach this goal.

The **implementation of a unique software** in the central government of Estonia from 2010 to 2016, in the French central government from 2009 to 2012, and in the city of Essen made it possible to streamline and automate processes in order to simplify and reduce the time needed for closing the accounts. For instance, the Flemish government can now produce financial statements by organisation in three months.

The Flemish government (2008-2010) and the central Estonian government (after 2013) also implemented a unique software to create a **central government shared service centre for accounting**. In France shared services for the treatment of invoices were created. In the Estonian central government new IT systems enabled the introduction of electronic accounting documents, a self-service portal and an e-invoices portal.

Box 3 - Assessment of the costs saved by the introduction of the Chorus ERP system

According to estimates made by the French Inspectorate general for Finance in 2006 and the Agency for State Financial Information Technology (AIFE) in 2012, the introduction of this software enabled productivity gains in several ways:

- *Elimination of double entries (interface with business applications)*
- *Replacement of business applications (approximately 42 applications saving full time employees and 60 million euros in contractor costs)*
- *Simplification of expenditure workflows, automation controls and a decrease in duplicate entries*
- *Modernisation of organisation and optimisation of procedures*

The net gains obtained by comparing the costs and the benefits was assessed by the AIFE at 727 million euros in total, of which 427 million euros are recurring costs savings.

Source: French Agency for State Financial Information Technology (AIFE)

Primary benefit 2: Introduction of risk management beyond internal accounting control (internal controlling)

<i>Institution</i>	<i>Benefit expected</i>	<i>Benefit achieved</i>	<i>Qualification of the benefit</i>
<i>City of Barcelona</i>	Yes	Yes	Not qualified
<i>City of Essen</i>	No	-	-
<i>Czech central government</i>	No	-	-
<i>Estonian central government</i>	Yes	Yes	Substantial
<i>EU institutions</i>	No	-	-
<i>Flemish government</i>	No	-	-
<i>French central government</i>	Yes	Yes	Substantial

Source: Answers received from the 2017 questionnaire

Accounting reforms share the common goal of providing an accurate view of the financial performance and situation of the entities concerned, supported by the introduction of internal accounting control to ensure the transparency of public accounts and reduce the risk of incorrect data entry.

In the case of the French and Estonian central governments the implementation of risk management was not limited to accounting processes. It was extended to other budgetary departments as well as to operational departments of the central government. The introduction of risk management was perceived as the transition from a compliance culture to a “risk management culture”: for example budgetary controls shifted from an *a priori* comprehensive control of expenditures to more specific controls targeted at the highest or riskiest expenditures.

Secondary benefit 1: Continuous process of modernisation of financial functions

The stakeholders surveyed emphasised that, following the completion of the accruals reform, most institutions are continuously improving the performance of their financial functions.

Asked about their priorities in the next three years respondents provided the following answers.

Table 4 – Typology of priorities in the following years to improve the accounting reform's efficiency

Institution	Improvement of accounting processes	Data entry automation	Use of accrual data for decision-making	Training of managers and accountants	Improvement of accounting productions	Modernisation of financial controls
City of Barcelona					✓	
City of Essen	✓			✓		
Czech central government						✓
Estonian central government		✓	✓			
EU institutions	✓	✓				
Flemish government	✓	✓				
French central government	✓	✓	✓	✓		

Source: Answers received from the 2017 questionnaire

In targeting the improvement of accounting productions **the city of Barcelona** intends to develop its cost accounting model as well as make its long term cash-based accounts more reliable.

The city of Essen is striving to improve its core accounting processes further. Essen is also trying to introduce a workflow-based electronic invoice book.

The Czech central government's Ministry of Finance will increase the involvement of internal users and modernize external controls over financial statements and financial reporting.

The Estonian central government is planning to implement software robot solutions for automating tasks such as data entry whenever possible.

The European Commission's DGBUDG aims to reduce the time needed for cut-off procedures in the operational DGs. A further objective is a greater efficiency of consolidation processes through automatic uploads.

The Flemish government will work on expanding its shared service centre for financial accounting, as well as automating accounting data entry to the greatest extent possible.

The French central government has been working on ways to promote and extend the use of accounting data for decision-making purposes since 2016 (see box 4 below).

Box 4 - Actions of the French central government to increase the dissemination and use of accounting data

Ten years after the first publication of the French central government's opening balance sheet in 2006, voices express the needs to ensure a wider dissemination and use of accounting data, based on a greater clarity of financial reports and efforts to make this data more accessible for managers, such as:

- *Making the accounting data available according to a departmental axis, consistent with the budgetary perimeters*
- *Increasing awareness and training in operational departments on the concepts of accrual accounting, in order to demonstrate the relevance of accrual data for decision-making*
- *Publishing the accounting data available on open websites, to facilitate an easy and large use*
- *Adapting and promoting communication to all users of financial statements, both internal and external.*

Source: Interview with the French Directorate General for Public Finance

Secondary benefit 2: Introduction of mandatory certification and the increased reliability of reporting

Some countries introduced external certification processes in the context of accruals reforms. The introduction of mandatory external certification has led accounting departments to improve the quality of financial reporting over time. All surveyed Ministries of Finance or central accounting departments acknowledged that the certification process was a strong incentive for improvement in data and process reliability.

Box 5 - Principle of sincerity of accounts and mandatory certification in France

The objective of accounting quality applied to all public institutions in France after the accounting reform. The subsectors of government concerned by mandatory external certification were:

- **The central government:** *since 2006 and publication of the first accrual accounts of the state*
- **Public health establishments:** *in application of the provisions of article 17 of the law n ° 2009-879 of July 21st, 2009, Decree n°2013-1239 of December 23rd, 2013 defined the public health establishments that have to certify their accounts; hospitals are subject to financial audits when they have recorded €100 million of products over the last three years. The implementation of this certification process to all public hospitals has been gradual (31 hospital in 2014, 95 new hospitals in 2015 and the 33 last hospitals in 2016)*
- **Local governments:** *certification of the local governments' accounts is being experimented in accordance with article 110 of the law of 7 August 2015 on the new administrative territorial organization.*

Source: Interview with the French Directorate General for Public Finance

2.5. Encountered common difficulties

Institutions faced common difficulties due to project management (2.5.1) or key aspects of the reform (2.5.2).

2.5.1. Project management-related difficulties

2.5.1.1. Constrained timelines

Given the portfolio of numerous tasks necessary to transform policies, processes, people and systems of the organisations considered⁶⁹, timeline management proved a key issue.

Timelines were generally designed to take into account, as much as possible, the scope and objectives of the reform as well as the size and the complexity of the institutions concerned⁷⁰. Nonetheless, surveyed respondents often emphasised that excessively short timelines could be a considerable challenge. In particular, the EU institutions, the city of Essen, the French central government and the Flemish government noted that a short timeline was one of the main difficulties of implementation.

Short timelines put higher pressure on staff and cause more resistance to change, specifically when many of the necessary tasks are performed in-house (as exemplified by Flemish government representatives: the design and testing of the new IT system, training, and numerous unexpected issues were managed by the accounting staff on top of the usual workflow).

2.5.1.2. Complexity and costs of IT systems implementation

The majority of respondents have pointed out the complexity of the IT aspects of the reform as another key difficulty, especially due to the effort required in the coordination of finance and IT staff.

The respondent's surveyed also confirmed that IT implementation costs are the highest⁷¹, rendering cost/benefits analyses more difficult and budgetary decisions more cautious:

- In the Flemish government the negotiation of licence costs for the use of the new budget and accounting software was the main subject for discussion with IT suppliers. As the cost of individual licences proved too high the success of the reform was due to the government's ability to negotiate a global licence cost for the organisation
- The implementation costs of the Chorus ERP system in France was, for instance, assessed at around 1 billion euros in 2012 (without taking into account the productivity gains permitted by this ERP).⁷² Budgetary decisions, and in particular the allocation of resources for IT projects, can therefore be a difficulty

In that context strong political sponsorship of the project is necessary in order to secure generally limited resources to the implementation of the necessary IT infrastructure.

2.5.1.3. Training needed to successfully implement the reform

Retrospectively, surveyed institutions considered training as one of the issues that should have been much better prepared and monitored more closely⁷³. This result confirms the lessons learnt from the earliest experiences of implementation in Wales, New Zealand and Australia in the 1990s, which pointed out that the mastery of accrual

⁶⁹ See section 2.3.2. Typical implementation approach and main project milestones

⁷⁰ See section 2.3.1. Implementation timeline

⁷¹ The OECD's 2016 Accruals survey.

⁷² In the central government's budget execution law for 2012, the total cost of the Chorus project is estimated at 997 million euros (programme 221).

⁷³ More than half of the public administrations surveyed in the 2014 PwC study to inform the impact assessment of EPSAS implementation also asserted that the lack of qualified personnel in their accounting departments is one of the main obstacles to the implementation of accrual accounting. Accrual accounting indeed requires greater technical expertise, demands more professional judgment, and calls for greater involvement of non-accountant staff in the decision-making process.

concepts by financial and non-financial staff is one of the most important factors of success⁷⁴. In a case of a first implementation of accrual accounting it is crucial that public sector accountants develop a clear understanding of the new framework (standards, procedures and practices implemented) and gain a thorough knowledge of key accounting areas.

Challenges related to the teaching and training of non-financial personnel are also important.

- The managers in charge of taking decisions with a financial impact (e.g. purchase decisions) often remain unaware of the consequences
- A knowledge of accrual concepts in operational departments is necessary to facilitate data entry and quality

2.5.2. Functional and technical difficulties

2.5.2.1. Contextualised adaptation of the policies, processes and systems

Accrual implementation processes are demanding as they require a major transformation of an entity's policies, people, systems and processes. For instance⁷⁵:

- *Transforming the policies* requires an adaptation of financial rules and regulations, a documentation of the new accounting policies and the development of a comprehensive guidance and manuals
- *Transforming the processes* requires that data quality and compliance with the existing regulatory framework be checked regularly during the reform
- *Training accountants, transforming mind-sets* and ensuring a high level of political commitment throughout the reform are key factors of success
- *Transforming IT systems* requires an adaptation of the existing solutions or the implementation of a new ERP

According to PwC's experience, insufficient attention is paid to understand how the new rules should be applied to the entities considered. As a result, it is difficult to adapt the four aspects mentioned above to the specific needs of the institutions in the context of the reform.

As highlighted by several respondents, the need for a contextualised implementation requires a precise understanding of how finance and accounting departments are organised and managed, and what type of data they manipulate, etc.

2.5.2.2. Registration and valuation of assets and liabilities for the production of balance sheets

Respondents were still aligned with the general lessons learned from OECD countries⁷⁶, according to which the main challenge of a first-time implementation of full accrual accounting is the recording and valuation of assets.

In such a case, asset data repositories generally need to be created before the establishment of an opening balance sheet. Institutions have to build a comprehensive record of all their physical assets including lands, buildings, plants and equipment, subsoil and heritage assets. They also must evaluate their intangible assets, including trademarks and financial assets (equity, stocks, bonds...).⁷⁷

Recording these complex and numerous assets proved a real challenge for every surveyed institution. As an example the Austrian central government assessed that it had to value more than 6400 buildings, including solid

⁷⁴ Hickling Corporation, 1997, *Financial Information Strategy: Study of the Implementation of Full Accrual Accounting in Government Organizations Lessons Learned*.

⁷⁵ PwC Study to inform the impact assessment of EPSAS implementation (2014) | pp. 156-157

⁷⁶ OECD/IFAC (2017), *Accrual Practices and Reform Experiences in OECD countries*, page 29.

⁷⁷ Such assets are generally assessed by professional evaluators, on a frequency determined by the nature of the asset and the volatility in value: the more volatile the value, the more frequent the valuation. Some assets may require an annual valuation, whereas others can be evaluated each 3 to 5 years.

constructions, garages, warehouses, stables or historical buildings. The value of more than 9.3 billion square meters of land also had to be calculated.

In every case, it proved necessary to set up permanent teams dedicated to these tasks all along the reform process. For instance, the city of Essen dedicated 6 FTEs for a period of 3.5 years to create registers of fixed assets (in respect of the implementation of accrual accounting for fixed assets, it was estimated as roughly amounting to one third of the total efforts on the project⁷⁸).

Moreover, once all assets have been recorded in inventories, it can be difficult to assess the value of particular types of assets due to their specific nature.⁷⁹ For instance, in Estonia, assets categorised as land, roads and forests were recorded for the first time. Applying the historical cost method appeared to be very challenging in the absence of historical data. Internal and external assessors (for €0.5 million) were required to make the first assessment at market value or replacement cost when the purchase cost was unavailable.

Difficulties in valuing particular types of assets can also endure after the publication of the opening balance sheet, as illustrated by the number and substantiality of audit qualifications on assets inventory and valuation⁸⁰.

2.5.2.3. Still limited use of accrual data for information and decision-making

The experience of more mature countries in accrual accounting shows that the use of financial reported data is not as widely and commonly spread as initially expected, even some years after accruals implementation.

In still too many cases citizens and their representatives still use cash-based accounts to have an easily understandable picture of the state of public finances even after the completion of accrual accounts.

Rating agencies or financial analysts tend to focus on future-oriented data rather than on yearly executed accounts^{81,82}.

In some cases, it was pointed out that managers' needs should have been given more attention when implementing accrual reforms. For example according to the French Court of Auditors⁸³, the French central government's accrual accounts suffer from a lack of daily use by managers in their day-to-day analysis and decisions. One of the reasons is that the government's ERP was not initially designed to make relevant accrual data easily accessible for managers. As a result the production of accrual data mobilises more than 8,000 central government staff each year for a still limited use in decision-making.

⁷⁸ PwC, 2014, Study to inform the impact assessment of EPSAS implementation, section 6.4.1 government reform costs.

⁷⁹ Since the first certification of the French budgetary central government's accounts by the Court of Auditors in 2006 (for the financial year 2005), reservations have been made annually by the Court regarding the valuation of defence assets. In 2006 lack of information regarding the market value of such assets, or their costs, led to use a valuation method based on a statistical estimation from military expenses budgeted before the shift to accrual accounting. Despite the progressive replacement of these estimations by valuation at actual costs or present market values when available, the Court of Auditors kept making reservations about these items.

⁸⁰ OECD/IFAC (2017), *Accrual Practices and Reform experiences in OECD Countries*, OECD Publishing, Paris, pages 24-25

⁸¹ Association of Chartered Certified Accountants, *Consolidated government accounts : How they are used ?*, June 2015

⁸² See section 2.6.4 below.

⁸³ The French Court of Auditors analysed, in a February 2016 report, the contribution of the introduction of accrual accounting in the French central government and its effect on day to day management (March 2016; *La Comptabilité générale de l'Etat, 10 ans après; Une nouvelle étape à engager*).

2.6. Recommendations for the implementation of EPSAS

The recommendations presented in this section include good implementation practices (2.6.1.), as well as key success factors to be identified at the very beginning of the reform (2.6.2). Other recommendations aim to help to manage the costs of the reform (2.6.3.) and promote a more common use of accrual data (2.6.4.).

2.6.1. Good implementation practices

2.6.1.1. Good practice 1: Implementation roadmaps aligned with the reform objectives

The implementation plan should include a clear roadmap with key milestones, described and planned on each of the four aspects of accruals reforms - policies, processes, people and systems. Throughout implementation these four aspects should be deployed in sustainable sequences and monitored through dedicated management processes⁸⁴, in order to secure the alignment of the reform objectives and affordable capacities.

For instance, institutions seeking to improve asset management as a priority may focus on the quick preparation of an opening balance sheet - e.g. French central government and Flemish government. Institutions where modernization of accounting mainly relies on the modernisation of IT systems may focus on this aspect as a priority. This was the case for Barcelona which did not need to define its own accounting standards since it applied the accounting framework defined by the Spanish central government.

From the feedback from the institutions surveyed three examples of strategies and prioritisation of the key milestones can be identified:

- **A sustainable and sequenced roadmap.** The Czech and Estonian central governments both defined new accounting processes and regulation before implementing them using their modernised IT systems. In Essen the reform started with the preparation of the opening balance sheet on the basis of accounting standards defined by the Land of North-Rhine Westphalia. Later stages of implementation were tackled using modernised IT systems, and the design and deployment of updated budgeting and accounting processes.
- **The EU institutions made the decision to implement all aspects of the reform at the same time.** This approach was a means of completing the project in a limited amount of time as it was a political priority and focused on limited objectives. The design of new procedures and workflows, the IT systems implementation, the initial conversion and the delivery of training and support were performed in parallel.
- **Three other institutions decided to limit the timeline between the decision to implement accrual accounting and the publication of the first compliant financial statements.** Although the French central government committed to one of the most comprehensive reform processes after 2006, the timeline of the reform (2001-2006) mainly focussed on the definition of accounting standards and the preparation of the opening balance sheet. The Flemish government mainly focused on the modernisation of its IT system, necessary to secure and harmonise existing reporting processes in approximately a year (2009-2010).

N.B. The description of these prioritisation strategies does not include all the tasks undertaken by the institutions to implement accrual accounting. They only reflect the main strategies derived from interviews and the answers to the following question: “What were the main milestones [of the project]? The key organizational elements for leading and implementing the reform, including the IT strategy?” The institutions mentioned in the text above are only those that answered the question.

⁸⁴ One of the examples of these necessary dedicated management processes is the specific project management for the preparation of the initial conversion phase (preparation of an opening balance sheet). This subject is detailed below (cf. Boxes 6 and 7).

2.6.1.2. Good practice 2: Unified governance and dedicated strong project management

The majority of respondents considered in that the transition to accrual accounting needed to be steered by a central guidance unit, usually the central accounting department. This centralisation implies a unified high level governance, a uniform terminology, a unique chart of accounts, a common set of recognition and valuation rules, and/or common software packages. This centralised guidance unit is also in charge of conceiving the program and portfolio management scheme. Confirming previous works by the International federation of accountants (IFAC) and PwC, the respondents surveyed mentioned the following good practices for governance and project management:

- **A documented framework (the “vision”)**. The agreed approach needs to be documented to form a consistent basis for the communication of the reforms, to assist staff understand the reasons for the changes and the approach being taken, and to ensure that actual implementation is in accordance with these decisions
- **An early analysis of the new reporting environment and risks**, considering the impact on fiscal policy: diagnostic and gap analysis tailored to the specific characteristics of the government should result in a well-thought out project plan and roadmap for implementation
- **A clear allocation of responsibility** for each functional and technical stream
- **The designation of expert and renowned leaders in key financial and non-financial departments** responsible for implementing the reform and coordinating with the central guidance unit
- **An approval process** detailing who has authority for particular decisions
- **Formal communication and coordination mechanisms** to distribute information to, and collect information from, entities
- **A pragmatic approach to the preparation of the opening balance sheet**, focused on significant transactions and balance sheet items, as explained in the annex of the 2006 General Account of the French and Austrian central governments (see boxes 6 and 7 hereafter)
- **An assessment of the readiness of using dry-runs**, including setting up a dry-run audit of the government bodies
- **A focus on pilot projects on a smaller scale** to learn from implementation experiences and capitalise on them when managing the transition at the level of the other entities

Box 6 – Preparation of the Austrian central government’s opening balance sheet (OBS)

In Austria, the preparation of the OBS was regarded as a project in itself, requiring an effective management structure and a project timeline. A specific core team of 3 to 5 full time experts was dedicated to the preparation of the balance sheet under the direct responsibility of the budget director of the Ministry of Finance. The team was in charge of monitoring the quality of the data collected and providing guidelines and practical information to account producers in line ministries.

The OBS was prepared, with a number of exceptions and simplifications, to save costs and limit efforts, as there was insufficient experience to conduct some valuations efficiently. Thresholds and simplified methods using the concept of materiality were used to make valuation easier and limit administrative expenses related to the operation. Only items that were material¹ were included in this opening balance sheet.

Source: Bernard Schatz, July 2015, “Getting the starting point right: Experiences from Austria on the first time adoption of an Opening Balance sheet (OBS)”⁷

Box 7 - The French Ministry of Finance’s gradual approach to publish the central government’s opening balance sheet

The implementation of accrual accounting implied significant work to assess the central government’s assets (excluding the assets of its related entities), with particular attention paid to inventory and valorisation.

The most important items (real estate, transport equipment, road infrastructure, and accruals) were, to the greatest extent possible, comprehensively reconstructed. Other items (military equipment, software, technical equipment, inventories, and provisions) were reconstituted significantly. The value of non-material items - furniture, hardware, tools, etc. - was evaluated whenever possible on the basis of cumulative budgetary flows.

In specific cases, statistical methods in accordance with accounting standards - or temporarily in derogation to them - were applied. This concerned, for example, assets such military weapons, road infrastructures, corporate tax instalments, depreciations recorded on certain tax receivables, or, off-balance sheet, the calculation of retreats on aggregated data. To improve the evaluations of certain balance sheet items, including specific military assets, a multi-year accounting trajectory was defined.

Source: Interview with representatives of the French Directorate General for Public Finance, 2017 survey

2.6.1.3. Good practice 3: Binding legal provisions

Experience shows that binding laws and regulations at an early stage are often a way to facilitate the achievement of the objectives of the reform. Binding legal provisions enable resistance to change to be overcome by making the implementation mandatory.

For instance, in the case of the central government of New Zealand, the reform was defined in non-binding documents (i.e. “Treasury guidelines”), according to a tradition of non-excessive regulation. However, the shift to accrual accounting proved limited in various departments⁸⁵. This example shows that the accounting standards should have been defined in a more binding form, for the sake of the reform’s ownership.

In the central governments surveyed, the adoption of legal provisions was often seen as the starting point of the implementation process. In the case of the Czech and Estonian central governments, the publication of a binding regulation by the MoF was a way to enact the change in accounting standards and to define the timeline. In France, the enactment of the constitutional bylaw for budget acts in 2001 set a deadline for the reform by making accrual-accounting mandatory for the fiscal year 2006.

⁸⁵ During the early to mid-1980s these guidelines encouraged central government departments to keep asset registers and adopt accrual accounting, but a number of them decided not to take these suggestions into account.

2.6.1.4. Good practice 4: Clear guidelines for everyone and effective assistance throughout the implementation

The implementation of mandatory accrual accounting standards often requires assistance. Clear guidelines are necessary for the reform and the preparation of accounts, especially when made mandatory by the central government's MoF, be it for the central government (France) or the whole public sector (Czech Republic and Estonia).

Surveyed respondents often identified the need for clear guidelines for everyone involved in the process and the provision of help desks as being among the most important elements for the success of the reform. In Estonia, the accounting department of the MoF issued guidelines with as many clear examples as possible. These documents were designed in consultation with selected competent auditors and accountants. Direct training courses were also given by the reform initiators. In the Flemish government, an accounting manual was available online. Besides listing relevant documentation (such as legal references), the manual provided training videos, examples of accounting entries, and explanations on how to use the different accounts.

The need of assistance can be particularly important for small public sector entities such as local governments. In the Czech Republic in 2010, more than 6200 municipalities (6243 municipalities in 2015) were asked (for the first time) to send their consolidated accrual accounting data to a centralized accounting system. The central government's MoF managed this operation. However, according to answers given to a 2012 survey of 102 Czech municipalities⁸⁶, 78% of them rated the reform as unbeneficial and confusing. According to the survey conclusions, the reasons for this perception were the insufficiently clear guidelines for the reform and the lack of helpdesk and expert assistance.

2.6.1.5. Good practice 5: Preparation of formalised training plans

All respondents underlined the utmost importance of providing sustained training and assistance to implementation units. Training plans are one of the most critical elements for a successful implementation. This subject is further developed in section 3 of the document⁸⁷.

⁸⁶ Respondents were members of public sector administration – a sample of municipalities and their allowance organizations in Moravia region. The number of inhabitants or other classification criteria was not important in this research because the accounting reform affected all municipalities. The accounting employees were the target group of our survey because only these employees deal with new accounting principles in their everyday life. These municipalities were contacted via email and telephone and asked to participate in the survey. The research was realized in 2012 by the students research work (Nekolova, Ošťadalova, 2012), who collected 102 questionnaires.

⁸⁷ Please refer to section 3 for more information on this issue.

2.6.2. Key factors of success

2.6.2.1. Key factor of success 1: Involvement and support of necessary stakeholders

As long as no reform can be decided without their support, policy makers need to be convinced of the usefulness of accounting reforms. The support of other stakeholders such as Parliaments, MoF and Courts of auditors must also be taken into account when preparing the reform, both by understanding their needs and successfully overcoming resistance to change.

Policy makers are the first stakeholders who need to be involved and convinced

In PwC's view, it is important to demonstrate to policy makers that the accrual accounting reform is a building block of the modernization of public financial management. These reforms should be seen as an investment that can have significant medium to long-term benefits for policy-makers, the administration and the public alike.

Involving reform drivers such as Professional Associations, Audit Institutions, Standard Setting Bodies, Consulting firms and Scholars Networks has positive effects in convincing policy makers of the importance of the reform⁸⁸ in the light of the perceived need for public sector reform, a financial or economic crisis, corruption or fraud.

Indeed, the reform may need political sponsorship. The adoption of the constitutional bylaw for budget acts in 2001 in France, and of the Austrian constitutional reform in 2007, was made possible by the support of all political parties. In Estonia the accounting reform was strongly supported by policy makers since the beginning (in 2002 and 2003).

The continuous support of such stakeholders can be crucial to sustaining the necessary operational, political and financial momentum throughout the reform process. In France, a specific mission dedicated to the implementation of the 2001 budgetary constitutional bylaw - the "Information mission for the implementation of the budgetary constitutional bylaw"- was created in 2003. It played a critical role in convincing the executive branch of government to politically and financially support the reform and implement all aspects of it to the necessary extent.

The widest possible support and involvement of civil servants at all levels of hierarchy is also desirable

The support of senior officials is critical to drive and sustain change, ensure that momentum is maintained, and that technical obstacles are overcome during the transition. When not sufficiently supported the reform can take longer than expected, be much more difficult to implement and miss key objectives.

During the reform, regular and timely feedback from financial staff in operational departments to the central unit responsible for the implementation is an efficient means of rapidly addressing unexpected issues (e.g. EU institutions). Financial staff are indeed well acquainted with their own problems and needs.

Communication strategies are always beneficial

The experience of PwC and the survey results confirmed that a clear and open communication strategy always proves a good implementation practice. Moving from cash to accrual accounting requires a significant cultural shift in the mindset of management, staff, regulators, fund providers and other stakeholders. For this shift to be successful it is essential that change management processes, including awareness campaigns, are designed and deployed throughout the reform process, targeting all types of relevant stakeholders (staff, politicians, media, citizens, etc.), adapting the message and communication channels according to the milestones and progress of the implementation and promotion of achieved benefits.

This is crystal clear in the case of the Austrian central government, where the MoF designed a thorough communication strategy aimed both at internal stakeholders (including civil servants, public accountants and policy makers) and external stakeholders (including the general public). The Austrian MoF considered this strategy necessary as ministries initially showed resistance to a wide ranging reform encompassing budgeting and accounting. Consequently the reform required continuous political support as it was scheduled to last for a

⁸⁸ Hassan A G. Ouda (2011), "A Prescriptive Model of the Transition to Accrual Accounting in Central Governments", International Journal of Governmental Financial Management, pp 63_94

significant period and outlast the political coalitions of the time. The Austrian central government's reform was also one of the most complex because it involved both comprehensive budget and accounting aspects between 2007 and 2013.

Box 8 – Austrian Ministry of Finance's communication strategy for the budgeting and accounting reform

The MoF budget department started to develop its ideas for the reform of budget processes in the 2000s. It successfully managed to get political approval for the first reform elements. Pilot projects experimenting with new forms of budget flexibility and performance information were launched in the 2000s and considered successful.

The MoF continued to lobby to ensure that the reform would be continuously supported by different political coalitions and other stakeholders as it was clear from the beginning that it would take a long time to initiate and implement change.

- *The continuous support of political parties was encouraged through the creation of an informal and cross-party parliamentary reform committee, which included experts as well as all parties represented in Parliament. This committee served as a platform for discussion between the MoF and political parties*
- *The Court of Auditors, being responsible for making sure the outcomes and outputs defined in budget acts are achieved, was also involved in the process and supported the reform as the introduction of performance budgeting added to its portfolio*
- *Initially seen as rather reluctant, line ministries were convinced after the MoF proposed that more flexibility in budget planning be part of a revision of the Federal constitution in 2007 which made the reform mandatory*
- *The public was also involved. The MoF tried to persuade the public of the merits of the planned reform by convincing scientists, journalists, academics and foreign multipliers to advocate for the reform*
- *Civil servants were involved as essential stakeholders. The MoF regularly tried to keep civil servants in all ministries informed about the reform design, its main elements and key details. In its communication strategy the MoF insisted that the reform could benefit civil servants. The introduction of information about financial performance and management was presented as a possible way to create a more positive image of the contribution of civil servants to the efficiency of public services*

Partly thanks to this strategy Parliament unanimously passed a constitutional reform in 2007. New budget principles came into force in 2013 (outcome orientation, efficiency, transparency and true and fair view) and made cash-based accounting and budgeting frameworks obsolete.

After this constitutional reform, the MoF worked extensively on the second stage of the reform (implemented from 2013 onwards) with line ministries, the CoA, the informal parliamentary reform committee and the scientific community in order to prepare accrual based accounting and accrual budgeting which came into force for the fiscal year 2013.

Source: Gerhard Steger, 2011, "Austria's Budget Reform: How to Create Consensus for a Decisive Change of Fiscal Rules," OECD Journal

External experts and consultants can assist in implementing the reform

External experts and consultants can provide direct support in implementing a new accrual accounting framework; either throughout the transformation process and in all its dimensions – policies, people, processes and systems, or during selected stages and/or for selected technical aspects of the project (be it the design of the new standards, the design and implementation of the IT solutions and preparation and management of operational modernisation, change management and/or cultural and HR transformation). Their involvement can help limit the additional workload related to the reform and provide additional expertise.

Professional and academic bodies can also provide additional and/or alternative perspectives and act as expert sounding boards.

2.6.2.2. Key factor of success 2: Appropriate timeline

A majority of the institutions surveyed considered that the main cause of difficulties in the implementation was an excessively short timeline⁸⁹ which put the adoption and change management of the reform at risk. However, too long a timeline is not the solution, as some sense of urgency and momentum is required to complete all the necessary tasks, particularly if no benefits emerge early in the process (“quick wins”).

As emphasised by the International Federation of Accountants (IFAC)⁹⁰ medium reform periods provide more time for the preparation of detailed implementation plans, the development of accounting policies, and implementation and testing of new systems, without causing “reform fatigue”. They also provide a reasonable period to inform of groups such as government employees and policy makers about the necessary changes to be carried out.

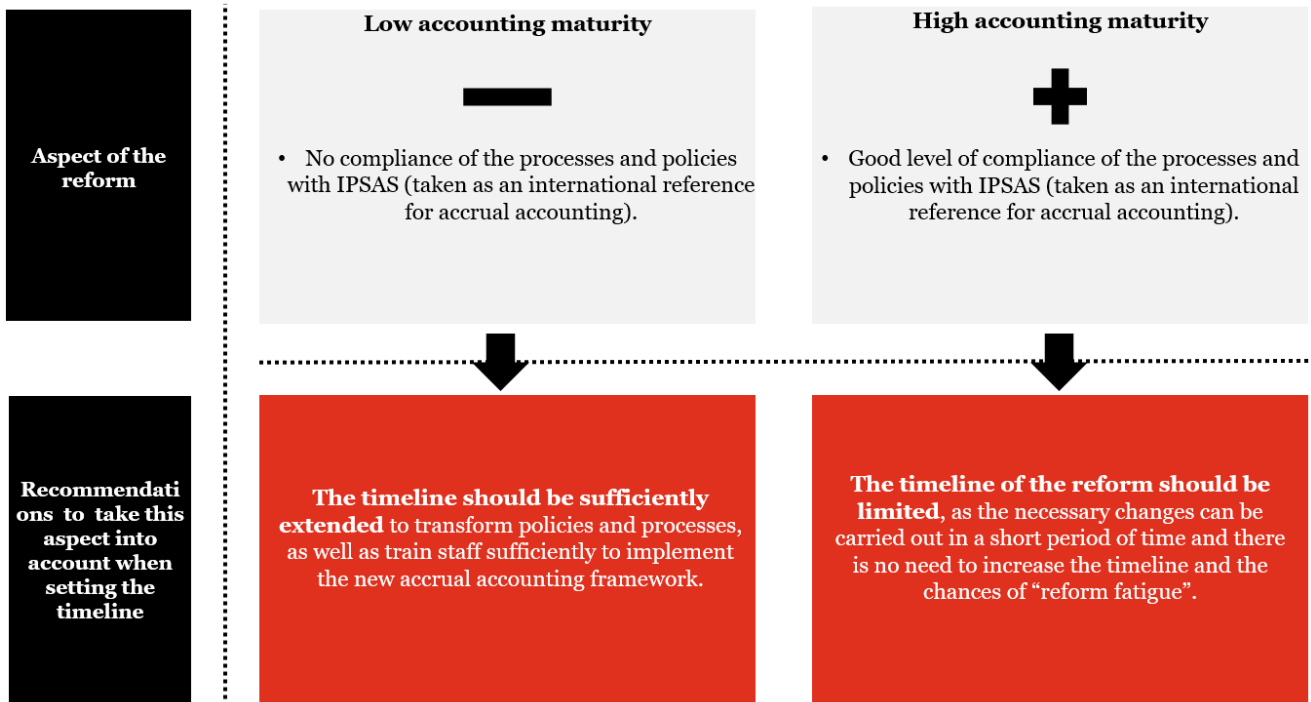
Therefore a medium reform period, as well as a staged approach involving the definition of key milestones, together with procedures for monitoring the performance of entities and individuals against those milestones seems appropriate in most cases. As most interviews and/or questionnaires reported this strategy enables appropriate management of the challenges, minimizes the risk of failure at each stage, and maximizes the probability of successful implementation. Setting an appropriate and sustainable timeline for the reform process is a crucial decision that requires inspiration and know-how to balance ambition, momentum and capacities.

According to PwC’s analysis decision makers have to take into account the five aspects of the reform described in the charts shown below in every case. For each aspect described a general recommendation underlines how this aspect of the reform should be taken into account when setting the timeline.

⁸⁹ 7 out of 8 institutions surveyed provided answers and insights to the following question “According to you, what are the main reasons explaining the difficulties to implement the reform?” Respondents could choose between four causes of difficulties, and were requested to rank all the causes of difficulty they chose from 1 to 4. Out of these 7 institutions, 4 (57%) answered that an excessively short timeline was the first cause of difficulty and 2 (28%) answered that an excessively short timeline was the second cause of difficulty.

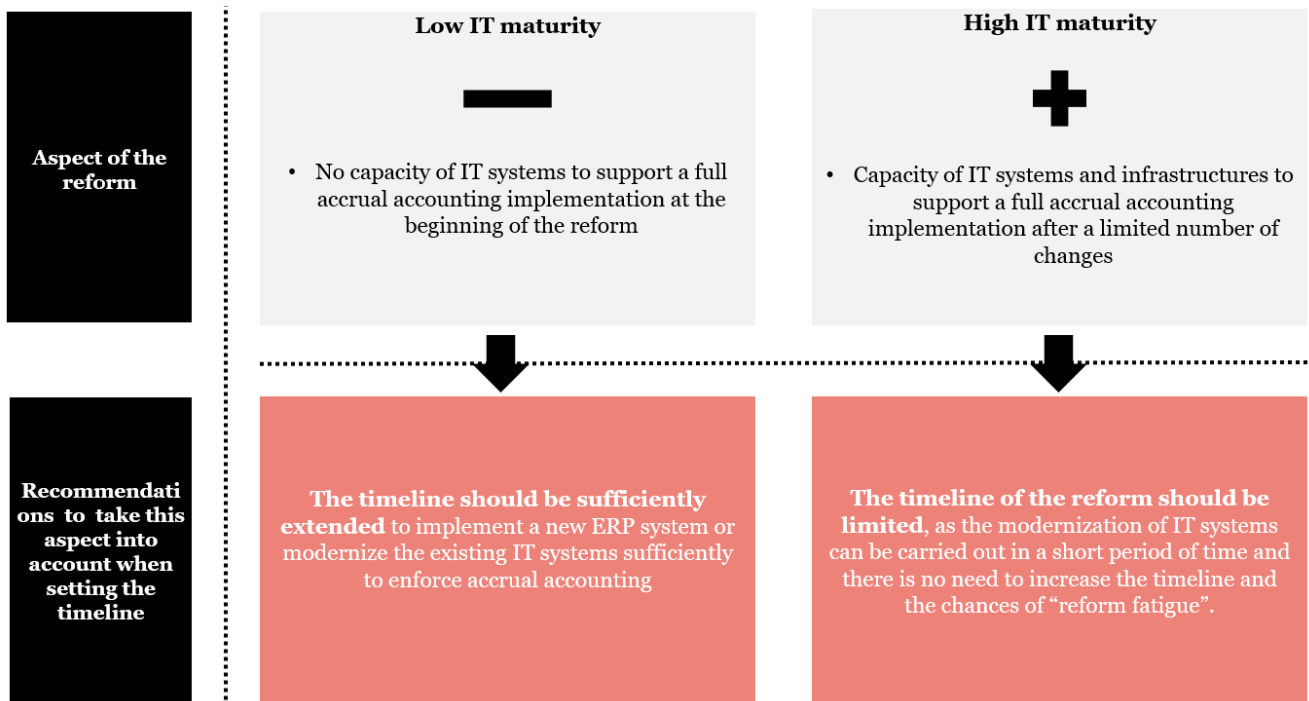
⁹⁰ IFAC, 2011, “Study 14 - Transition to the Accrual Basis of Accounting: Guidance for Governments and Government Entities (Third Edition)”, Section 2.29.

Aspect 1: Initial accounting maturity



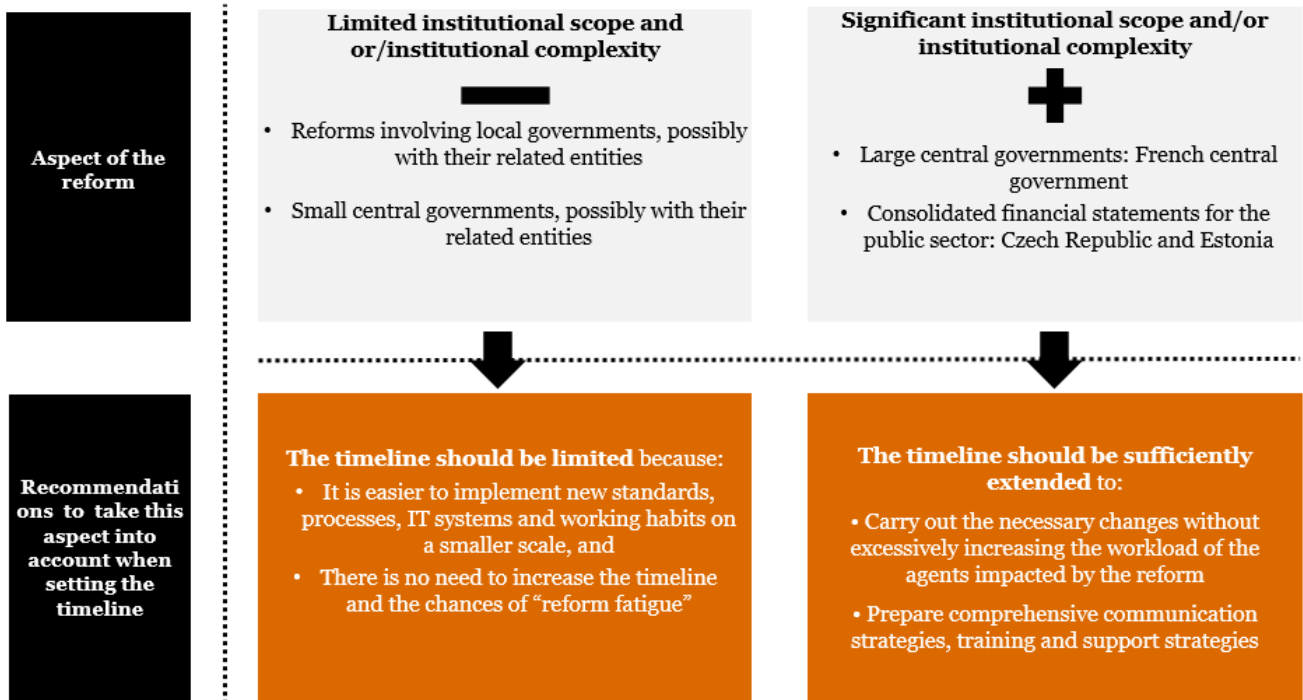
Source; PwC's analysis

Aspect 2: Initial IT maturity



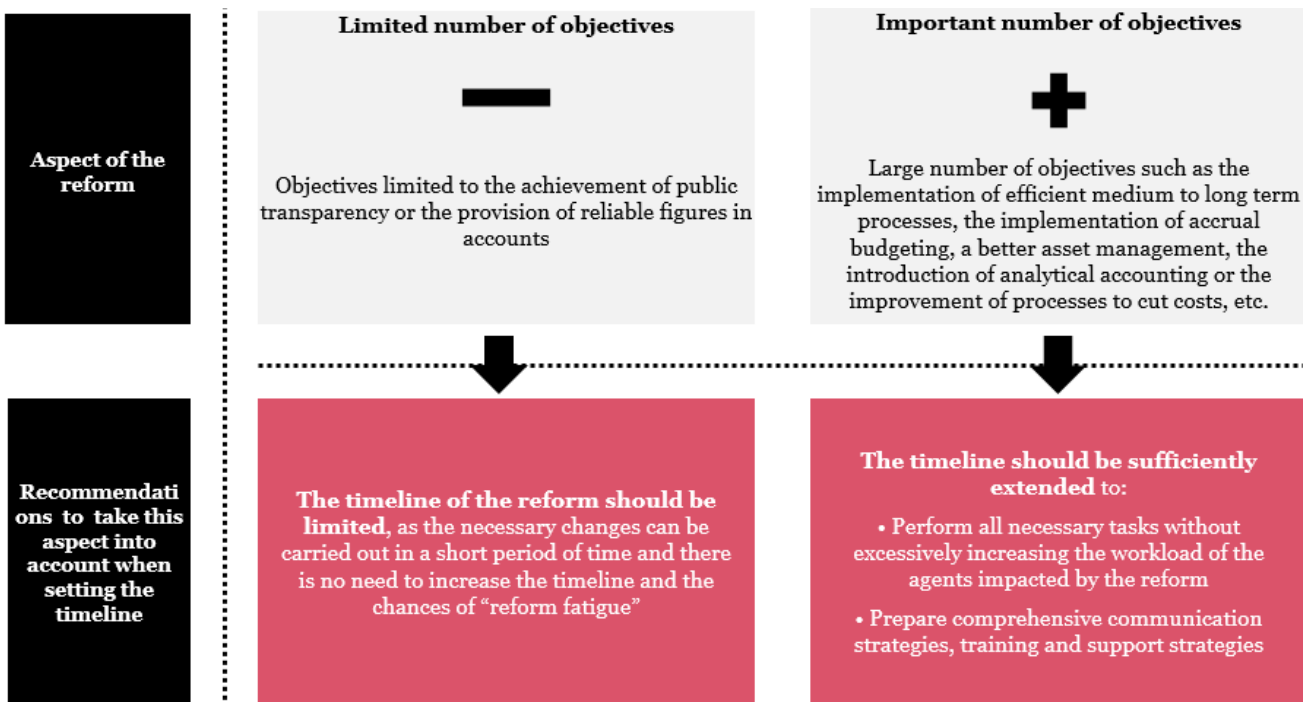
Source; PwC's analysis

Aspect 3: Institutional scope of the reform and complexity of the institutions concerned



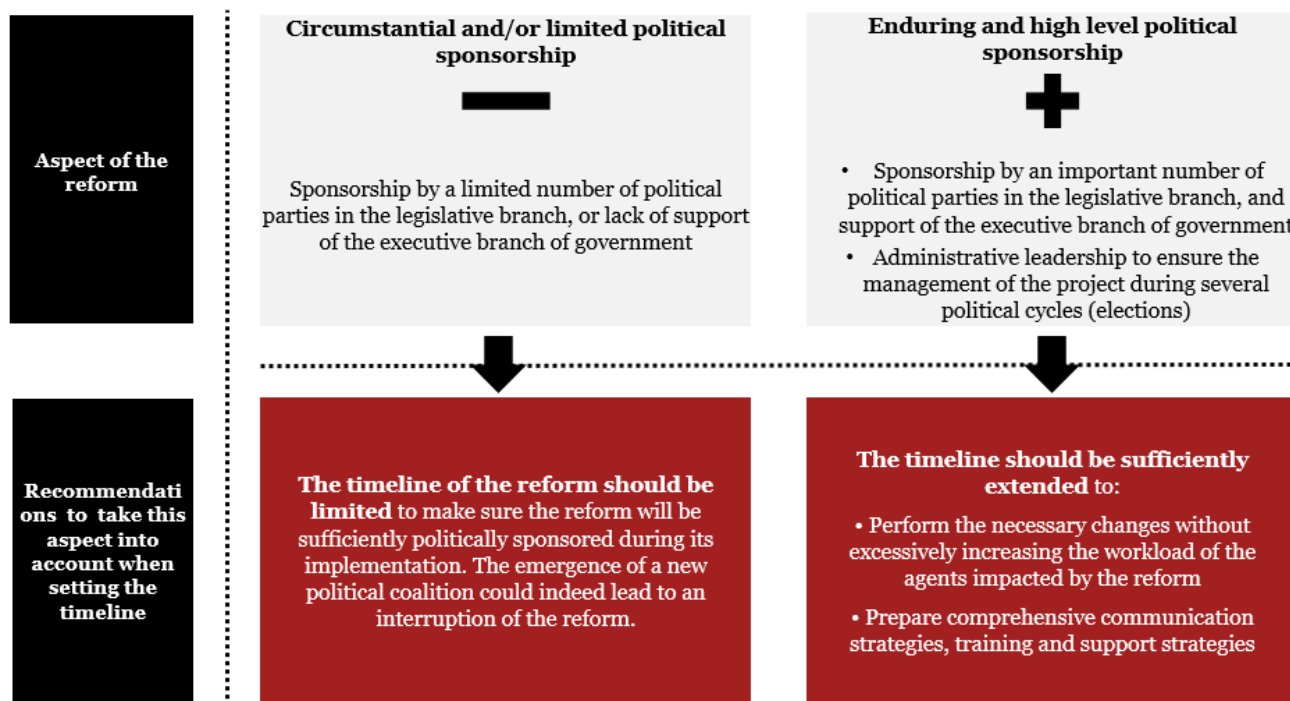
Source; PwC’s analysis

Aspect 4: Number of objectives



Source; PwC’s analysis

Aspect 5: Level of political sponsorship



Source: PwC's analysis

2.6.2.3. Key factor of success 3: IT integration from the beginning of the reform

The implementation of the reform is made significantly easier when IT aspects are integrated from the very beginning. When the original IT systems in place require numerous adaptations to support accrual accounting, it will be more difficult and costly to implement the reform. The willingness to invest in a new IT system that can support an accrual accounting framework is key.

As the technical requirements of accounting and budgeting are more complex than under a cash-based accounting system a very close coordination is necessary between the system's users and its integrators. As an example the Austrian reform was facilitated by the close coordination of the administrative units responsible for budgeting, accounting and IT stakeholders. This was also the case at the Estonian central government, where accounting officials of the MoF instructed IT companies of its new accounting requirements at an early stage.

As IT implementation costs are usually the most important of the reform it is also important that good practices be respected. Whenever possible the deployment of ERP requiring only few adaptations (*vs* lots of specific developments) should be favoured. Whenever necessary close attention to the negotiation of licence costs can also be an effective way to keep costs under control (*cf.* Flemish government).

In the long run IT systems can be unified between all the entities applying the accrual standards in order to save additional costs. Indeed, if IT implementation is way to carry out the reform in the short term, the accounting reform can also be an incentive to renovate public IT systems in the medium to long term.

In the case of the Estonian central government it was decided that central government departments should use a unique IT-system and a standardized database for personnel and financial accounting several years after the reform. All central government departments progressively shifted to one accounting database (SAP) from 2010 to 2016. This reform also included the implementation of a central government shared service centre, the introduction of electronic accounting documents⁹¹, and the connection of SAP with some other IT-systems⁹².

⁹¹ Self-service portal, e-invoices portal.

⁹² Tax-system, pension-system, treasury system etc.

2.6.3. Cost management

2.6.3.1. Relevant cost drivers

The following cost drivers, already identified in 2014⁹³, still prove relevant in 2017:

- **The accounting maturity** indicates the starting point of the reform project. Institutions shifting from cash to accrual-based standards incur the greatest costs since its necessary to change many operations and accounting policies, to modify processes, train people and implement new systems (including IT systems)
- **The government perimeter**, which has an impact on the number of transactions to be processed, the amount of data to be collected, the number of workflows to be designed and documented, and the number of people to be trained
- **The number of government entities within a government level (sector)**
- **The number of finance staff to be trained**, which is a natural cost driver for training costs, expected to increase with the number of staff that need training on new accounting policies and procedures

Without exception the greatest costs of implementation identified by respondents of the present survey were in IT (e.g. 997 million euros in total for the French ERP system Chorus, according to the central government's budget execution law of 2012). Respondents pointed out that IT costs were higher than other costs, including consulting and expertise services. Indirect costs, which include temporary and permanent additional workload, are difficult to assess comprehensively but can also be significant.⁹⁴

2.6.3.2. Relevant approaches to control costs

An important recommendation for limiting costs is to have an appropriate approach to adapt the timeline of the reform and its management. According to PwC's analysis of the implementation process in the eight institutions studied, three sets of guidelines can be identified in order to keep costs under control:

1. **Carrying out the reform in the least amount of time possible.** A short timeline can be chosen in the case of a high accounting and/or IT maturity, a limited number of objectives, a limited institutional scope and complexity of the institutions concerned, and/or a limited political sponsorship. For instance, in the case of the Estonian central government, the objectives and institutional scope of the reform were initially limited. This being so the MoF decided to rely on a short timeline to limit costs. The timeline of the projects should however remain realistic and take into account the aspects of the reform presented in section 2.6.2.2. Carrying out some tasks in an insufficient amount of time could lead to the lack of consideration of some key aspects of the project that may then be difficult to correct.⁹⁵
2. **Budgeting the costs.** A possible way of monitoring and controlling costs is to assess them and include them in the budgets of the organisation responsible for implementation. This approach can be particularly relevant when the reform is carried out in a limited amount of time in so far as one or two budgets can cover the necessary expenses (as was the case of the city of Barcelona and the Flemish government).

⁹³ PwC study to inform the impact assessment of EPSAS implementation (2014) | Section 10.3

⁹⁴ The French Court of Auditors assessed in a February 2016 report that the production and certification of the State's accrual accounts requires 2700 Full time equivalents (FTEs) every year. This figure primarily reflects the workload of financial staff. In addition, significant time is also spent by managers entering commitment data in ERP systems in order to keep track of events reflected in accruals accounts (purchase orders for instance). For the financial year 2014, the costs in terms of personnel was estimated by the Court to 162 M€ -although this cost is difficult to assess and therefore probably underestimated.

⁹⁵ In the case of the EU institutions, the DGBUDG underlined that, in the beginning, the approach to cut-off in operational DGs was excessively comprehensive and time-consuming. Considerations of materiality should have been considered from the beginning of the reform. The DGBUDG is still seeking to simplify this approach. However, small institutions such as the Estonian central government (as compared to the Czech or French central governments) emphasised that even if the outcomes of the reform were initially imperfect, it would not be too difficult to improve them in the future.

3. **Monitoring costs at all stages to compare them to the expected benefits.** The specific case of the Austrian central government can be an inspiration for institutions conducting a wide reform of public financial management and/or over a long period of time. The Austrian MoF chose to weigh the costs and benefits of some decisions constantly, including the decision to implement each IPSAS. The standards that generated too extensive work charges compared to expected benefits were not transposed into national standards.

2.6.3.3. Good practices for monitoring costs during the project implementation

Good practices identified in this assessment can help to identify relevant strategies to keep costs under control, as shown in Table 5 below.

Table 5 – Possible good practices to control costs

Type of costs	Possible ways to control these costs
IT implementation costs	<ul style="list-style-type: none"> Adapting pre-existing ERP systems rather than implementing entirely new systems⁹⁶ Negotiating software licence costs (for implementation of new IT systems)⁹⁷ Making IT systems up-to-date and scalable⁹⁸
Consulting and expertise services	<ul style="list-style-type: none"> Use of internal rather than external expertise⁹⁹ “Train the trainers” approach¹⁰⁰ and the involvement of HR and training bodies¹⁰¹
Permanent additional workload	<ul style="list-style-type: none"> Additional benefits of the reform in the long term Additional simplification and streamlining of accounting and budgeting IT systems and processes in the long term

Source: PwC’s analysis, interviews and/or received answers to the 2017 questionnaire

2.6.3.4. Good practices to outweigh the costs in the long term

Whenever possible, the outcomes of the reform should be improved over time to materialise all the potential benefits and outweigh the costs. Indeed the experience of accruals implementation show that some of the potential benefits can only be realised when accruals accounting has been in place for a sufficient time. This is the case for instance, in regular and widespread use of accrual data by managers, or the efficient use of cost analysis. In agreement with the 2014 study the feedback received and the lessons learned from the 2017 survey led to the conclusion that in the long term the costs of the reform are outweighed by its benefits¹⁰².

⁹⁶ Choosing such a solution limits the length of IT implementation, as well as the total costs of IT consulting services.

⁹⁷ In some cases negotiating these costs can be crucial to controlling costs overall (cf. Flemish government).

⁹⁸ For instance in order to enable the implementation of future e-government solutions (e.g. the city of Essen) or dematerialisation processes such as the creation of shared services centre (Flemish government, Estonian and French central governments).

⁹⁹ Soliciting scholars on technical advice on a regular basis – for instance by organising seminars on subjects related to the reform - and using the technical expertise of staff can be an effective way to limit the purchase of consulting services. However, the possibility to build on in-house expertise is sometimes limited in the case of a first-time implementation of accrual accounting. Consultants can also provide specific support to project management and IT implementation, while limiting the additional workload of the personnel involved in the reform.

¹⁰⁰ “Train the trainers” methods, relying on dissemination of experience and expertise by selected internal members of staff to their members, are among the most effective methods.

¹⁰¹ Soliciting and including HR and training bodies can be a good way to facilitate the implementation of the reform. The Czech Mof, the city of Essen and the Flemish government dedicated a specific time of the implementation project to training and support.

¹⁰² PwC study to inform the impact assessment of EPSAS implementation, (2014) | Task 3 - Summary of costs and benefits and proposals for implementation | pp. 140-166

2.6.4. Promotion of the use of accrual data

The recommendations presented in section 2.6.1. to 2.6.3. suggest some insights in ways to enable the future implementation of the EPSAS framework and help and materialise the expected benefits. However, as pointed out by a 2015 study by the Association of Chartered accountants¹⁰³ and a 2017 study by the OECD¹⁰⁴, one of the main challenges in this regard remains the insufficient use of accrual data by both internal and external stakeholders. Three actions can help address this issue:

- Facilitating the use of accrual accounting data by internal users
- Helping external stakeholders understand and use accrual-based financial reports
- Bridging the gap between accrual-based and cash-based financial accounts

2.6.4.1. Recommendation 1: Facilitating the use of accrual accounting data by internal users

Operational departments generally see information provided by accrual-based financial reports as a means to meet the needs of accountants and external stakeholders such as Parliaments, citizens and external auditors.¹⁰⁵ Several measures can help to better take into account the needs of internal stakeholders.

The production of clear, stable and *ad-hoc* performance indicators to assist management decisions can significantly help

Accrual accounting data can be used as a basis for the establishment of efficient cost accounting methods, and specifically activity-based accounting (ABC), and provide key performance indicators for the management of operational departments¹⁰⁶.

However, establishing such performance indicators often involves a slow process of acceptance by civil servants (see section 2.4.2.). In many cases, performance indicators should thus be designed in collaboration with operational departments or ministries where they are needed the most, rather than being made mandatory¹⁰⁷.

Excessive quantity of indicators should be avoided as much as possible; indicators should remain stable over time whenever possible, and be both understood and accepted by managers (i.e. accepted as relevant for daily performance management). When the need for cost information is not known, a staged approach can be envisioned and a limited number of indicators need to be put in place to target the most urgent needs.

It is also necessary to have a sufficient number of financial experts acting as business partners in operational departments

The example of the United Kingdom shows that the presence of numerous accountants and financial experts in operational departments can help in using accrual data. The number of accountants in the central government has increased since the beginning of the 1980s (from 1000 to 9000). More than 20% of these financial experts are now disseminated in operational departments (and not only working in finance departments), and every ministry is staffed with a chief finance officer¹⁰⁸.

¹⁰³ Association of Chartered Certified Accountants, *Consolidated government accounts : How they are used ?*, June 2015

¹⁰⁴ OECD, *Better Addressing Users' Needs: Lessons learned from Australia, Canada, France and the United Kingdom*, paper presented at the 17th annual meeting of OECD senior financial management officials at the OECD Headquarters, 2-3 March 2017

¹⁰⁵ According to the 2014 PwC EPSAS study on the implementation of accrual accounting, 79% of agents of financial functions surveyed saw accrual-based financial statements as useful for citizens, and 69% saw them as useful for policy makers. In comparison, 50% of these agents regarded financial statements as useful for citizens.

¹⁰⁶ Such data can also support the decision of policy makers and inform the public of the efficiency of public services.

¹⁰⁷ The French MoF let operational ministries decide whether they needed to implement analytical accounting or not. For instance, the French Ministry of defence, which manages a great deal of tangible assets to exert its responsibilities, showed interest in these methods and obtained support from the MoF in setting up its cost accounting model.

¹⁰⁸ Data collected by the French Court of Auditors in its report on the outcomes of the French accounting reform (February 2016; *La Comptabilité générale de l'Etat, 10 ans après; Une nouvelle étape à engager*) | p. 140

Finally, the ability to make financial data more accessible to decision-makers is important

Experience shows that accountants supplying accrual data and financial controllers designing management indicators should pay more attention to making complex financial data more accessible to decision makers.

The ability to make practical interpretations and give explanations of such data can be taken into account when hiring or training personnel. When this is possible progress in automation of accounting entry can enable such experts - supported by a more frequent use of state-of-the-art data visualisation tools - to dedicate more time to advising public decision-makers. In The United Kingdom 10% of financial experts now work on entering data and 30% on reporting and control, whereas 60% are fully dedicated to supporting decision-making and assessing public policies in financial and operational departments¹⁰⁹.

In the case of the French central government, it was also noted that the implementation of the new IT system in 2012 reduced the amount of time spent by central government accountants' entering accounting data¹¹⁰. In some ministries chief accountants (called ministerial budget and account controllers) started spending more time advising managers on decisions based on the information available in the government's financial information system.

2.6.4.2. Recommendation 2: Helping external stakeholders understand and use accrual-based financial reports

When trying to use accrual-based financial statements, stakeholders external to the administration are faced with the four main difficulties listed below.

Table 6 - Difficulties of external stakeholders in using accrual-based financial reports

<i>External stakeholders</i>	<i>Citizens and their representatives¹¹¹, the media</i>	<i>Lenders, Creditors, Donors¹¹²</i>	<i>Advocacy groups, bond rating agencies, credit analysts, public interest groups¹¹³</i>	<i>Regulatory and oversight bodies, statisticians¹¹⁴</i>
Length and complexity of accrual-based reports	✓	✓		
Timeliness of reporting	✓	✓	✓	✓
Lack of prospective financial data and information	✓	✓	✓	✓
Comparison of accrual and cash-based accounts	✓		✓	

N.B. The external stakeholders described in this table are those defined by the International Public Sector Accounting Standards Board's Conceptual framework for general purpose financial reporting by public sector entities –i.e. IPSAS CF- and specifically its section 2.14 to

¹⁰⁹ Data collected by the French Court of Auditors in its report on the outcomes of the French accounting reform (February 2016, *La Comptabilité générale de l'Etat, 10 ans après; Une nouvelle étape à engager*) | p. 140

¹¹⁰ An increasing amount of data is being automatically collected or entered by other actors. As a result, the responsibilities of accounting staff evolved towards more control of specific and complex operations and expenditures.

¹¹¹ Citizens are the main users of financial reports. They are actors on behalf of which governments are responsible for the management of resources entrusted to them. Governments are also responsible on behalf of citizens in so far as they are dependent on the management of resources entrusted to governments for public services. Representatives of citizens make decisions about the service delivery objectives of government public policies, agencies or programs and the resources allocated to them.

¹¹² Lenders, creditors and donors make voluntary decisions about providing resources to support the current and future activities of the government or other public sector entities.

¹¹³ Advocacy groups, bond rating agencies, credit analysts and public interest groups give advice to the service recipients of governments or to their resources providers.

¹¹⁴ Regulatory and oversight bodies, statisticians, committees of the legislature or other government bodies make regulatory or political decisions regarding the resource entrusted to governments and other public sector entities, monitor the entity's compliance with existing legal, budgetary and financial requirements.

2.30¹¹⁵. In this context, the notion of General Purpose Financial Reports (GPFs)¹¹⁶ is taken as a reference. GPFs are meant to satisfy the needs of their various users. They can be made of several reports, encompass financial statement including their notes, and the presentation of information that enhances, complements and supplements the financial statements of public sector entities.¹¹⁷

The insights presented below are meant to facilitate a more frequent and relevant use of accrual-based financial reports by external stakeholders:

Publishing accrual-based financial statements on a more timely basis

Ideally, accrual-based financial statements are published in time to permit local or national legislative bodies to have access to comprehensive data on the management of resources entrusted to executive branches of government¹¹⁸.

Audited accrual-based financial statements are however often published too late for this purpose. Non-audited budget outturns, published on a cash basis, focus most of the attention of citizens' representatives. Audited accrual-based financial statements at the central and local government levels are generally published several months after the end of the year in OECD countries.¹¹⁹

Accelerating the pace of production of annual audited accrual-based financial statements after the end of the year they refer to is thus a consensual recommendation¹²⁰. New Zealand, which was one of the first OECD countries to publish consolidated financial statements for the central government and its related entities at the beginning of the 1990s, has made specific efforts since then to reduce the amount of time necessary to publish its audited accounts.¹²¹

However, reducing the time necessary to publish accrual statements requires significant effort in terms of IT, processes and data reliability improvement. Extra time and resources need to be dedicated to achieving this objective after the completion of the first steps of the reform.¹²²

In itself though, making audited annual accrual-based financial statements available to inform budget discussions for the following year will not be sufficient to ensure the reports are used by external stakeholders. Other factors such as the length and complexity of financial reporting also prevent efficient use of accrual accounting data.

Overcoming obstacles linked to the length and complexity of accrual-based reports

According to the OECD¹²³, account producers and members of legislative bodies generally recognise that the information provided in financial reports is too comprehensive and complex for the needs of public decision-makers. Such a situation calls for three possible answers in order to enhance the understandability and accessibility of accrual-based financial reports:

- **Whenever possible, relevant sponsors such as public auditors and accounting departments or public standard setters can help develop the financial literacy level of the main elected officials.** In all OECD countries parliamentarians receive assistance from parliamentary budget offices and auditors in the form of training or guidance papers to better navigate budget documents and financial statements. The United States' Governmental Accounting Standards

¹¹⁵ « *The conceptual framework for General Purpose Financial Reporting by Public Sector Entities* », IPSASB by IFAC (October 2014).

¹¹⁶ GPFs are financial reports intended to meet the information needs of users who are unable to require the preparation of financial reports to meet their specific information needs. They encompass financial statements including their notes and the presentation of information that enhances, complements and supplements the financial statements.

¹¹⁷ Paragraph 1.6 of the 2014 IPSAS CF.

¹¹⁸ Moreover, according to a survey included presented in the previously quoted 2015 study of the *Association of Chartered Certified Accountants* covering the case of Australia, Canada, United Kingdom, New Zealand and Sweden, it has been noted in the past that the confidence of citizens in the reliability of the central government's accounts depends on the timeliness of their publication.

¹¹⁹ Australia is one of the only OECD countries that publishes accrual-based financial statements reporting on the execution of budgets in the general government sector on a monthly basis.

¹²⁰ The Austrian central government is making specific efforts to reduce the time-lapse for producing financial statements. The Flemish government underlined that accrual-based financial statements by entities within the organisation are produced in a three months period following the implementation of the accounting reform.

¹²¹ Annual and audited accrual-based financial statements are published three months after the end of the fiscal year for the central government.

¹²² EU institutions are for instance also considering ways to simplify cut-off methods in operational Directorate Generals in order to speed up the publication of accrual-based accounts.

¹²³ OECD, *Better Addressing Users' Needs: Lessons learned from Australia, Canada, France and the United Kingdom*, paper presented at the 17th annual meeting of OECD senior financial management officials at the OECD Headquarters, 2-3 March 2017

Board (GASB)¹²⁴ is a good example. This board dedicates a great deal of time to preparing the implementation of accrual-based standards by publishing simple and practical guides. These guides explain in a plain language the principles of accrual accounting to public managers and elected officials

- ***The content of financial reports can be simplified and shortened.*** This concern is more widespread in OECD countries because accounting departments realise that financial reports are costly, require a significant amount of time to produce, and have a limited readership. In France, after several review exercises, the length of budget documents has decreased by around 20% in the last decade. Such exercises (cf. Box 9 below) can be a good way of efficiently saving costs and facilitating the use of financial reports
- ***IT tools and separate documents should be adapted in order to facilitate the use of the content of financial reports by their external users.*** Accrual accounts, being technical and complex by nature, cannot be simplified too much. Therefore two complementary tools can be used to facilitate the use of key accrual accounting information:
 - ***The publication of explanatory information in GPFs tailored to the needs of non-expert publics about the key messages to be drawn from the financial statements***¹²⁵. Such explanatory information can be provided in short and clear documents published alongside the audited accrual-based financial statements, for instance on the same webpage¹²⁶
 - ***The online publication of explanatory information can also be a good way to facilitate the use of accruals data by a wide range of users.*** For instance, the federal government of Canada launched TBS InfoBase in 2013 to enable Parliament to have easier access to government financial data. It is a searchable online database providing financial and human resources information on the federal government of Canada's operations and its related entities. The website helps understanding complex data by providing data visualization tools, and by making it easy to select relevant information and generate tailored financial reports.

Box 9 – Simplification of Australian governments' financial reports

Australia significantly reduced the complexity and size of their financial reports in two ways:

- *Reporting rules and accounting standards have been simplified and streamlined.* According to the Australian National Audit Office fifty per cent of material entities improved the presentation of their 2014-15 financial statements by removing immaterial disclosures and those that were not directly relevant. This resulted in an average reduction of 20 to 30 pages in the length of the statements.
- *The Department of Finance then encouraged entities to review their financial statements to identify the parts that do not assist their understanding.* This approach was supported by improvements to the specimen financial statements and through improved guidance for staff. The Australian National Audit Office noted that approximately 85 per cent of entities adopted the Department of Finance's streamlined template to prepare their 2015 - 2016 financial statements and 45 per cent of these entities made improvements beyond those set out in the template.

Source: Better Addressing Users' Needs: Lessons learned from Australia, Canada, France and the United Kingdom, paper presented and handed out at the 17th annual meeting of OECD senior financial management officials at the OECD Headquarters, 2-3 March 2017

¹²⁴ In charge of setting accounting standards for state and local governments.

¹²⁵ In particular from the statements of financial position and financial performance, the cash-flow statements, the comparison to the budgeted amounts and the explanatory notes to the financial statements.

¹²⁶ The French accounting department of the MoF publishes a 4-page document which complete the year end audited financial statements and explains them.

2.6.4.3. Recommendation 3: Bridging the gap between accrual-based and cash-based financial reporting

Most users of financial reports find it easier to understand cash-based, rather than accrual-based accounts. Bridging the gap between accrual-based and cash-based accounts is therefore a necessity for promoting the use of accrual data by a wide range of internal and external stakeholders. Two main decisions can be taken in this respect.

Implementing accrual budgeting is the most efficient option, but it is not a consensual approach

The implementation of accrual budgeting can be a good way to make year-end financial reports and initial budgets voted by Parliaments comparable, increasing the clarity of accrual reports.

Nonetheless, it seems that the adoption of accrual budgeting is not a consensual reform. Among the central governments of the OECD countries only 32% prepared accrual financial statements and budgets (the latter including accrual, cash, or both cash and accrual appropriations) in 2016. This situation might be explained by the volatility and discretion of accrual valuations which make it more difficult to control the resources spent by ministries or departments¹²⁷. Among the panel of institutions surveyed only the Austrian and Estonian central governments have implemented both accrual budgeting and accounting.

Explaining and reconciling differences between accrual-based and cash-based financial reports is more complex but less controversial than the adoption of accrual budgeting

Following the initial adoption of accrual accounting, governments have engaged in reforms to align their fiscal reports, as well as better explain and reconcile differences between cash and accrual financial reports. For example, the United Kingdom implemented its *Clear Line of Sight* reforms in 2011, which aligned, as much as possible, the recording of government spending in the various fiscal reports. In France, the use of both the cash and accrual accounting bases in the year-end financial reports is required by legislation, but aggregates are reconciled in detail in the year-end financial statements' management commentary (see Box 10 below).

Box 10 - Explanation of the differences between accrual and cash Financial Reports in the financial reports of the French central government

Documents sent to members of Parliament alongside the central government's financial statements include a detailed table reconciling and explaining differences between the cash basis and accrual basis deficits reported in the Budget Execution Law. The table identifies financial operations that are not reported in the cash basis deficit because they did not involve an immediate exchange of cash (for example pending transfers to public corporations or liabilities related to tax expenditure). The MoF objective is to provide accrual basis information that can better inform parliamentary discussions on next year's budget and cash basis deficit target.

Source: Interview with representatives of DGFIP completed with http://www.performance-publique.budget.gouv.fr/sites/performance-publique/files/files/documents/budget/comptes/2015/CGE_presentation_2015.pdf

Aligning, whenever possible, the definition of concepts used in accrual and cash accounting is an interesting perspective

Internal and external stakeholders may find it difficult to explicit and reconcile differences between accrual-based accounting and cash-based budgeting. However it is often possible and desirable to harmonise up to a certain extent the definition of accrual and cash accounting concepts. Such harmonisation can simplify the work of financial staff in charge of entering data, and facilitate an understanding of the difference between the two frameworks.

In a February 2016 report aimed at analysing the positive effects and shortcomings of the implementation of accrual accounting, the French Court of Auditors emphasized that close concepts used in cash-based accounting and in accrual accounting (such as those of remnants and accrued expenses could be harmonised)¹²⁸.

¹²⁷ OECD/IFAC (2017), *Accrual Practices and Reform experiences in OECD Countries*, OECD Publishing, Paris; 2014 PwC study to inform the impact assess the impact of EPSAS implementation, p.20

¹²⁸ French Court of Auditors, February 2016, *Accrual accounting of the State, ten years later; taking a step further*, pp76-77

2.7. Conclusion

Sections **2.1. Introduction**, **2.2. Objectives, scopes and stakeholders** and **2.3. Implementation timelines and approaches** have presented the different reforms of accruals accounting, implemented in the selected panel of eight institutions. The key elements emphasised are:

- **The scope** of the reforms went from an institution without its related entities (French central government) to the whole public sector (in Estonia and the Czech Republic)
- **The objectives** of accruals implementation depended on the context. The most commonly presented objective was to improve financial transparency. The promoters of accounting reforms also often suggested them as a part of - or a way to leverage - a wider reform of public financial management
- **The timeline of the reform** is defined as the moment between the decision to implement accruals accounting and the first publication of accrual-based report complying with the new accounting framework. This timeline ranged from 1 to 7 years. Institutions conducted some post-implementation adjustments to improve the outcomes of the reform over the long term
- **The main benefits expected** from the reform were achieved in general, although some proved more difficult to achieve than others.

Section 2.4. Expected and achieved benefits showed the different benefits achieved through the accounting reform. According to respondents the easiest objectives to achieve were an increased efficiency in producing the financial statements¹²⁹, the implementation of risk management¹³⁰ and a reduction of administrative costs and burden¹³¹. According to the stakeholders interviewed it is also possible to identify secondary benefits, such as the introduction of a continuous improvement process of public financial management, which could be expected to endure in the years following the reform. Overall, respondents confirmed that accrual accounting reforms enabled them to achieve three of the benefits previously listed in the 2014 study: accountability and transparency, better decision-making, and impacts on control and administrative processes¹³².

Section 2.5. Encountered common difficulties highlighted the main difficulties related to project management including: the necessity of dealing with short timelines, the complexity and costs of IT implementation and the training of actors. Difficulties related to core functional and technical aspects of the reform include the necessity to tailor the reform to the needs of the institutions considered and the first recording and valuation of assets and liabilities. Another difficulty is that, even in the most mature countries, the use of accrual data by managers is not widespread enough to realise the full potential benefits of accrual accounting in financial performance management.

Section **2.6. Recommendations for the implementation of EPSAS** drew some conclusions and made some recommendations for the implementation of the EPSAS. The first two parts of this section dealt with:

- **Good implementation practices -section 2.6.1-** which include implementation roadmaps suited to the objectives of the reform (1), a centralized governance and dedicated project management (2), binding legal provisions (3) clear guidelines and effective assistance (4) and preparation of formalised training plans (5)
- **Key factors of success -section 2.6.2-** including the involvement of all support to necessary stakeholders (1), the choice of an appropriate timeline (2) and a strong relationship between the IT and operational aspects during the implementation process (3)

Finally, this report dealt with two critical subjects for the implementation of the future EPSAS framework in the following sections:

¹²⁹ In all institutions surveyed a majority of the respondents stated that the reform substantially improved this aspect.

¹³⁰ In all institutions surveyed, a majority of the respondents stated that the reform substantially improved this aspect.

¹³¹ In half of the institutions surveyed the majority of respondents stated that the reform achieved this benefit to a substantial extent.

¹³² PwC study to inform the impact assessment of EPSAS implementation (2014) | p.41

- **Section 2.6.3. Cost management**
- **Section 2.6.4. The promotion of the use of accrual data**

Overall the feedback and insights received from surveyed institutions confirms and develops some key conclusions and recommendations suggested in the 2014 study. These main conclusions are the following:

- The timeline of the implementation of EPSAS should not be overly ambitious¹³³. The respondents of the 2017 survey consistently put emphasis on the difficulty of dealing with short timelines. Whenever possible relevant flexibility should be favoured in order to set up a sustainable timeline within the context of the reform in each institution¹³⁴
- As confirmed by surveyed respondents one of the main challenges of EPSAS implementation is the need to tailor policies, processes and IT systems to the needs of the institutions concerned by the reforms¹³⁵
- The best implementation practices involve a solid project organisation and approach; a communication and change management strategy, appropriate training and the design and deployment of new processes and systems¹³⁶. Other good implementation practices emphasised in this survey include binding legal provisions, as well as clear guidelines and effective assistance
- The expected benefits of accrual accounting through EPSAS are significant, and surely outweigh the costs of the reform in the long term. Respondents confirmed that, despite difficulties in achieving some benefits, continuous improvements of processes, policies and systems are made possible by accruals reforms. In this regard, numerous examples of successful modernisations and improvements in financial management were highlighted.

¹³³ PwC study to inform the impact assessment of EPSAS implementation (2014) | p.147

¹³⁴ In particular, the size, complexity, level of political support and initial IT and accounting maturity are key aspects of the reform to consider when the timeline of the reform is set.

¹³⁵ PwC study to inform the impact assessment of EPSAS implementation (2014) | p.157

¹³⁶ PwC study to inform the impact assessment of EPSAS implementation (2014) | p.158

3. Tackling the skills and training issues

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3.1. Introduction

3.1.1. Tackling the capacity issues

The implementation of accrual accounting affects different dimensions such as policies, people, IT systems and processes. While these four dimensions remain important in terms of the overall management plan of the accrual implementation project, respondents to the 2017 survey quoted the human resources (linked to policies dimension) and training and staff (linked to people dimension) as most critical.

The relatively lower importance of capacity issues related to processes and systems¹³⁷ can be explained: even with appropriate accounting processes and systems (including IT systems), a thorough appropriation of the new accounting concepts and practices relies mainly on efficient training programmes and human resource management.

Implementation challenges by reform dimension¹³⁸

<p style="text-align: center;"><i>Policies</i></p> <ul style="list-style-type: none"> • Adapting existing financial rules and regulations • Documenting accounting policies • Developing comprehensive guidance and manuals, as well as concise implementation rules for the most complex topics 	<p style="text-align: center;"><i>Processes</i></p> <ul style="list-style-type: none"> • Managing the transition period and monitoring the implementation phases • Checking data quality during the reform process, designing quality control procedures • Setting up data collection procedures, in particular in respect of fixed assets • Ensuring compliance with existing regulatory framework
<p style="text-align: center;"><i>People</i></p> <ul style="list-style-type: none"> • Inspiring change of mentalities/cultural change • Ensuring political commitment, and increasing staff and public awareness • Building up public sector accountants expertise in terms of new practices and procedures • Developing training programmes and allowing knowledge transfer on key accounting areas 	<p style="text-align: center;"><i>Systems</i></p> <ul style="list-style-type: none"> • Adapting existing IT systems, and/or developing new IT solutions/modules tailored to the reform requirements • Translating organisational processes into the IT environment

3.1.1.1. People

One key challenge is the ability of people to become familiar with accounting concepts such as assets, provisions, allocations / reversals of amortization / depreciation; or to implement new procedures, especially internal control and risk management (see section 3.6.1).

However, the capacity issue is not only related to people skills and resources training on accrual accounting. A significant shift is also required in the mindset of management and other stakeholders (change management and cultural transformation). Member States put forward “*the challenges associated with the required change in mindset and culture for stakeholders at all levels (politicians, top management and staff), the lack of skilled*

¹³⁷ The capacity issues discussed in the 2014 interviews, related to policies, processes and people were perceived as equal in terms of importance in the reform. IT systems issues accounted for only 13% of responses provided by government officials.

¹³⁸ *Implementation challenges by reform dimension identified in the PwC 2014 study | p.157*

*resources to conduct the transition, and the need to address this with appropriate training and change management programs*¹³⁹.

3.1.1.2. Human resources policies

With regard to the reform of the finance function, several findings converge to indicate that the staff participating in the accrual accounting remain insufficiently trained, while at the same time finance functions are experiencing a strong turnover and a recurring lack of attractiveness (*see section 3.6.2.*).

This should lead to effort to improve all aspects of talent management¹⁴⁰, through:

- The identification of needs, recruitment, attractiveness and career development;
- A remuneration policies, recognition and talent retention;
- Geographic and functional mobility, training plans, tutoring and on-the-spot support, and the pooling of scarce or critical skills.

¹³⁹ PwC - 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 2013/S 107-182395 (August 2014), p.13.

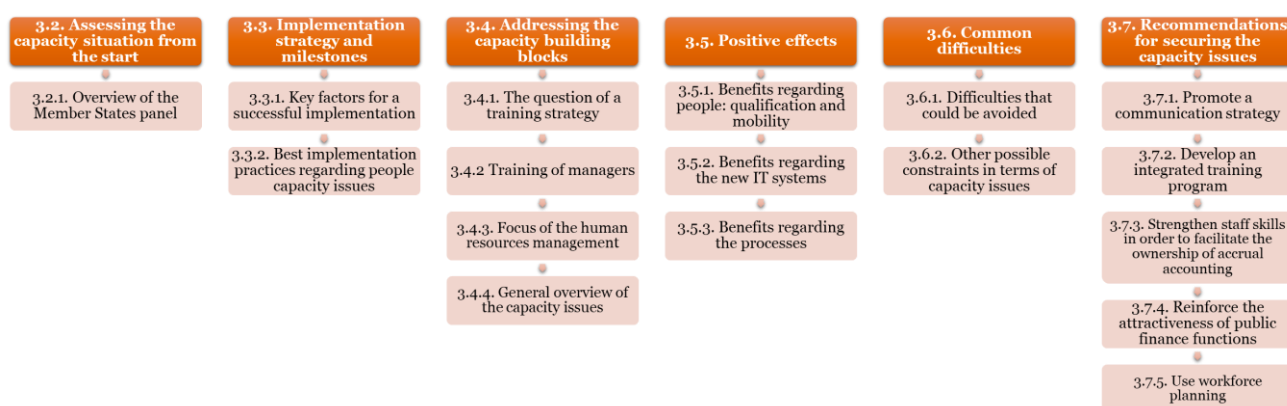
¹⁴⁰ See section 3.7 focusing on recommendations.

3.1.2. Content of section 3

This report provides an overview of capacity issues and the ways it may be addressed

- Assessing the capacity situation from the start (section 3.2)
- Implementation strategy and milestones regarding skills and training issues (section 3.3)
- Presentation of the capacity building blocks (section 3.4)
- Presentation of the benefits/difficulties of capacity issues (sections 3.5 / 3.6)
- Recommendations for securing capacity issues (section 3.7)

The content of section 3 is presented below.



3.2. Assessing the capacity situation from the start

The following section identifies some key differences in terms of recruitment policies, staff performance policies and training policies.

3.2.1. Overview of the Member States panel

This section gives some elements of context regarding human resources and people management policies, based on insights from an OECD study¹⁴¹ and possibly completed by data from the surveyed entities.

Data are classified in four areas hereafter:



The objective is to provide a general overview of the context in which people and policies issues were typically addressed in panel countries.

¹⁴¹ Survey on Strategic Human Resource Management in Central Governments of OECD countries (2010 | updated in 2012)



Description of the human resources management

Recruitment policies

The Act on the Advertisement of Vacancies 1989 governs the recruitment process and stipulates different procedures depending on the function. This can be an examination or direct application and interviews, with entry into specific groups delegated to the organization level.

All public functions are open for direct application by internal and external applicants. There are a few diversity policies regarding recruitment of under-represented groups.

People management

Performance assessment is mandatory for almost all employees and takes the form of a meeting with the immediate superior every year.

Training Policies

All employees receive training after entry into the civil service and pedagogy is differentiated according to the seniority level. Public employees receive on average 3-5 days of training per year.

A comprehensive communication and training strategy was activated to ensure that all key stakeholders understood the new accrual environment.

In addition to the training (including e-learning tools) provided to civil servants, seminars and briefing sessions were organised for members of Parliament, journalists, and members of the scientific community.

- Incremental fees were paid to internal trainers as a small incentive to encourage participation in the training program.

Training responsibility

DG III: Civil Service and Public Administrative Reform (Federal Chancellery).

 **Spain¹⁴²**
Description of the human resources management
Recruitment policies

The recruitment system is career based through a competitive examination, which is managed centrally. A period of practical work also forms part of the entry process to the civil service.

People management

Only some employees are assessed and data regarding how assessment is conducted is unavailable. A limited range of criteria is used.

Training Policies

A large proportion of public servants are admitted into a specific training school before entering the public service, and training can take between one and ten months. During their career public employees receive on average 5-10 days on-going training per year.

Training responsibility

Directorate General for the Civil Service (Ministry of Finance and Public Administrations).

 **Germany¹⁴³**
Description of the human resources management
Recruitment policies

The recruitment system in the German public service is often a career-based system.

Entry into public service is gained through a competitive examination for a specific post, with selection managed at the level of organizations. No posts are open to external recruitment and external applicants first have to apply for entry into the public service. There have however been some measures to increase the use of external recruitment for professionals.

People management

Assessment is mandatory for almost all employees and takes the form of a meeting with, and written feedback from, an immediate superior every two years. A wide range of criteria is used including: activities undertaken, timeliness and quality of outputs, improvement of competencies and interpersonal skills. Assessment is of high importance to career advancement and contract renewal in the public service, and less important to remuneration.

Training Policies

An initial one week's training upon entry into the public service is standard for all staff and is differentiated by seniority level. Public employees receive an average 1-3 days of training per year. During the implementation of the reform training and support schemes were implemented for centralised and decentralised accounting and budget actors.

Training responsibility

No central training unit exists.

¹⁴² No information could be collected on this subject for the City of Barcelona. The information presented in the table concerns the Spanish public sector in general.

¹⁴³ No information could be collected on this subject for the City of Essen. The information presented in the table concerns the Spanish public sector in general.


Czech Republic
Description of the human resources management
Recruitment policies

The recruitment system is a career and position based combination. Entry into the civil service is gained through a competitive examination, with entry delegated to the organizational level. All vacancies are published externally and all posts are open to internal and external recruitment through direct application.

People management

A formalized performance assessment is not used for full time staff but is for almost all casual employees. Performance assessment takes the form of an annual meeting with the immediate supervisor. In addition 360° feedback is used on an ad hoc basis. A comprehensive range of performance criteria are used.

Training Policies

During the implementation of the reform a specific government resolution on the intensification and increased effectiveness of methodological support was approved to assist everyone involved with its adoption and implementation. All new recruits to the public sector receive a standardized 3 months training before proceeding to a second stage of differentiated training lasting 12 months. Public employees receive on average 10-15 days of training per year.

Training responsibility

Department for Effective Public Administration (Ministry of Interior).


Estonia
Description of the human resources management
Recruitment policies

Estonia uses a decentralized recruitment system which is relatively position-based. Entry into the public service is gained through direct application and an interview for a specific post. Entry is possible at all levels, including the highest. All vacancies are published and open to internal and external recruitment.

People management

Assessment is mandatory for almost all staff and takes the form of an annual meeting with, and feedback from, the immediate superior. A wide range of criteria is used, including activities undertaken, outputs, improvement of competencies and interpersonal skills. Assessment is of high importance to contract renewal and medium importance to career advancement and remuneration.

Training Policies

During implementation accountants were trained to use the new standards and new IT systems. Auditing and consulting companies were involved. An extensive training programme was carried out for public sector accountants and a helpdesk established at the Ministry of Finance (MoF) with a centralized voluntary induction training programme for entrants to the public service, as well as some organizations specific programmes. Public employees receive on average 3-5 days of training per year.

Training responsibility

Department of Public Administration and Public (Ministry of Finance).



Description of the human resources management

Recruitment policies

Belgium uses a recruitment system that is somewhat more career based than position based. The method of entry into the civil service varies depending on the post. Statutory employment is used for non-senior management employees and processes for all governments (federal and regional) are regulated.

Governments are required to use SELOR as their recruitment agency and use competitive examinations which are differentiated by educational level. Distribution into these groups is done by ministries. SELOR uses recruitment specific profiles built on competency-based recruitment. There is a tendency towards reducing the number of different professional groups, or corps, in the civil service.

People management

Assessment is used for almost all employees and takes the form of an annual meeting with, and written feedback from, the immediate superior, as well as a meeting with the superior two levels above every two years. In addition, plans to use 360° feedback are in preparation.

Training Policies

During implementation a training and support phase was planned. It involved the development of an accounting manual including the explanation of every account filled with real-life examples and links to the ESA manual. An educational programme based on a “train the trainer” approach was also created.

Initial training is now used for all entrants to the civil service and is differentiated by seniority level. Depending on the organization the training of university graduates is between 10 and 20 days during the first year of service. Some institutions have specialized training programs for certain functions. Public employees receive on average 3-5 days of training per year.

Training responsibility

Federal Public Service Personnel and Organization

The oversight authority (Flemish Region) coordinated the project and organised trainings and workshops which were facilitated by the local government’s training schools.

¹⁴⁴ No information could be collected on this subject for the Flemish government. The information presented in the table concerns the Spanish public sector in general.



Description of the human resources management

Recruitment policies

Entry into the civil service is obtained through a centrally administered examination.

Some measures have recently been taken to increase external recruitment for top management.

Significant measures have been put in place to reduce costs and improve the performance of the public service.

People management

Assessment is used for almost all employees and takes the form of an annual meeting with, and written feedback from, the immediate superior.

Training Policies

Training is a prerequisite for technical and administrative officials and takes place in official training institutions. Public employees receive on average 3-5 days of training per year.

All along the Chorus IT project, more than 50.000 people were trained (which refers to the number of the IT system users and licences) as part of the. The training took place from 2010 to 2012 in relation to the new accounting environment, as well as other aspects of the ERP system implementation.

Training and process reengineering were carried out mostly through external consultancy contracts.

Training responsibility

Several entities are responsible for training such as IGPDE, AIFE and IRA¹⁴⁵.

¹⁴⁵ Institut de gestion publique et de développement économique (IGPDE)
Agence pour l'Informatique financière de l'Etat (AIFE)
Instituts Régionaux d'Administration (IRA)

3.3. Implementation strategy and milestones

This section aims to target the key success factors identified during the implementation of the accounting reform in the area of public human resources.

3.3.1. Key factors for a successful implementation

Interviews highlighted that key factors of success are linked to:

- Staffing management
- Management support
- Possible external assistance (optional)

3.3.1.1. Staffing management

On the staffing side, interviewees identified the following items:

- Ensure the proper accounting skills for accrual accounting reform
- Have the best people for the job, and ensure that they have enough time to implement the project
- Appoint a manager with clear authority and accountability for the project
- Have personnel experienced in accrual accounting involved in planning, developing and implementing the changes and in training staff
- Do not underestimate the amount of resources required

3.3.1.2. Management support

The implementation of accrual accounting needs high visibility and strong support from senior management. Support comes from:

- Managers responsible for the implementation and running of the system,
- Functional managers involved in managing their budgets.

A special attention needs to be given to the importance of communication with managers: it was crucial to associate them effectively all along the reform implementation and to empower them through the training processes. It is important to underline that some entities may find it difficult to fully involve regional managers in the implementation process, even when it has been strongly supported by management.

This factor is confirmed by some lessons learned from the Canadian accruals reform¹⁴⁶. During the implementation, each concerned director was represented on a steering committee, which proved insufficient to prevent communication issues. Confusion arising due the fact that regional managers were not involved in the implementation and new training processes. Part of this problem of communicating with regional managers was a result of the high workload of managers who were unable to spend enough time on the project.

Insufficient cooperation and communication were the two main issues in implementing change. In conclusion, there should be strong leadership from senior management.

¹⁴⁶ « *Financial Information Strategy: Study of the Implementation of Full Accrual Accounting in Government Organizations Lessons Learned* », Treasury Board of Canada, Secretariat | prepared by: Hickling Corporation (March, 1997)

3.3.1.3. Possible external assistance (optional)

The choice between the use of external private expertise and the possibility of developing in-house expertise depends on the approach, the ambition of the reform and the context of each country.

- The Austrian example shows that a reform can be successfully conducted without hiring external consultants. Where sufficient resources exist internally, with the necessary skills and expertise, the reform may be conducted in-house and on time (as long as the perimeter and the timeframe are sustainable and that IT impacts are mitigated).

Asked about the utility of using or not an external resource for implementation, respondents identified advantages to both options:

- Hiring external consultants is one of the easiest way to quickly train accounting and financial staffs
- In-house training of selected agents to facilitate diffusion of new concepts to colleagues is a less expensive solution

A third option has been implemented in several cases, mixing internal and external trainers, either as a “train-the-trainers” approach or as a way to accelerate the deployment and secure the deadlines.

Regardless of the option chosen, the implementation of accrual accounting will facilitate the mobility of financial staff from the private sector to the public sector when these practices are already established with success¹⁴⁷.

Respondents were asked which was the preferred option and its priority level within the implementation:

- Option 1: Recruitment from the private sector
- Option 2: Association of consultants and contractors to obtain specialized assistance and enable knowledge transfers

Priority levels’ definitions are the following:

- Priority 1: Mandatory to the success of the reform
- Priority 2: Essential for a contribution of expertise
- Priority 3: Useful temporarily
- Priority 4: Complementary to internal resources
- Priority 5: Not considered

Table 1: Priority level given to private sector assistance in the implementation

The table below lists the entities having recruited from the private sector to assist them in the implementation of the reform and their rating of appreciation regarding this external recruitment in the success of the reform.

The fact that some entities have classified private sector recruitment as Priority 1 reflects the importance given to a rapid ramp-up on accrual skills to ensure the success of the implementation.

	Priority 1	Priority 2	Priority 3	Priority 4	Priority 5
(Option 1) Recruitment from the private sector	Estonian central government	Czech central government		European Commission (DG BUDG)	
	Flemish government				
	City of Essen				

** Not appearing above, the city of Barcelona and the Austrian central government stated that the question was inapplicable in their situation*

¹⁴⁷ PwC study to inform the impact assessment of EPSAS implementation (2014), section “5.5 Labour market impact”, p. 52-53.

Source: Interviewees' feedbacks and answers received to the 2017 questionnaire

The table below lists the entities that turned to consultants to obtain a specialized and temporary assistance.

	Priority 1	Priority 2	Priority 3	Priority 4	Priority 5
(Option 2) Association of consultants and contractors to obtain specialized assistance	French central government	Estonian central government	Czech central government		
	European Commission (DG BUDG)	Flemish government			
		City of Essen			

**Not appearing above, the city of Barcelona and the Austrian central government stated that the question was inapplicable in their situation*

Source: Interviewees' feedbacks and answers received to the 2017 questionnaire

Respondents who gave priority to temporary association with external consultants may have several approaches: to adopt a "train the trainer"¹⁴⁸ approach by forming a limited panel of staff to facilitate the dissemination of new concepts to their colleagues and / or to give priority to this option because of a potentially lower cost than the use of external trainers for the entire staff.

¹⁴⁸ See section 3.4.1.

3.3.2. Best implementation practices regarding people capacity issues

Each public entity determines and applies the implementation practices that best meet their own needs.

These implementation practices concerned:

- the organization and approach of the project;
- the communication and change management;
- the training;
- the process;
- the systems.

These points are discussed below and deepen the 2014 study¹⁴⁹.

3.3.2.1. Communication and Change Management

The adoption of accrual accounting requires a significant cultural shift in the mindset of management, staff, regulators, fund providers and other stakeholders. For this to succeed, it is essential that awareness campaigns be implemented such as:

- Regular communication adapted to the different stakeholders (staff, politicians, media, citizens, etc.)
- Effective communication with all interested parties is essential to minimize the challenges of cultural change (“what will be new for me”, “what will remain identical”, “what will be done differently”, ...)
- A clear vision and political support: political buy-in and management support and direction should be reflected in the priority given to the project in order to maintain its momentum.

Box 1 – The Austrian central government elaborated different information materials adapted to the different users’ needs

- Sensitization activities and specific information materials have been developed to train and sensitize politicians and the media.
- Special seminars with parliamentarians were organized where they could call on their own experts / advisers to discuss budget structure, accumulation elements, etc.
- Information sessions were also organized to raise awareness among citizens.

Source: PwC study to inform the impact assessment of EPSAS implementation (2014)

Box 2 – The French central government publishes the “doc”

The central government publishes the highlights of the year in a four-page document, providing an overview of the state's financial situation, the results of government activity and state commitments.

This document is as much synthetic and educational as possible and provides external stakeholders with easy-to-assimilate and easy-to-use data.

Source: French Directorate General for Public Finance

¹⁴⁹ PwC study to inform the impact assessment of EPSAS implementation (2014) | p.158

3.3.2.2. On-going training

An accrual accounting environment requires more advanced skills and expertise. On-going training efforts are needed throughout the process of the reform and beyond. Where accrual accounting is already in place, the impact on staff training needs will be much smaller, although targeted and on-going training will be needed to align with the specific requirements of the EPSAS standard¹⁵⁰.

These efforts may include:

- Initial training and on-going learning programs for staff, for example through the organization of annual seminars and annual meetings, as well as the establishment of a helpdesk (as illustrated by the Estonian central government);
- Organization of the internal transfer of knowledge and skills to the staff of the entity, development and sharing of a common platform for training and learning, use of the "train the trainers" ("snowball approach").
- Participation of audit authorities in the training (as illustrated by UK local governments).

Box 3 - Estonian internal assistance service

The adoption of IPSAS type standards were supported by numerous training courses and by the organization of an assistance service within the Ministry of Finance. The accrual reform has led to the professionalization of the finance function within government entities.

Source: Received answers to the 2017 questionnaire

3.3.2.3. Adaptation of the processes

Existing administrative and operational processes need to be adapted; new processes need to be put in place to address the new accounting and reporting rules in the most efficient way.

Improvements can involve transactional processing solutions. This may include, for example, setting up shared service centres (see section 3.5.3 *Positive effects | Opportunity to implement a shared service centre*).

¹⁵⁰ PwC study to inform the impact assessment of EPSAS implementation (2014) | p.53

Table 2: Identified best practices in order to tackle the training and skill issues

Austrian central government	<ul style="list-style-type: none"> • Communication management: information materials were developed for educating and creating awareness for politicians and media. Special seminars with the members of Parliament were organized, where they could bring their own experts/advisers in order to discuss the structure of the budget, the accrual elements. • Train the trainers approach
City of Barcelona	<ul style="list-style-type: none"> • <i>No feedback received</i>
Czech central government	<ul style="list-style-type: none"> • Participation of the initiators of the reform in the adoption, trainings and interpretation • Initiative for own training at lower levels (with the oversight from the top) • Strong focus on bookkeeping but also very much on the data interpretation
Estonian central government	<ul style="list-style-type: none"> • Identify needs • Plan time sufficiently • Organization of an internal assistance service to let people ask questions before, during and after training
City of Essen	<ul style="list-style-type: none"> • Good combination of specific qualifications among project staff ("experienced users" with knowledge of target and actual processes) and all IT staff, organization, process management) • Attractive modern computing for young employees with development potential • Intensive training of the teams
EU Institutions	<ul style="list-style-type: none"> • Application of sufficient resources to training • Recruitment of external skills • Implementation of a Central Helpdesk
Flemish government	<ul style="list-style-type: none"> • Software to support trainings and workshops (screen recording, take a test after finishing a training) • Copy of the production dataset on a separate server to have clean data during training sessions • Training the trainer
French central government	<ul style="list-style-type: none"> • Identification of the needs for all staff involved in the financial function (budget and accounting) • Association of academic and practical courses Creation of mixed teams of teachers (managers / accountants)

Source: Interviews' feedbacks and received answers to the 2017 questionnaire.

Table 3: Priority actions to strengthen staff accrual accounting skills

Austrian central government	<ul style="list-style-type: none"> • <i>No feedback received</i>
City of Barcelona	<ul style="list-style-type: none"> • Progressive implementation schedule • Appropriate training plan • Communication plan suited for relevant audiences
Czech central government	<ul style="list-style-type: none"> • <i>No feedback received</i>
Estonian central government	<ul style="list-style-type: none"> • Written guidelines with examples • Direct training courses • Help-desk via internet, e-post and telephone
City of Essen	<ul style="list-style-type: none"> • Inter-municipal cooperation in the development and implementation of a training concept for municipal accounting employees • Regular information events for employees in the budget and accounting • Implementation of FAQ forums (“frequently asked questions”)
EU Institutions	<ul style="list-style-type: none"> • Focused training • Clear explanation to users specific circumstances • Continued refreshers
Flemish government	<ul style="list-style-type: none"> • Knowledge of accounting principles • Knowledge of ESA-principles to make the link between the two accounting principles • Knowledge of the budget planning timeline and principles
French central government	<ul style="list-style-type: none"> • Learning the issues and general principles of general accounting in all financial public management courses • Definition of on-going education modules adapted to different levels of skills and responsibilities for accounting and financial functions (<i>via</i> IGPDE) • Training tools (wide dissemination of e-learning among ministries staff). • Professionalization of the jobs dedicated to the accounting and financial management and valorisation through a dedicated career path

Source: Interviews’ feedbacks and received answers to the 2017 questionnaire.

3.4. Addressing the capacity building blocks

The design and preparation of the reform result in different training strategies. This section presents how capacity issues in Member States may be addressed in the context of EPSAS. The analysis begins by identifying four areas not to be neglected:

- *the implementation of an integrated training strategy,*
- *the user's training assistance,*
- *the professionalization of managers*
- *the management of human resources (promotion of the appropriate skills and the planning of staff resources).*

This chapter concludes with a list of capacity issues and ways in which they may be addressed.

3.4.1. Training strategy

The EPSAS framework will have a direct impact on the skills of public finance, accounting and auditing personnel. Training is a continuous process and should be organised through all stages of implementation and beyond to address the needs of various categories of stakeholders.

Essentially, moving to accrual accounting and reporting cannot be considered a purely technical exercise. Accrual accounting encompasses a long-term horizon, taking into account stability and sustainability, complementing the short-term attention of cash accounting. This implies not only a change in accounting standards and systems but also a change in culture and mindset (quality of bookkeeping, internal control and risk analysis, sense of data analysis and interpretation, larger use of provided data in performance management, impact assessment, long-term budgetary projections ...).

Moreover, if human resources and training departments are generally not involved as a priority at the beginning of the reform, their support in implementing the reform proved nonetheless important, as training is one of the key factors in achieving the projects goals.

Stakeholders were asked about the key components of the training strategy and the priority level to be assigned to each one of them.

- Option 1: Development of customized public sector courses in academic or other training institutions
- Option 2: Definition of new initial and/or ongoing training programs for managers and/or accountants
- Option 3: Training of selected agents to facilitate diffusion of new concepts to colleagues

Priority levels' definitions are the following:

- Priority 1: Mandatory to the success of the training plan
- Priority 2: Essential for a contribution of expertise
- Priority 3: Important temporarily
- Priority 4: Complementary to others resources
- Priority 5: Option to be considered

Table 4: Level of training integration in the implementation strategy and their level of priority

	Priority 1	Priority 2	Priority 3	Priority 4	Priority 5
Development of customized public sector courses in academic or other training institutions		City of Barcelona		Estonian central government	European Commission (DG BUDG), City of Essen
Definition of new initial and/or ongoing training programs for managers and/or accountants		French central government	European Commission (DG BUDG)	City of Essen	Estonian central government
In-house training of selected agents to facilitate diffusion of new concepts to colleagues ("train the trainers")	Czech central government Austrian central government	European Commission (DG BUDG)	Estonian central government, City of Essen		

N.B. No information made available on the Flemish government situation regarding this item.

Source: Interviewees' feedbacks and received answers to the 2017 questionnaire

It is important to make sure that the training plans allow the staff a good understanding of accrual accounting concepts. The benefits of tailored and illustrated training schemes are essential to the success of the reform. In most cases, the panel entities preferred to define entirely new training modules for managers and accountants (French central government, DG BUDG, Estonian central government and city of Essen). The Estonian central government however has also chosen the development of customized training courses in the public sector.

The Czech and [redacted] and DG BUDG prioritised the training of a panel of staff, then responsible for disseminating the new in-house accounting concepts ("train the trainers" approach). A number of public entities have adopted the "train the trainers" approach and found it effective throughout the reform process, for different but complementary reasons:

- Solution less expensive compared to using external trainers for all the staff;
- Possibility to train a limited number of experienced people more quickly;
- Better ownership by staff: on the proven assumption that it is easier to understand new concepts when a colleague or a manager teaches them, since he/she can use concrete examples adapted to the day to day accountability tasks;
- Better transmission of knowledge to all colleagues concerned;
- Permanence of in-house specialists: they are useful after the implementation of accrual accounting and can provide on-the-spot assistance, being identified as proximity experts / senior advisors.

Applied concretely to the reform of accrual accounting, training is more effective with:

- The use of real data during the training sessions as it is more meaningful for the training staff;
- The organization of training sessions mixing people from accounting/finance, IT, procurement, performance management departments (sharing good practices);

- The learning within a reasonable time: neither too late nor too early (if it is too early staff forget what they have learned and need refresher courses).
- The organization will also have to implement a phased training schedule before implementation to prevent all relevant staff from registering at the same time, resulting in overloading the training modules and delaying the implementation of the project.

Preparers’ training assistance was also an essential aspect of the training strategies.

We recall below the different types of stakeholders in accrual accounting, whether preparers, auditors or users (internal and external), as defined in the 2014 PwC study.

Ministry of Finance and operational finance and accounting departments	Preparers
Audit authorities	Auditors
Public managers and non-finance staff (civil servant)	Internal users
Policy makers (Ministries, Parliament, etc.)	Internal users
Taxpayers and service recipients (public)	External users
Financial markets and rating agencies	External users
Medias	External users
EU institutions and national statistical offices	External users
Other (international organisations, academics, private sector service providers)	External users

Three examples of preparer’s training assistance are exposed below.

Box 4- Preparer’s training assistance in Belgium

In Belgium, the implementation of the budget accounting reform has required major changes in accounting practices, the use of new accounting software and therefore new skills that civil servants may not master.¹ Thus, some help has been needed and the project “FEDCOM”, launched in 2007 and still on-going, has been carried out at the federal State level in order to comply with the law of 22nd May 2003¹. The project “Walcomfin”¹ was launched in order to help the Walloon region and the French community to implement the reform. The Walcomfin project refers to the reform of public accounting in Wallonia and the Wallonia-Brussels Federation. This reform aims to move from a budget accounting - essentially cash - towards a modern comprehensive heritage accounting. It also aims to provide Wallonia and the Wallonia-Brussels Federation with an accounting software tool that meets the latest standards.

Source: Interviewees’ feedbacks and received answers to the 2017 questionnaire

Box 5 - Preparer's training assistance in the Estonian central government

In the Estonian central government, given the devolved responsibility for HR to ministers, staff training is a task undertaken by the HR units in individual ministries and agencies, etc. However, the central public administration department in the Ministry of Finance is responsible for providing horizontal training. Consideration needs to be given to how much is spent on training, as well as what training is given and how it is delivered. Due to the global financial and economic crisis, the training and development budgets have been significantly decreased, dropping by 47.7% in 2009. Current priority areas for horizontal training include ethics and core values aiming at improve policy-making skills. However, there is no training focusing on accrual accounting identified at this stage.

Source; answers received to the 2017 questionnaire

Box 6 - Preparer's training assistance in the French central government

In France, the Institute for Public Management and Economic Development (IGPDE), established in 2001, is a national service, attached to the General Secretary of the Ministry of the Economy and Finance. It has a triple mission:

- To provide training for the officials of the Ministry of the Economy and Finance
- To accompany the modernization of the State, the reforms of administrations or the implementation of public policies carried out by the Ministry of Economy and Finance
- To deploy research and dissemination of knowledge in public finance management and economy

Since 2008, the IGPDE has been offering ongoing financial audit training for a period of 26 days per year. This ongoing training is intended for the inspection and control bodies of the State and local authorities. It aims to professionalize the agents in their audit assignment. For three years now IGPDE financial training sessions have been certified by the university Paris Dauphine, a French university internationally recognized in the fields of economics, finance and public management.

Source: Interviewees' feedbacks and received answers to the 2017 questionnaire

3.4.2. Training of managers

Interviewees usually underline the importance of providing sustained training and providing assistance to implementation units. As the very first experiences of implementation in New Zealand and Australia in the 1990s indicated, it is crucial not to underestimate the amount of training required to make the transition successful.

Training is often identified as one of the key aspects of the reform that should have been given more attention. In particular, special attention must be paid to the managers responsible for budget management.

Managers should be specifically targeted by training plans not limited to accounting and budgeting departments, which should lead to:

- An increased focus on the individual responsibility of managers for the use of resources and the achievement of performance goals
- The promotion of an ongoing financial management training with a summary of the new system

3.4.3. Focus of human resources management

A potential shortage of experienced staff should be taken into account when planning and implementing the conversion and in determining training needs.

In New South Wales (Australia), there was an initial shortage of accrual accounting skills in some public agencies. The problem was overcome by the short-term use of consultants selected from a register of approximately 80 accredited consultants.

Respondents in the study did not rate the planning of staff resources as a major factor of success.

However, documentary research has shown that this aspect should not be over neglected¹⁵¹. A study prepared on behalf of the Treasury Board of Canada¹⁵² highlighted that duly anticipating staff turnover before implementation is key to the success, as this increases the burden on training and could delay project implementation

The scale of resources needed to manage and oversee implementation efforts and train staff should not be underestimated. To ensure the success of the implementation, it seems more efficient to have the necessary human resources from the outset to avoid considerable overtime for the teams.

¹⁵¹ The human resources in the implementation of accrual accounting: a cross-national of 20 European countries - Vicente Pina (Catedrático de Universidad), Lourdes Torres (Catedrática de Universidad - Universidad de Valencia), Caridad Martí (Ayudante Doctor - Universidad de Zaragoza)

¹⁵² Ibidem. Hickling Corporation, 1997

3.4.4. General overview of the capacity issues

In the context of the accrual accounting reform, the following section summarizes the main relevant capacity issues and some proven ways to address and/or mitigate them.

Capacity issues are classified according to the following items in the Table 5 below:

- Recruitment policies
- People management
- Training policies
- Training responsibility

Table 5: List of possible capacity issues

Capacity issues	Encountered difficulties	Ways of mitigating risks and issues
Recruitment policies	Absence of recruitment or external support	<ul style="list-style-type: none"> • Ensure the efficient communication with public auditors at an early stage of the reform, for instance, in order to be able to prepare the first audits of the new accrual accounts.
People management	Difficulty with staffing management	<ul style="list-style-type: none"> • Ensure the proper accounting skills for accrual accounting reform • Identify the best people for the job, and ensure that they have enough time to implement the project • Appoint a manager with clear authority and accountability for the project • Having personnel experienced in accrual accounting involved in planning, developing and implementing the changes and in training staff • Do not underestimate the resources required
	Low pay and lack of attractiveness	<ul style="list-style-type: none"> • Maintain mobility and also bring in needed skills from the market • Establish clear roles and responsibilities for each position • Develop and agree a standardized wage classification system • Monitor and regularly update workforce planning activities across the service • Conduct capacity and capacity gap assessments

	Underestimation of the reform's impact on the actors	<ul style="list-style-type: none"> • Communicate awareness on the accrual-accounting transition through all available means of documentation and communication • Ensure that existing and future staff, in particular managers and finance staff, are fully familiarized with the new procedures and requirements
Training policies	Important number of staff to be trained	<ul style="list-style-type: none"> • Implement a phased training schedule before implementation to prevent all relevant staff from registering simultaneously, overloading the training modules and so delaying the project implementation • Anticipate staff turnover before implementation since this increases the burden on training and could delay project implementation
	Lack of accounting concept appropriation	<ul style="list-style-type: none"> • Set up a training plan divided in two phases: initiation and specialization • Sensitize the stakeholders through better coordination between the accounting entities involved in the reform (budget controllers, accountants, accounting quality units...) • Provide complete written guidelines with examples • Train to get IPSAS certified (e-learning + e-assessment) • Promote a central help-desk via internet, e-post and telephone to provide a clear explanation relevant to users' specific circumstances
	Difficulty in setting up the training methodology	<ul style="list-style-type: none"> • Organize training sessions with people from finance, IT and procurement departments to discuss what everyone is doing (sharing good practices) • Adopt an integrated training approach (by treating all training modules as an integrated package) • Organize the learning sessions within a reasonable time: neither too late nor too early • Allow sufficient training human resources. If not, the necessity to recruit external skills
Training responsibilities	Lack of preparer's training assistance	<ul style="list-style-type: none"> • Promote appropriate skills • Plan staff resources to enable a correct estimation of the resources needed to implement accrual accounting
	Possible lack of commitment	<ul style="list-style-type: none"> • Promote staff mobility within and between public sector organizations • Develop policy analysis units

Source: PwC's analysis

3.5. Positive effects

In terms of rising increasing the capacity and skills, the positive effects of accrual accounting reforms may be categorized into three categories: Benefits regarding people (3.5.1.), benefits for the staff regarding the new IT system (3.5.2.) and benefits regarding the processes (3.5.3).

3.5.1. Benefits regarding people: qualification and mobility

3.5.1.1. Qualification

An accrual accounting environment is more sophisticated than a cash-based system and, as such, requires more advanced skills and expertise. Significant training will be needed to increase staff capacity in the accrual accounting environment.

Where accrual accounting is already in place, staff training needs will be much lower. However, targeted training will be needed for alignment with EPSAS.

Several surveyed stakeholders have referred to this effect as non-financial staff and other users (e.g. in the operational units, departments and politicians) have learned to interpret financial information based on accrual accounting and to understand the impact of their decisions on their operational and financial performance.

3.5.1.2. Recruitment / mobility

Using accruals as the basis of government accounting will facilitate external recruitment of finance staff, either from the private sector where these practices are already firmly established, or from other public entities already reverting to accruals.

Moreover, with application of harmonized standards across Europe, mobility of public sector finance and accounting personnel could, in the long-term, be enhanced across the Member States.

For each stakeholder, the following table lists the possible benefits identified in terms of qualification and recruitment / mobility¹⁵³.

++ Noticeable positive effect

+ Positive effect

¹⁵³ This analysis is based on the results of the 2014 PwC study.

Table 6: Benefits regarding qualification and mobility

Entities	Status	Qualifications	Recruitment and mobility	Description of Positive effects
Ministry of Finance and operational finance and accounting departments	Preparers	++	++	<p>The demand for accrual-oriented knowledge and expertise may have an important impact in the short term where the existing labour force does not have the required skills (or is of limited size). Adequate and tailored training can help solve the problem</p> <p>In the medium and long term, the increased capacity of the labour force will allow for more value-added functions to be carried out improving operational decisions and decision-making</p> <p>The acquisition of new skills will have offer new mobility options for the personnel</p>
Audit authorities	Auditors	++	++	<p>Public auditors may face a skills shortage as existing staff must be retrained and new staff recruited to meet the audit needs of the new accrual based reporting environment</p> <p>In response to the new reporting environment, upgraded skills are expected to arise in dealing with audit methodology and procedures</p>
Public managers and non-finance staff (civil service)	Internal users	+	+	
Policy makers (Ministries, Parliament, etc.)	Internal users	++		Information materials on the reform will develop awareness on important issues and support discussion of the structure of the budget and accrual elements, etc.
Taxpayers and service recipients (public)	External users			
Financial markets and rating agencies	External users	+		Private sector service providers will benefit from the business opportunities arising from the implementation of new accounting standards across EU governments (e.g. IT system investments, conversion assistance, training, etc.)

Medias	External users	+		Information materials on the reform will develop media awareness of public finance issues
EU institutions and national statistical offices	External users			
Other (international organisations, academics, private sector service providers)	External users	+	+	Information materials on the reform will improve the understanding of public finance issues Private sector service providers will benefit from the need of training for internal public servants

3.5.2. Benefits regarding the new IT system

3.5.2.1. Different approaches to new IT systems

Modernization of IT systems is a key issue in the implementation of accrual accounting¹⁵⁴. As seen in the PwC 2014 study, modernisation of public accounting systems provides an opportunity to upgrade management information systems¹⁵⁵.

Two approaches were observed:

Situations where the evolution/modernization of IT systems enabled the execution of the accounting reform. In this respect, new IT systems made it possible to apply the new standards by automating the production of financial statements, reducing costs and delays, and the risks of accounting errors.

- In EU institutions IT systems and user's management were the two pillars of the accounting reform project. In Estonia each public sector entity was responsible for the renovation of its IT systems, or the purchase of new IT systems, to meet new accounting standards
- In the city of Barcelona, IT reform made it easier to update financial systems in order to publish financial statements in accordance with new accounting framework (new standards had been legally defined at national level).

Situations where accounting reform offered opportunity to adopt a new IT system:

- In Essen, the new financial management initiative (NKM), implementing accrual accounting, was an opportunity to modernize the hardware and software IT infrastructure. The IT systems of the entities involved in the reform have been harmonized
- In the Czech Republic, reform relied on the coordination of the IT systems of all public sector entities under the supervision of the Ministry of Finance without imposing a single software solution. The adoption of accrual accounting at all government levels has required the introduction of new software and methodological materials etc.¹⁵⁶ Respondents from the Czech Ministry of Finance stressed out that, despite the initial difficulties, the constraints were overcome
- In France the modernization of existing information systems (2006-2008) made it possible to launch post-implementation adjustments facilitating reporting on the accrual basis¹⁵⁷
- In Estonia accounting reforms have created a context for structural reforms such as common IT solutions. This has saved time and money in IT and administration.

In the French and Estonian central governments a single software package has been put in place at the level of the central budget administration. In the case of France, the implementation of Chorus took place over several years. This project involved the implementation of an SAP-based Integrated Information System (ERP) shared by all central government ministries for accounting and budget management purposes.

¹⁵⁴ Please refer to section 2.3.3. Modernisation of IT systems

¹⁵⁵ PwC study to inform the impact assessment of EPSAS implementation (2014) | p.51

¹⁵⁶ Sabrina Bellanca, Loredana Cultrera & Guillaume Vermeulen, "Analysis of Public Accounting Systems in the European Union" Warocqué School of Business and Economics, University of Mons, Mons, Belgium Vol. 6, No. 3; 2015, p.31.

¹⁵⁷ Les conséquences des IPSAS sur la réforme des systèmes d'information financière publique : étude comparative, Johan Christiaens, Brecht Reyniers, Caroline Rollé. CAIRN, Revue Internationale des Sciences Administratives 2010/3 (Vol. 76), p. 563-581. DOI 10.3917/risa.763.0563

3.5.2.2. Balance the complexity of implementing a new IT system with the possible benefits

When implementing the reform, reluctance related to possible IT complexity could arise - particularly linked to the technical challenges due to the reporting of liabilities (this operation is more demanding of very structured information and requires a mastery of transactional operations in the IT tools).

However, this reluctance may be overcome by putting forward the following examples of the benefits for the staff of the new IT system, which can:

- improve external accountability and control
- facilitate performance management (increasing need for accounting information)
- guarantee the traceability of the operations as well as the irreversibility of the writings
- improve asset and cash management
- facilitate the decision-making process
- facilitate the calculation of revenues and charges
- facilitate the recognition of risks and opportunities

3.5.3. Benefits regarding processes

The 2014 PwC study focused on two process benefits¹⁵⁸: strengthening audit / internal control and reduction in administrative cost and burden. Where the effects of internal control are known to be a key factor in the risk management of organizations we decided to focus on a tangible improvement process for public administrations: the reduction of administrative cost through the creation of a shared service centre.

Reduction in administrative cost: the opportunity to implement a shared service centre

The accrual accounting reform may be an opportunity to implement an administrative simplification of operations within the accounting departments, of a given public entity - such as the Estonian implementation of a shared support service on financial accounting (see the example of the Estonian central government in the box below). A Shared Service Centre (SSC) is a structure that groups together the production of operational tasks for several entities within the same organisation. By delegating repetitive and less value-added operational tasks to an SSC central services can focus on higher-level tasks¹⁵⁹.

The reasons for deploying SSC are to:

- Improve the quality of support functions
- Improve the flexibility of support costs
- Reduce the costs of decentralization of an administration¹⁶⁰

Table 7: Creation of shared public services centres and impact of their creation

<i>Austrian central government</i>	No feedback received
<i>City of Barcelona</i>	Non applicable
<i>Czech central government</i>	Non applicable
<i>Estonian central government</i>	A shared service centre was set up in 2013 to centralise financial, personnel and payroll accounting in all areas of government. The number of accountants was reduced by 36% within 4 years (2013-2016). Most of them have retired or voluntarily left.
<i>City of Essen</i>	Non applicable
<i>EU Institutions</i>	Non applicable
<i>Flemish government</i>	The first step was to set up a shared accounting service centre during the implementation of the reform of the financial system. The staff in the shared service centre is able to be multiple client-oriented
<i>French central government</i>	<p>The deployment of the new software package CHORUS was an opportunity to re-engineer and establish a shared services centre (CSP). In order to best meet the specificities of each ministry these CSP have been set up to respond to functional needs and constraints (for example, wave 3 concerned the financial, cultural and social ministries).</p> <p>Several advantages are noted such as (1) the rationalization of the expenditure chain, (2) the homogenization of working methods, sharing of best practices, (3) the professionalization of the financial function and (4) the efficiency of public spending</p>

Source: Interviews and answers received to the 2017 questionnaire

¹⁵⁸ PwC study to inform the impact assessment of EPSAS implementation (2014) | p.50

¹⁵⁹ Janssen et A. Joha, « Motives for Establishing Shared Service Centres in Public Administrations », International Journal of Information Management, vol. 26, no 2, 2006

¹⁶⁰ Julie Le Bolzer, Les Centres de services partagés : l'heure du bilan RH, 14/02/2014, Les Échos Business

Box 7 - Estonian implementation of a shared support service project on financial accounting

In 2008 each ministry created its own functional shared service centre to provide personnel and financial accounting services. The instructions were given by the Ministry of Finance.

At the end of 2011 the Ministry of Finance proposed the establishment of a common national Shared Service Centre. The purpose of the centre was to provide financial, personnel and payroll accounting services. The project was effective in 2013.

Responsibilities of the Shared Service Centre:

- It prepares and submits financial reports of the State, local authorities, the government sector and the public sector*
- It makes proposals to the Minister of Finance about the general rules of State accountancy and their amendment*
- It instructs State accounting entities, local government entities and other public sector entities in accounting issues*
- It gathers financial reports from the public sector and checks that they are correct*

In 2013 (the year the State shared service centre was founded) it provided personnel and financial accounting services to four ministries. This centre has enlarged every year by order of the Government.

There are currently two shared service centres:

- one is providing accounting services to the ministry of defence*
- one is providing services to all other ministries and their departments and also to some state owned NGO's and local governments"*

Since the implementation of the Shared Support Services in 2013, the number of accountants has reduced by 36% within the last four years (2013-2016).

Source: Interview of the Head of the Estonian State accounting department | State Shared Service Centre (Ministry of finance) | April 20th

3.6. Common difficulties

Training strategies did not always achieve their expected benefits, and also encountered common difficulties, such as the lack of appropriation of the accounting concepts and documentation; implementation of accrual accounting without additional resources, lack of analytical capacities or unexpected resistance.

3.6.1. Difficulties that could be avoided

3.6.1.1. Level of understanding of new accounting concepts during the implementation

The level of understanding of new accounting concepts is also a key factor in the success of any accounting reform.

The key finding is that the institutions (parliament, municipality, local governments) had a different level of understanding compared to the accounting, budget and control and audit bodies. This means that a special training effort must be made towards officials working in institutions and others non-accounting staff.

Table 8: Level of understanding of the accounting concepts by the stakeholders according to the panel of interviewees

Institutions	Accounting services	Budget planning departments	Control and audit bodies	Parliament / municipality / regional institutions
Austrian central government	Good	Good	Good	Moderate
City of Barcelona	Good	Moderate	Good	Moderate
Czech central government	Moderate	Limited	Good	/
Estonian central government	Good	Moderate	Good	Moderate / Limited
City of Essen	Good	Good	Moderate	Good
EU Institutions	Good	Good	Good	Moderate
Flemish government	Good	Moderate	Good	Non applicable
French central government	Good	Moderate	Good / Moderate	Limited

Source: Conducted interviews and received answers to the 2017 questionnaire

Accrual accounting requires a greater technical accounting expertise and the greater involvement of non-accounting staff in the decision-making process.

The expertise required is not limited to understanding the basic accrual concepts. A technical knowledge is required for complex accounting areas (such as financial instruments, employee benefits, property valuation and consolidation). Staff training on an operational level in areas such as fixed asset and inventory management is also necessary (see the following section 3.6.1.2. *Expected efforts regarding accounting areas*).

In the French central government, one of the main difficulties was related to the lack of adoption of training tools during the implementation. In terms of training the Internal Audit Harmonization Committee intended to set up a training plan (in association with IGPDE training public institute) aiming at moving out of initiation and moving towards greater specialization.

The sensitization of stakeholders may also need better coordination as, for example, in France where accounting stakeholders such as budget and accounting general controllers (CBCM), accounting quality units (CQC) and the State Accounting Service (SCE) supported accountants¹⁶¹.

¹⁶¹ Consultation of the Head of Budgetary Control and Accounting Department (CBCM) of the French Ministry of Defence | Paris, May 16th 2017.

3.6.1.2. Expected efforts as required by different accounting items

This section identifies possible additional efforts, in relation with different accounting areas. In order to assess different types of issues of possibly differing importance during implementation, the following table 9 aims to question the possible level of effort and response, regarding policies or people or processes or systems.

Table 9: Possible issues regarding different accounting items

Accounting items	Possible efforts	Possible level of response
Reporting	→ Efforts may be expected in the field of the design of the financial statements, development of the general accrual accounting environment (general ledger and accounting flows) and data collection for the respective disclosure requirements	→ It may require an effort to develop a standard repository, presenting the actions, the associated costs, the objectives and the results obtained each year and expected for the coming years, measured by precise indicators
Consolidation	→ Efforts may be expected on the entire set-up of consolidation process, including the elimination procedures of intra-group balances and transactions	→ It may require an adaptation to both the processes and IT systems
Property, plant and equipment	→ Efforts may be expected on the interactions between non-finance and finance staff	→ It may require an improvement of communication with both non-finance (procurement, asset managers) and finance staff to account for the entire asset cycle appropriately
Intangible assets	→ No expected effort on asset population regarding the capacities	→ It may require training, even if the impact of the adaptation of systems and processes is limited
Inventory	→ No expected effort encountered regarding the capacities	→ It may require the particular attention of staff to the completeness and valuation of the inventory records
Revenue	→ Efforts may be expected on the ways of working resulting from the move from a resources-based culture to a results-based culture	→ It may require extensive and detailed information on the complexity and variety of tax regimes. The MSs panel has reported the need of training.
Accruals and expenses	→ Efforts may be expected regarding the new or updated procedures in order to organise the purchase cycle (e.g. receipt of goods and services should be identified) and the lifecycle of the expenses	→ It may require a significant training effort given the number of both non-finance and finance staff involved in these transaction flows
Provisions	→ No expected effort encountered regarding capacities	→ Non applicable
Employee benefits and financial instruments	→ No expected effort encountered regarding capacities	→ Non applicable

Internal control	→ Internal control is presented as a daily necessity for the operational staff but often deployed in superposition	→ It may require the adoption of an approach based on issues and risk. This approach can be a way of overcoming unanticipated complexities
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Source: PwC's analysis

3.6.2. Other possible constraints regarding the capacity issues

This section is focused on the way the reform has been understood in terms of constraints and what was the stakeholders' opinion of commitment and ownership of the reform.

Interviews conducted throughout the panel helped to address the issues and their degree of intensity before, during, and after the reform. These four variables may have impact on the capacity issues:

- **Career attractiveness:** This item includes the difficulty of staff management, an underestimation of the reform's impact on the actors and the unattractiveness of the public financial function
- **Remuneration:** It was pointed out during the interviews that the absence of changes in pay could inhibit the attractiveness of careers and the desire to build skills on technical subjects
- **Number of staff to be trained:** The number of finance staff to be trained is a natural driver of training costs. Training costs are expected to increase with the number of staff that need training on new accounting policies and procedures
- **IT systems complexity:** This variable is particularly linked to the technical challenges of the reporting of liabilities because this operation is more demanding of very structured information and requires a mastery of transactional operations in the tools

Table 10: Assessment of the most constraining variables before the reform

	Career attractiveness	Remuneration	Number of staff to be trained	IT systems complexity	Other
Austrian central government				Moderate	
City of Barcelona				Substantial	
Czech central government		Substantial	Moderate	Moderate	
Estonian central government	Substantial	Moderate	Substantial	Substantial	Important*
City of Essen	Substantial		Substantial	Substantial	
EU Institutions	Negligible	Negligible	Substantial	Substantial	
Flemish government			Important		Substantial**
French central government	Moderate		Important	Important	Important***

Source: Conducted interviews and answers received to the 2017 questionnaire



Issue not mentioned by the stakeholders.

** Estonian central government: Organisation of the work in departments, communication and training were very important, but the working base was thorough guidelines and availability of IT-systems.*

*** Flemish government: willingness to reform the organisation (substantial), education level of accounting personnel (moderate).*

**** French central government: Complexity of the accounting framework and increased workload when conceiving and deploying the whole set of accounting procedures*

Box 8 - Feedback from the Estonian central government's accounting department

Before the reform the Estonian accounting department highlighted the attractiveness of careers and the complexity of changes to their IT systems as substantial constraints.

Remuneration was considered as a moderate constraint and the number of staff to be trained considered negligible. During the reform the same constraints persisted but were increased by the perception of a substantially increased workload.

According the Estonian Ministry of Finance, these constraints then became moderate after the reform.

Source: Answers received to the 2017 questionnaire

Box 9 - Feedback from the Czech central government's accounting and methodology department

Before the reform the Czech central government highlighted remuneration as a substantial constraint and identified the number of staff to be trained and the complexity of change to the IT systems as moderate constraints.

According to the Head of Accounting and methodology department the same constraints persisted during the reform by adding an increasing workload.

According to the Czech central government Accounting Department remuneration remained a substantial constraint and the number of staff to be trained remained a moderate constraint. Career attractiveness however became a moderate constraint.

Source: Answers received to the 2017 questionnaire

3.7. Recommendations for securing capacity issues

The analysis of capacity issues helps to identify implementation best practices such as:

- The adoption of an adequate communication strategy
- The development of an integrated training program
- An approach to strengthen the attractiveness of financial careers within public entities
- The use of workforce planning

3.7.1. Promote a communication strategy

As mentioned earlier, the adoption of accrual accounting requires a significant culture shift in the mindset of management, staff, regulators, fund providers and stakeholders. In that context, effective communication promotes stakeholder involvement and helps mitigate the difficulties of cultural change, provided there is a very clear support from policy makers and messages tailored to the different stakeholders (staff, politicians, media, citizens, etc.).

All along the reform process, clear and open communication on the different benefits of accrual accounting is crucial:

- Staff needs to understand very concretely the benefits before aligning with the objectives
- Staff is in demand of getting reach of “quick wins” to sustain enthusiasm and mobilization all along the project
- Targeted messages aim at clearing up any misunderstanding, facilitate the dissemination of requirements and objectives of the change process, and convey a common understanding of the key principles of the accounting changes.

Communicate awareness on the accrual-accounting transition through all available means of documentation and communication can be achieved through presentation and testimonies from persons involved in successful cases.

Box 10 – Examples of practices to raise awareness about accrual accounting

Austrian central government: Information materials were developed for creating awareness in important stakeholders' groups such as politicians and the media. Special seminars with the members of Parliament were organised.

French central government: The Internal Audit Harmonization Committee is considering raising accrual accounting awareness among program managers through a new training offer organized by the Institute for Public Management and Economic Development (IGPDE).

Belgium Flanders (local government): Lessons learnt from the early adopters (10 pilot entities in 2010) were used to further tailor the project approach and develop guidance papers when the reform was fully implemented in 2014.

Source: Open sources; PwC study to inform the impact assessment of EPSAS implementation | p.160 (2014)

3.7.2. Develop an integrated training program

The development of training strategies and the implementation of training programs should therefore be identified as project milestones with the following components:

- **Promote the participation of the reform initiators in the training**
- **Allow initiative for in-house training** at lower levels (with the oversight from the top). For example in developing e-learning modules
- **Put strong focus on bookkeeping but also very much on the data interpretation**
- **Identify, conceive and deploy a dedicated training program all along the implementation roadmap**
- **Promote ongoing financial training.** An overview of the new system and new responsibilities needs to be included within the training programs for new staff, and also through regular refresher courses for the others

3.7.3. Strengthen staff skills in order to facilitate the ownership of accrual accounting

- **Provide complete written guidelines with as many examples as possible.** Up-to-date policy manuals and guidelines are a form of on-the-spot training that support employees in carrying out their duties
- **Promote a central help-desk via internet,** e-post and telephone aiming to provide clear explanation to users specific circumstances
- **Focus on the gap between the capacities of existing staff and the required capacities** in considering the option to recruit from the private sector, recruitment from other public sector entities, use of consultants/contractors, provision of training to existing staff in organizing seminars and workshops by external audit entities.

3.7.4. Reinforce the attractiveness of public finance functions

In addition to changes in the required skills, reform implementation may also require strong incentives for “mindset” changes.

- **Harmonize public sector remuneration** while maintaining mobility and also bring in needed skills from outside; make roles and responsibilities clear for each position; build transparency, and simplify processes
- **Increase the transparency of recruitment**
- **Develop and agree on a standardized wage system**

3.7.5. Use workforce planning

Aim to undertake capacity assessments within individual public sector entities and policy areas across the whole of government to ensure the right staff with the right skills are in place to deliver the implementation's agenda now and in the future.

- **Integrate workforce planning within and across public sector entities**, linking it to the overall needs of the entire public administration. Monitor and regularly update workforce planning activities across the service
- **Conduct capacity gap assessments within public sector entities**, related to existing priorities and expected future needs. Associate internal organizational training with common skill gaps and provide centrally to the entire public administration
- **Use the recruitment and selection criteria to assess a broader set of skills and experience**, not just in one area of expertise

3.8 Conclusion

In the light of feedbacks from surveyed stakeholders and additional available data and sources, Section 3 has aimed to present how the panel entities tackled capacity issues in the implementation of their accounting reform.

Following the capacity issues identified in the PwC 2014 survey, discussions with and feedback from the panel entities strived to go some steps further in analysing and suggesting recommendations and guidelines. In particular, the current survey underlines that:

- the capacity issues related to the implementation of EPSAS were mainly to be found in the areas of training policies, human resources and capacity to master new accounting concepts by all personnel and stakeholders involved in the reform ;
- in the context of recent or ongoing accrual accounting reform, a specific effort has been made by public entities
 - recruitment policies
 - people management
 - training policies and training responsibilities

In a situation in which financial roles and functions are confronted with more or less important adjustments related to the modernization of financial services, the implementation of accrual accounting may be perceived as an additional difficulty for staff, or as consuming significant resources and requiring more skills and experience.

The implementation of accrual accounting does indeed involve a substantial change in the skills, human resources policies and, more widely, a cultural change. As a result the topic of capacity does not focus solely on skills training and accrual accounting resources. Significant change is also required in the mindset of management and other stakeholders. This has resulted in a number of training initiatives to increase or modify the skills and capacities of internal and external users.

The benefits of the reform on capacity issues are however often underestimated. For example in:

- the increasing of the accountants mobility
- the transfer of knowledge in key accounting areas, following the increasing awareness of staff and public of accrual accounting concepts
- the increasing expertise of public sector accountants in new practices and procedures
- the administrative simplification following the new processes (such as the possibility of creating a shared service centre)

Capacity issues have to be fully understood in order to efficiently implement the accrual accounting reform and to ensure a successful transition as a whole.

4. How the EPSAS can support financial audit and control in the Member States in the EU context

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4.1. Introduction

4.1.1. Potential of EPSAS for controls and audits

Section 4 focuses on the potential of EPSAS to support financial audits and controls in the EU Member States.

As a set of accrual-based and harmonised accounting standards, the EPSAS will indeed facilitate the delivery of reliable and comparable information about the financial position, financial performance and cash flows of public sector entities.

Therefore, the implementation of EPSAS is expected to benefit to financial auditors, parliamentary budgetary commissions and other oversight bodies in charge of monitoring the use made of public expenditures.

- In that perspective, the European Parliament's Budgetary Control Committee (CONT), as well as various Courts of auditors in the European Union, showed a strong interest in the EPSAS project.
- The committee organised a workshop on EPSAS on October 1, 2015, analysing how the introduction of the EPSAS could facilitate the implementation of the EU budget in the Member States¹⁶².

In order to better assess how EPSAS can support financial audits and controls, section 4 analyses the current issues for each of the controls and audits considered. The potential solutions and opportunities of EPSAS to solve these issues are then analysed.

¹⁶² http://www.europarl.europa.eu/RegData/etudes/STUD/2015/552299/IPOL_STU%282015%29552299_EN.pdf

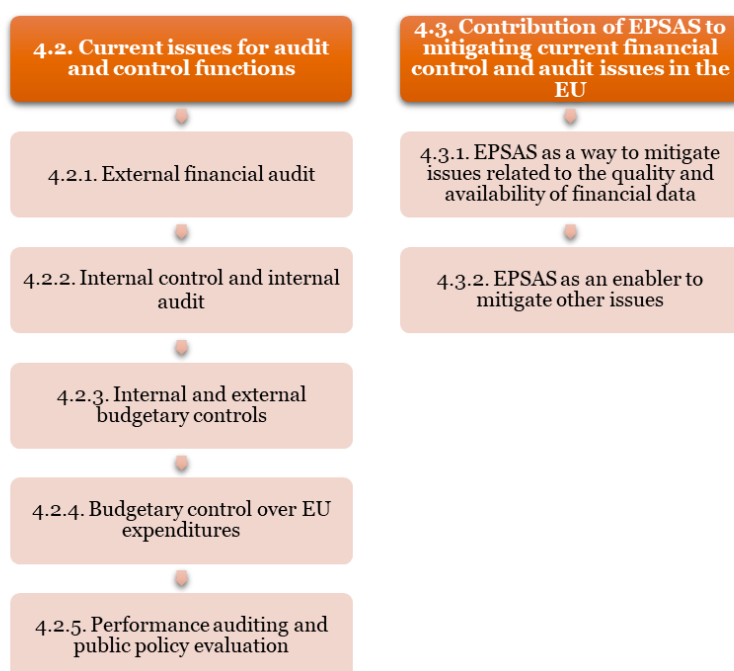
4.1.2. Methodology and content of section 4

Two main sources were used as an input for the analysis presented in the current section:

- A desk research on current issues of financial controls and audits in the EU public sector and the possible solutions brought by EPSAS
- The feedbacks from interviewees and answers received to the 2017 questionnaire.

The content of section 4 is presented below.

Figure 1– Overview of the sub-sections of section 4



4.2. Current issues for audit and control functions

Section 4.2. presents the current issues of external financial audit (4.2.1), internal control and internal audit (4.2.2.), internal and external budgetary controls (4.2.3.), budgetary control over EU expenditures (4.2.4.) and performance auditing and public policy evaluation (4.2.5.).

4.2.1. External financial audit

Table 1 – Overview of issues in external financial auditing

Issues	Type of control	Stakeholders concerned
<ul style="list-style-type: none"> • Lack of comparable practices • Lack of comparable financial statements 	<ul style="list-style-type: none"> • External financial auditing 	<ul style="list-style-type: none"> • External financial auditors

The role of external financial auditors in the public sector is to make sure that public entities comply with applicable standards when preparing their financial statements and respect the principle of “legality, efficiency, effectiveness and economy of financial management”¹⁶³.

In the EU current context of various accounting standards, external financial auditors are faced with two main issues:

Issue 1: Lack of comparability of audit missions and practices

Currently, the scope of external financial audit depends on:

- **The specificities of each institution considered.** Auditing public entities across and within Member States requires a focus on the specific areas of accounting linked to the activity of each entity. Audit plans and practices are tailored accordingly
- **The auditing standards in place.** In most cases, the International Standards of Audit (ISA) are either the framework used to define the auditing standards or are applied directly. In other cases, and specifically at the local level, the audit of the financial statements are carried out in accordance with INTOSAI standards¹⁶⁴
- **The accounting standards in place.** Audit practices and plans vary with the accounting framework of the public entity audited, notably when financial statements are prepared on different basis of accounting (e.g. cash, modified cash or accrual basis). For example, audits of accrual-based financial statements will require judgments about asset values and lives, matching issues, prudence and materiality, which are not relevant when cash-based financial statements are audited.

In the EU context with various accounting standards applied by public entities within and across EU Member States (see Box 1 below), external audit practices and plans may be less easy to compare. It is thus difficult to reflect on good practices or harmonised audit plans that could be shared by external financial auditors across subsectors of government and Member States.

¹⁶³ According to the principles defined by the International Organisation for Supreme Audit Institutions, (INTOSAI), defined in the 1977 Lima Declaration (ISSAI 1).

¹⁶⁴ Federation of European accountants, 2008, Implementation of accrual accounting: the impact on public sector audit

Box 1 – Heterogeneity of accounting standards within and across EU Member States

Basis of accounting (e.g. accrual or cash) can be heterogeneous:

- Accrual-based and cash-based accounting standards are applied in all Member States
- Accrual accounting standards are not homogeneously applied within and across Member States (in terms of perimeter and of application rules)
- In some cases, local governments and social security funds have applied accrual-based accounting standards earlier than central governments.

Sources: OECD/IFAC (2017), Accrual Practices and Reform experiences in OECD Countries, OECD Publishing, Paris EY, December 2012, Overview and comparison of public accounting and auditing practices in the 27 EU Member States; PwC study to inform the impact assess the impact of EPSAS implementation (2014)

Issue 2: Lack of comparable financial statements

As there are no generally accepted accounting standards, in the EU, the possibility to compare financial statements is very limited:

- Comparing data of different institutions relating to similar items (physical assets, infrastructure, accrued expenses...) is made difficult, considering the various rules and ways of recording data within and across EU public sector entities
- Aggregating data within and across subsectors of government can be either irrelevant or a painful process, as there is no guarantee of similar perimeter and reliability
- External financial auditors lack a common reference to compare the quality of financial statements within and across Member States.

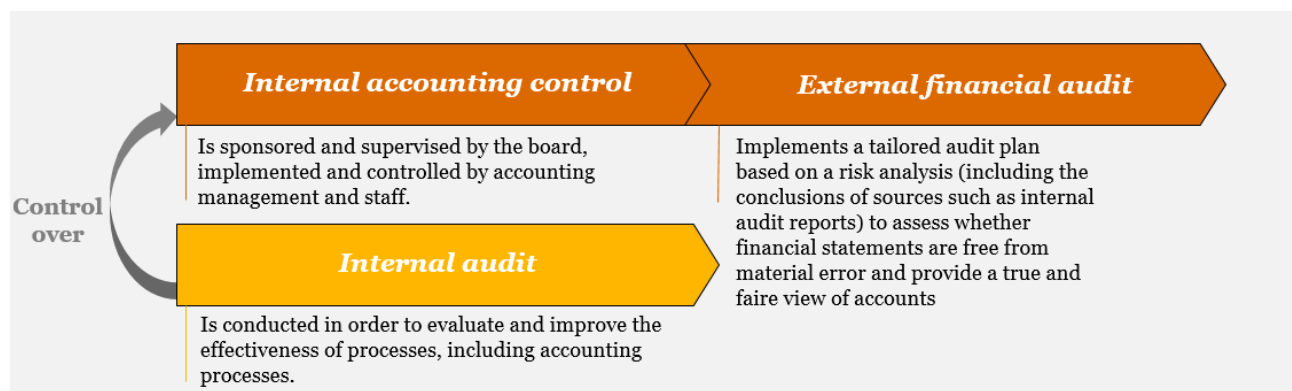
4.2.2. Internal control and internal audit

Table 2 - Overview of issues in internal control and internal audit

Issues	Type of control	Stakeholders concerned
<ul style="list-style-type: none"> • Ongoing deployment • Lack of comparable practices 	<ul style="list-style-type: none"> • Internal control (including accounting and budgetary control) • Internal audit 	<ul style="list-style-type: none"> • Internal control units • Financial and operational departments of public entities
<ul style="list-style-type: none"> • Unavailability of accrual data 	<ul style="list-style-type: none"> • Internal control 	<ul style="list-style-type: none"> • Internal audit units • Other actors of control, such as inspection units • Financial and operational departments of public entities

Article 3 of Council directive 2011/85/EU of 8 November 2011 states that internal control activities and independent audits are necessary to ensure the quality of public accounting systems¹⁶⁵. Being complementary, external audits and internal controls and audits all aim at ensuring that financial accounts are free from material error and give a true and fair view of the financial position, financial performance and cash flows of a given entity.

Figure 2 – Complementarity of internal accounting control, internal audit and external financial audit to control the quality of public accounting systems



Source: PwC's analysis

Beyond their role in the control and review of accounting processes, internal control¹⁶⁶ and internal audit¹⁶⁷ are key to assess risks linked to all the activities of a public sector entity:

- **Internal control** enables to provide reasonable assurance that an entity complies with its operational and performance goals, and abides by applicable laws and regulations. Internal control processes are internalised within operational and financial departments.

¹⁶⁵ <https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=celex%3A32011L0085>

¹⁶⁶ Internal control is defined by the 2013 Committee of Sponsoring Organizations of the Treadway Commission (COSO) Framework as a process, effected by an entity's board of directors, management and other personnel, designed to provide "reasonable assurance" regarding the achievement of objectives.

¹⁶⁷ According to the Institute of Internal Auditors (IIA), internal audit is "an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes".

- **Internal audit** assesses the quality of internal control and suggests improvements in risk management, control and governance processes when necessary.

Box 2 – Definition of internal control

Internal control is defined by general and international guidelines. The Committee of Sponsoring Organizations of the Treadway Commission (COSO) publishes this Framework since 1992. The last COSO framework was edited in 2013.

Internal control is defined by the 2013 COSO Framework as a process, effected by an entity's board of directors, management and other personnel, designed to provide "reasonable assurance" regarding the achievement of objectives in the following categories:

- 1. Operations objectives:** *internal control aims at ensuring the effectiveness and efficiency of the entity's operation, including operational and financial performance goals, and safeguarding assets against loss.*
- 2. Reporting objectives** *of internal control reports, including reliability, timeliness, transparency or other terms as established by regulators.*
- 3. Compliance objectives** *related to adhering to laws and regulation that the entity must follow.*

Source: Committee of Sponsoring Organizations of the Treadway Commission (COSO), PwC

Box 3 – Definition of internal audit

Internal audit has many definitions according to the Member States and institutions considered. The most often cited definition remains that of the Institute of Internal Auditors issued in 1999, which defines guidelines regarding the deontology, independence and methods of internal auditors.

According to the IIA, internal audit is "an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes". Internal audit in the public sector can be defined according to the following characteristics:

- 1. The independence and objectivity** *of internal audits*
- 2. A role of supervision and evaluation of internal control**
- 3. A role of advice to the executive officials** *of the public entity*
- 4. A difference with external audit**, *the latter being conducted outside of the public entity.*

Source: Institute of Internal auditors. PwC

Three issues concern internal control and internal audit in the EU public sector.

Issue 1: Ongoing deployment of internal control and audit in some EU institutions

Public sector entities in some EU Member States have different starting points in implementing internal audit and control¹⁶⁸. For instance:

¹⁶⁸ The implementation of internal controls and audits has known a development in EU countries since the 1990s. More recently, the introduction of Council directive 2011/85/EU of 8 November 2011 made their implementation mandatory for all entities of the public sector. The implementation of internal controls and audits -and specifically internal accounting control- was sometimes facilitated by the implementation of accrual accounting. In particular, stakeholders of the accruals reforms in Estonian and French central governments saw the introduction of internal accounting control as a way of improving the reliability of financial reporting processes, beyond the introduction of an external certification of the central government's accounts.

- **In Sweden**, a 1986 decree implemented internal auditing structures in each of the 56 major agencies of the central government, which account for 95% of the State's budget¹⁶⁹
- **In France**, the deployment of internal audit for the central government was officially launched by a 2011 decree.

Issue 2: Heterogeneous practices of internal control and audit

Beyond some common principles¹⁷⁰, there is no harmonisation of the practices of internal control within and across EU Member States. This situation is reinforced by the existence of different internal control and audit frameworks, which are unequally applied and mature.

Box 4 - Common framework for internal audit in the French central government

In the French central government, the common framework of reference for internal auditors is defined by an inter-ministerial entity, called Committee for the harmonisation of Internal Audit (Comité d'Harmonisation de l'Audit Interne, CHAI). This framework of reference was inspired by the standards of the Institute of Internal Auditors and the French standards defined by the French Institute for Internal auditing and control (Institut français de l'audit et du contrôle interne, IFACI).

This framework is divided into two parts. The first part includes mandatory provisions, related to the definition of internal audit, professional standards and deontology standards. The second part includes recommended practices for internal auditors, including practical modalities for the enforcement of the mandatory provisions of the framework and practical guides.

Sources: Conducted interviews, <https://www.economie.gouv.fr/chai/cadre-reference-laudit-interne-letat>,

Positions may vary among auditors regarding the objectives of internal audit. If most of them see internal audit as a rigorous methodology to monitor and prevent risks, they may tend to disagree on its goals¹⁷¹:

- Some emphasise internal audits as a way to measure the costs of public services more efficiently by using accrual data.
- Others consider the objective limited to monitor the risks of daily operations more effectively¹⁷².

Issue 3: Unavailability of accrual data for internal control

In institutions following cash-based accounting standards, all the events resulting in the creation, transfer or destruction of economic value that do not result in a movement of cash are not recorded in financial statements at the time they occur.

In particular, internal control cannot monitor the risks related to long-term budgetary commitments (in the case of internal budgeting control), and the impact of accrued expenses.

¹⁶⁹ In Sweden, most of the central government's staff is employed by public agencies, which are under the responsibility of a single ministry. Ministries are of a relatively small size, and are mainly responsible for inter-ministerial tasks.

¹⁷⁰ These principles are defined by the COSO framework (cf. Table 1).

¹⁷¹ Célérier Laure, « La mise en place d'une fonction d'audit interne dans l'administration centrale d'Etat et le possible renouvellement des corps et services d'inspection », *Revue française d'administration publique*, 2015/4 N° 155, p. 659-672.

¹⁷² By encouraging them to set up efficient internal control mechanisms that are close to daily management, and by lifting *a priori* administrative controls, replaced by these more targeted types of control.

4.2.3. Internal and external budgetary controls

Table 3 – Overview of issues in internal and external budgetary controls

Issues	Type of control	Stakeholders concerned
• Lack of comparability of budgets and financial statements	Internal budgetary control	<ul style="list-style-type: none"> • Internal budgetary control units • Financial and operational departments of public entities
• Unavailability of accrual data	External budgetary control	<ul style="list-style-type: none"> • Financial committees of Parliaments • Supreme audit institutions and other external auditors

Internal and external budgetary controls generally make sure that:

- The amounts of the expenditures of a public institution respect the voted budgets
- The budgetary path is sustainable over the medium to long term
- Spent expenditures are aligned with their voted budgetary nature and destination.

Box 5 - Definition of internal budgetary control

Internal budgetary control is a subdivision of internal control. It has many definitions according to the Member States, institutions and internal departments considered.

Internal budgetary control encompasses all the activities meant to manage the risks (both in financial and non-financial departments), related to:

- *The quality of budget execution and its reporting;*
- *The sustainability of budgetary decisions on the medium to long term.*

Source: PwC's analysis

Box 6 – Definition of external budgetary control

External budgetary control can be defined as all the activities exerted by actors external to the administration in order to control the compliance of a given public entity with the authorisations given by legislative bodies related to the collection and use of resources.

It can also encompass activities meant to check the sound financial management of the resources authorised in budgets, including criteria such as effectiveness and efficiency. In this sense, external budgetary control can be similar in scope to performance auditing or public policy evaluation.

Source: PwC's analysis

In that context, internal and external budgetary controllers are often faced with the two following issues:

Issue 1: Lack of comparability of budgets and financial statements

Prepared, voted and executed on a cash and cash modified basis, the majority of the EU public sector entities budgets are not directly comparable to financial statements, established on an accrual basis of accounting.

For instance, in six out of the eight institutions included in the scope of PwC's survey, the voted budgets are prepared on a cash or modified cash basis, while the financial accounts are prepared on an accrual basis. Only two of these institutions, namely the Austrian and the Estonian central governments, have adopted both accrual-based budgets and financial accounts.

Stakeholders may face difficulties in checking and understanding the achievement of the objectives set to governments, and the way they managed public funds.

Issue 2: Unavailability of accrual data

When cash or cash modified accounts are in place, some transactions are not recorded, limiting the estimation of costs and long-term engagements.

Lacking a global vision, budgetary controls cannot evaluate the efficiency of public policies and expenditures.

For example, assessing the budgetary sustainability of defense policies requires significant sets of accrual data for estimating the total costs of ownership of military assets.

4.2.4. Budgetary control over EU expenditures

Table 4 – Overview of issues in budgetary control over EU expenditures

Issues	Type of control	Stakeholders concerned
<ul style="list-style-type: none"> • Lack of comparability of financial statements • Different criteria to recognize non-exchange transactions 	<ul style="list-style-type: none"> • Budgetary control over EU expenditures 	<ul style="list-style-type: none"> • EU institutions • Member States • European Parliament (Budgetary control committee, CONT)

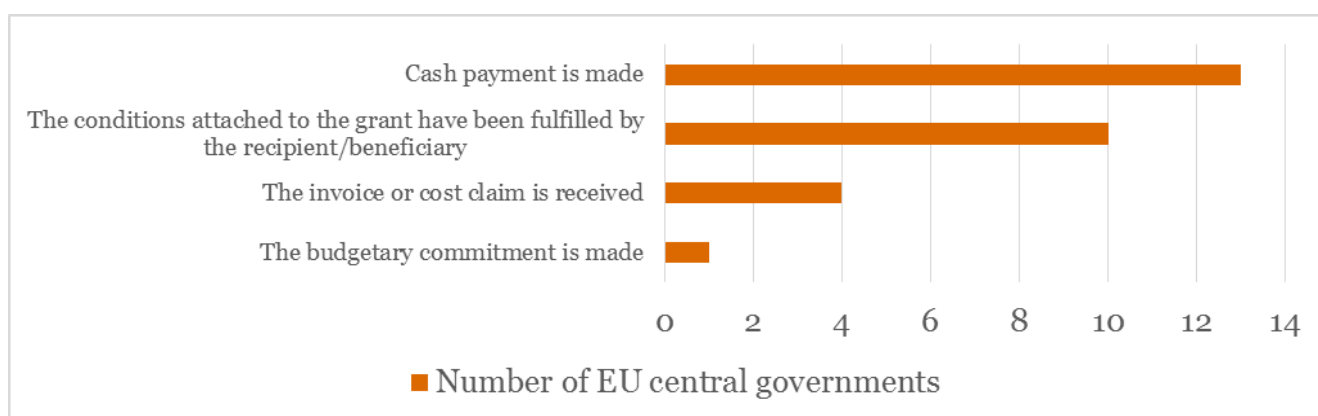
Budgetary control monitors the use of EU expenditures voted in multiannual financial frameworks (MFF) and the EU’s annual budgets. It aims at verifying the legality, accuracy and sound financial management of budget operations and financial control systems, as well as the sound financial management of the EU budget. Indeed, the number of beneficiary entities is important and the allocation of grants and transfers is complex (different types of programmes, processes, criteria, rules...). Accordingly, the follow up of these expenditures is made difficult for budgetary control.

Issue 1: Lack of comparability of financial statements

The use made of the grants and transfers allocated by the EU, for instance in the context of the regional policy, will be budgeted and accounted for in many different ways, depending on the various accounting and budgeting frameworks in place within and across Member States. In particular, entities applying cash-based standards will only record in their accounts an expenditure related to a non-exchange transaction (i.e. a grant or transfer) when a cash disbursement occurs. Entities applying full accrual standards will recognize these transfers in their accounts when the conditions attached to the grants or other transfers have been fulfilled by the recipients or beneficiaries.

It is therefore complex to monitor the use made of EU resources, and to assess their impact and created value.

Figure 3 – Timing of recognition of grants and other transfers by central governments



Source: PwC, study to inform the impact assess the impact of EPSAS implementation (2014)

Issue 2: Different criteria used to recognize non-exchange transactions

The difficulties in following the use of EU expenditures across and within Member states can also be explained by the difficulty to set a criterion for distinguishing between “exchange” and “non-exchange” transactions. For instance, in areas like water provision it may be unclear whether a transaction is non-exchange (i.e. a tax) or exchange (i.e. a fee for a service). Judgements on these matters can vary significantly, depending on the accounting standards in place.

4.2.5. Performance auditing and public policy evaluation

Table 5 - Overview of issues in performance auditing and public policy evaluation

Issues	Type of control	Stakeholders concerned
<ul style="list-style-type: none"> • Lack of comparability of financial statements and budgets • Different criteria used to recognize non-exchange transactions 	Performance auditing	<ul style="list-style-type: none"> • Internal auditors • External auditors • Other actors of control, such as inspections
<ul style="list-style-type: none"> • Unavailability of accrual data • Unavailability and lack of quality of analytical data 	Public policy evaluation	<ul style="list-style-type: none"> • External auditors • Other actors of control, such as inspection bodies • Think tanks • Legislative committees in charge of evaluation

Box 7 - Definition of performance auditing in the public sector

The European Court of auditors, in line with the definition of the International Organization of Supreme Audit Institutions (INTOSAI), defines performance audits as follows:

“A performance audit is an independent, objective and reliable examination of whether undertakings, systems, operations, programmes, activities or organizations are operating in accordance with the principles of economy, efficiency and effectiveness, and whether there is room for improvement”. Systems, operations, programmes and/or activities are audited using three main principles:

- The principle of **economy** requires that the resources used are made available in due time, in appropriate quantity and quality and at the best price;
- The principle of **efficiency** is defined as an optimal ratio between the resources used and the results achieved;
- The principle of **effectiveness** implies an achievement of the intended results.

The INTOSAI issues guidelines focus on the strategic challenges, implementation processes and resources needed for performance audits.

Sources: INTOSAI; European Court of auditors, *Performance audit manual*, 2015

Public policy evaluations assess the effects of a given policy during or after its implementation. Ex-ante evaluations can also assess the potential impacts before precisely designing or implementing a policy. For example, the European Commission systematically performs impact assessments before the finalization of a new legislative proposal¹⁷³.

¹⁷³ https://ec.europa.eu/info/law/law-making-process/planning-and-proposing-law/impact-assessments_en

Box 8 - Definition of public policy evaluation

A public policy evaluation can be defined as a study of public policies whose objective is to enable citizens and policy makers to assess the concrete impact of these policies, and to determine whether their objectives or implementation mechanisms should evolve. For the record, there is still no generally accepted definition of public policy evaluation at the international level.

Evaluations imply the definition of a tailored framework, generally through specific questions meant to assess:

- Whether a public policy reached its objectives (principle of **effectiveness**). A public policy evaluation will strive to identify the end-beneficiaries of the policy, and a way to efficiently measure the impact of this policy on these beneficiaries;
- Whether a public policy could have achieved the same results with less resources (principle of **efficiency**);
- Whether the objectives of this policy are all consistent (**internal coherence**), and whether these objectives are consistent with those of other comparable policies (**external coherence**).

Sources : PwC's analysis, Hayez Philippe, « La Cour des comptes : du contrôle à l'évaluation », *Revue française d'administration publique*, 2015, N° 155, p. 707-711, Website of the European Commission¹, « Évaluation des politiques publiques », *Notes du conseil d'analyse économique*, 2013/1 (No 1), p. 1-12¹

When performing public policy evaluation or performance audits, the actors in charge face three common issues.

Issue n°1: Lack of comparable financial statements within the public sector

Assessing the effectiveness and efficiency of a given policy, operation, programme, activity or organisation, implies the capacity to have access to comparable data between the evaluated entity and other entities placed in comparable situations (for instance, entities within the same subsector of government, operating in a jurisdiction of a similar size, etc.)

In the absence of harmonised accounting standards applying to the public entities concerned, it is difficult to compare the different nature, perimeters of amounts spent on operations, programmes or activities.

Box 9 – Lack of comparability of financial statements and evaluation of the Dutch National Air Quality Cooperation programme

The Dutch National Air Quality Cooperation programme receives funding from both the central and local governments. Under certain conditions, the central government provides funding to the provinces which may then be passed on to municipalities. These three layers of government do not keep harmonised accounts of the money spent on the programme. This situation made it difficult for the Dutch Minister of the Environment to evaluate the overall amounts of money spent by the central government and the impact of these expenditures, as well as their effectiveness and efficiency.

Source: January 2018, Arno Vissner (President of the Netherlands Court of Audit), "Better accounts, better democracy" (<https://english.rekenkamer.nl/publications/publications/2018/01/03/better-accounts-better-democracy>)

Issue n°2: Different criteria used to recognize non-exchange transactions

The different criteria used to recognise non exchange-transaction makes the comparison of the effectiveness and efficiency of public expenditures challenging.

Issue n°3: Unavailability of accrual data

Monitoring the efficiency of public services requires a reliable analytical accounting system that cannot be correctly run without accrual data¹⁷⁴.

¹⁷⁴ See Section 2.4.2.2, Primary benefit 3

The unavailability of analytical data regarding the costs of public service is an impediment to performance audits and public policy evaluations because:

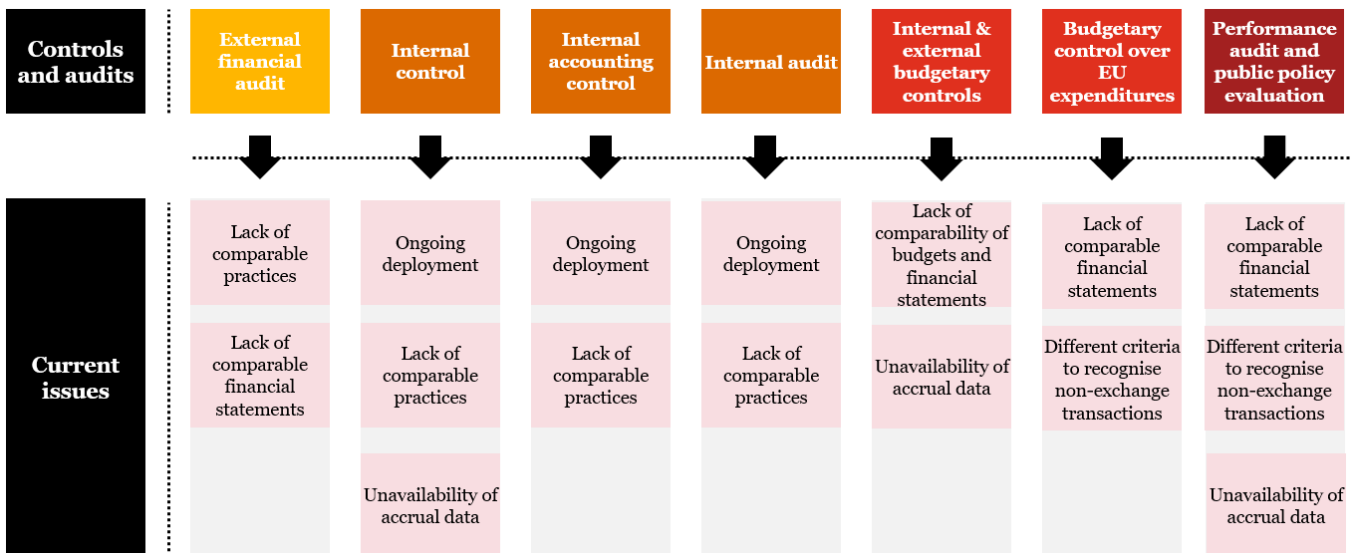
- *Institutions with cash-based accounts only have limited data available to measure the costs of public services.* Only a vision of the full costs of public services, including the consumption of various assets, and the appreciation of long term budgetary commitments can be fully relevant
- *Even in institutions preparing accrual-based financial statements, up to date data are not always easy to access,* especially regarding the costs of operations, programmes, policies or organisations, making it difficult to measure the total costs of public services.

Box 10 - Limited availability of comprehensive and comparable data to measure the costs of public services in France

In 2014, PwC conducted a study on the measurement of the costs of public services in France. The study highlighted that one of the main obstacles to measure the costs of public services efficiently is the lack of comprehensive and comparable data regarding the costs of public services. For instance, at the time of the study (June 2014), the “data.gouv.fr” website, which is defined as the “Open platform of public data”, made available 13,567 data sets for 302 organizations. Among these data sets, less than twenty provided data about expenditure and costs. This data was essentially focused on the distinction between operating and investment costs, without further details. In addition, the data sets concerned often gathered outdated information and rarely included cost indicators.

Source: PwC, 2014, « Résoudre la quadrature du cercle- Maîtrise pérenne des coûts de gestion des services publics, réduction de la complexité de l'action publique et efficacité de la dépense publique »

Figure 4 – Overview of the current financial and audit issues considered in section 4.2.



4.3. Contribution of EPSAS to mitigating current financial control and audit issues in the EU

This section shows that the implementation of EPSAS will permit to mitigate some issues related to the quality and availability of financial data (4.3.1.). However, the implementation of EPSAS will only be one of the conditions necessary to mitigate other issues related to financial controls and audits (4.3.2).

4.3.1. EPSAS as a way to mitigate issues related to the quality and availability of financial data

4.3.1.1. Provision of full accrued data in institutions currently applying either cash, cash modified or partial accrual systems

The preparation of financial statements on a full accrual basis in institutions currently reporting other variants (being cash or modified cash standards, a combination of cash and accrual or partial accrual systems) will enable to monitor the risks related to long-term budgetary commitments. In the case of internal control, accrual accounting will permit to monitor a wide range of additional risks.

Indeed, under EPSAS, the quality of accrual data provided for the monitoring of financial risks will be harmonised. For instance, the accounting data available to evaluate the risks related to pension benefits provided to government employees is not always sufficient in public entities:

- Only four out of the 22 central governments granting defined benefit pension liabilities to civil servants/government employees recognize defined benefit pension liabilities in the statement of financial position¹⁷⁵
- A common EPSAS standard for the disclosure of information regarding this item could allow to issue equally reliable data for monitoring the budgetary and financial risks related to pension benefits across public entities.

EPSAS can facilitate the monitoring of long-term liabilities. Box 11 gives the example of social benefits, which are one of the most significant liabilities.

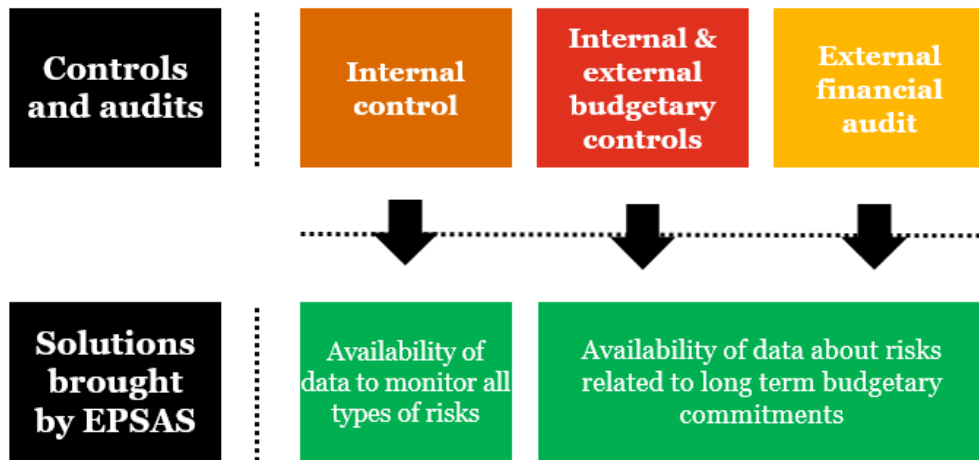
Box 11 - EPSAS as a way to generalise the recording of liabilities linked to social benefits

Social benefits represent a significant share of Member States' public expenditures¹, but are generally recorded on a cash basis, with a limited vision on the future liabilities. According to the 2014 survey, out of 28 EU central governments, 16 recognize expenses for social benefits in their financial statements when the cash payment is made. Two Member States recognize expenses when the budgetary commitment is made and nine recognized them when the right of individuals to receive the benefit is established.

Source: PwC, Study to inform the impact assessment of EPSAS implementation (2014), PwC's analysis

¹⁷⁵ PwC, Study to inform the impact assessment of EPSAS implementation (2014) | p. 96.

Figure 5 – Issues mitigated by the preparation of accrual accounts in institutions currently applying cash-based or modified cash-based accounting standards



4.3.1.2. Comparability of financial statements and financial items

Budgetary controls over EU expenditures and performance audits will gain by the introduction of EPSAS thanks to a better comparability of financial statements within and across EU Member States.

The EPSAS will close a gap in the current financial accounting frameworks, by setting a common set of reference standards for preparing public sector accounts, and against which internal and external audit will be able to audit the accounts, with a view of providing assurance of comparable quality between and within Member States.

Under EPSAS, the enhanced comparability will facilitate the monitoring of EU expenditures, currently recorded in many different ways.

One of the main principles on which the EPSAS conceptual framework (EPSAS CF) will rely is the comparability of financial statements. This principle could be defined according to the *Conceptual framework for General Purpose Financial Reporting by Public Sector Entities (IPSAS CF)*, published by the IPSASB.

As GPFs encompass financial statements including their notes, and the presentation of information that enhances, complements and supplements the financial statements of public sector entities¹⁷⁶, the capacity to analyse and compare financial statements should be improved.

The IPSAS CF defines two main criteria for comparability¹⁷⁷:

<i>Criteria of comparability</i>	<i>Definition</i>
<i>Comparison over different periods of time</i>	The information contained in the GPFs of a given entity can be compared with similar information about the same entity for some other period or some other point in time.
<i>Comparison with other entities for a given period</i>	The information contained in the GPFs of a given entity for a given period can be compared with the GPFs of other entities providing similar services (for example, public sector entities providing similar services in different jurisdictions) for the same reporting period.

Source: paragraph 3.24 of the IPSAS CF

In the case of the implementation of EPSAS, the principle of comparability will be achieved by the constant application in time of the EPSASs to entities of the public sector across all subsectors of government.

Moreover, the EPSAS framework is meant to foster more comparability of the financial statements of public sector institutions that is currently permitted under the IPSAS. As pointed out by the European Commission, the IPSAS do not describe precisely enough the accounting practices to be followed. Indeed, some of them offer the possibility of alternative accounting treatments, limiting harmonisation in practice¹⁷⁸.

Through harmonization, EPSAS will facilitate accounting treatments for the recognition and measurement of items currently under different treatments within and across EU Member States (as is the case for intangible assets).

¹⁷⁶ Paragraph 1.6 of the 2014 IPSAS CF

¹⁷⁷ Paragraph 3.24 of the 2014 IPSAS CF

¹⁷⁸ European Commission, Staff Working Document, Brussels, 6.3.2013 COM(2013) 114 final, Towards implementing harmonised public sector accounting standards in Member States, The suitability of IPSAS for the Member States, pages 7 and 8.

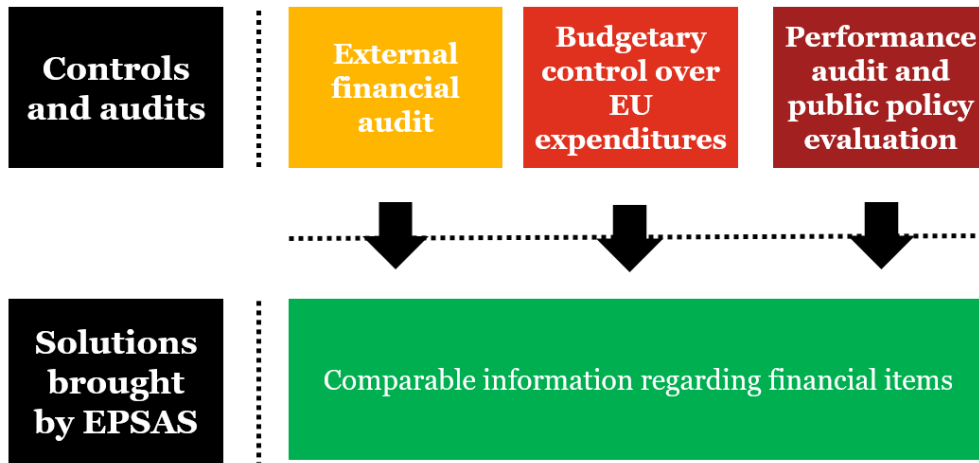
Box 12 – Example of a possible harmonisation for intangible assets under EPSAS

The introduction of EPSAS will be an occasion to discuss the definition of a harmonised accounting treatment for intangible assets related to rights arising from sovereign power, including emission rights and the rights arising from the electromagnetic spectrum.

Indeed, neither IPSAS nor IFRS currently provide explicit guidance for the accounting of these rights. Therefore, the accounting practices within and across Member States can vary. Among the three institutions studied by PwC in its Issue Paper¹, only France recognizes intangible assets related to the electromagnetic spectrum. The UK was the only country to register intangible assets linked to greenhouse gas emissions schemes.

Source: PwC, 2018, Accounting treatment of intangible assets with a view to financial reporting requirements under the future European Public Sector Accounting Standards (EPSAS), EPSAS WG 17/13rev, Luxembourg, 10 April 2018

Figure 6 – Solutions brought by EPSAS to the lack of comparability of financial statements and the absence of shared criteria to recognize non-exchange transactions



4.3.2. EPSAS as an enabler to mitigate other issues

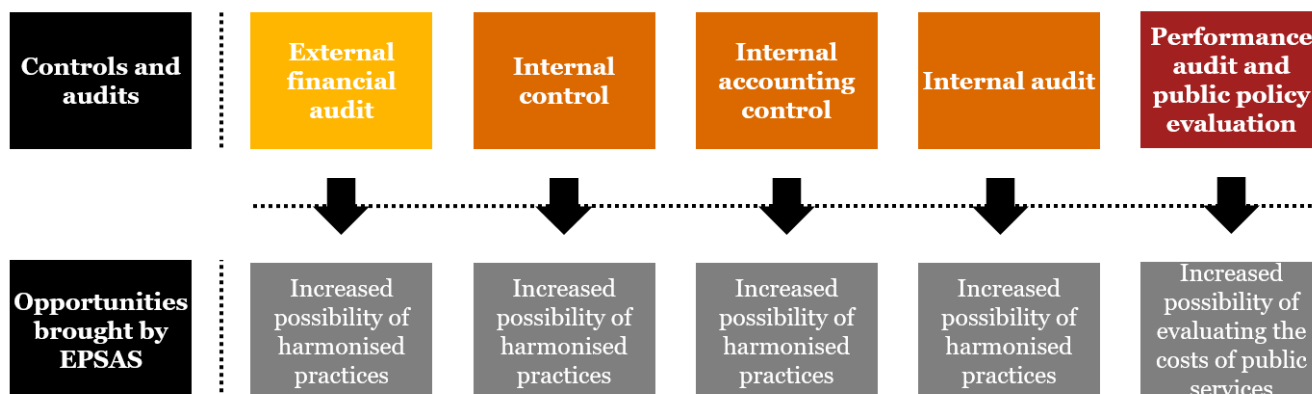
4.3.2.1. The implementation of EPSAS is an opportunity to support the deployment and harmonisation of financial audits and controls

Being a unique framework against which to verify financial statements, EPSAS act as a prerequisite for harmonising controls and financial audits, as well as the methodologies and tools.

- Following the implementation of EPSAS, high-quality, accrual-based and harmonised data will be available across a wide range of EU public sector entities. As a result, it can be expected that less time will be spent by auditors in collecting and comparing data, leaving more time for wider and deeper analysis.
- *Considering the International Standards of Supreme Audit Institutions (ISSAI), published by the International Organisation of Supreme Audit Institutions (INTOSAI), could be a way to apply a comparable audit method to verify the compliance of accounts with the EPSAS, all across the Member States*
- *Developing comparable control and audit practices could be addressed through:*
 - *Discussions at the level of the European Organisation of Supreme Audit Institutions (EUROSAI)¹⁷⁹. The EUROSAI is indeed one of the main forums in Europe concerned with the exchange of information between public sector auditors and with the harmonisation of public sector audit.*
 - *An increased mobility of public sector auditors within and across Member States. The enforcement of the same standards (EPSAS) will make it possible for an auditor of a public sector entity to audit the accounts of other entities within and across Member States, facilitating exchanges and dissemination of comparable good practices. These exchanges could be supported by EU-wide training programmes.*
- *Elaborating harmonised indicators to measure the costs of public services all over EU Member States would be made possible.*

¹⁷⁹ EUROSAI is the regional group of the International Organisation of Supreme Audit Institutions (INTOSAI) meant to “encourage the exchange of information and documentation” and to “advance the study of public sector audit and to work towards the harmonisation of terminology in the field of public audit” in Europe.

Figure 7 - Opportunities brought by EPSAS to address the issues related to the ongoing development and heterogeneity of practices of audits and controls



4.3.2.2. Positive benefits of EPSAS could suggest an opportunity of a future accrual-based budget framework

The implementation of EPSAS will be a solution to the lack of comparability of financial statements, but is not meant to mitigate issues related to the lack of comparability of budgets. Nevertheless, required information under EPSAS framework may include more budgetary information in the notes to the financial statements. As such, it could facilitate comparison of budgets over time.

The debate about a future set of European accrual based budgeting standards will thus remain open after the implementation of EPSAS. In a majority of EU public sector entities, budgets will keep being presented on a cash or modified cash basis, while EPSAS compliant financial statements will be prepared on an accrual basis.

Compared to positive benefits induced by harmonised set of accrual accounting, the benefits of developing accrual-based budgeting standards might get some renewed consideration in the future.

4.4. Conclusion

Section 4.2 of this report (**Current issues by audit and control functions**) detailed some current issues encountered by the different controllers and auditors in the public sector in the EU:

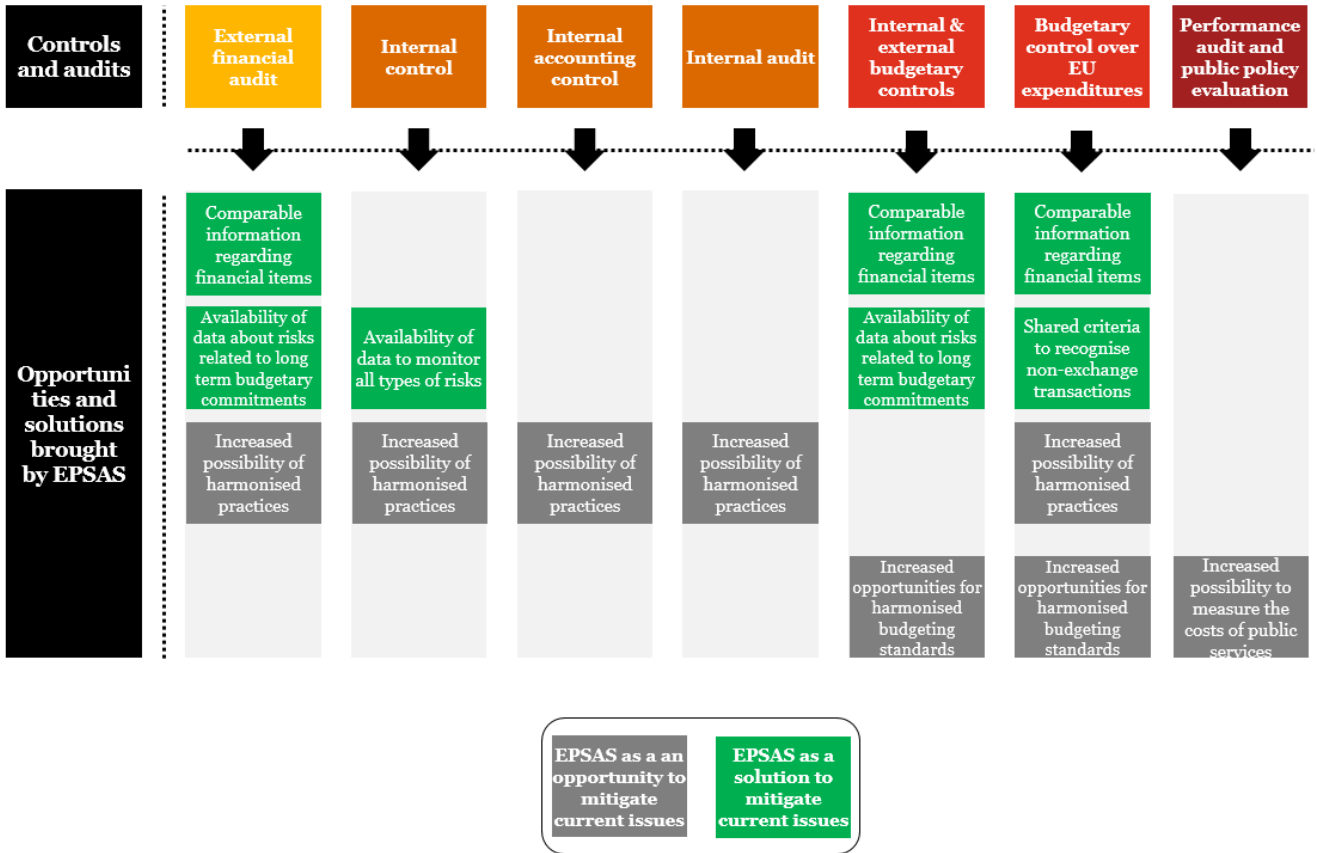
- Section 4.2.1: **external financial auditors** are constrained in their capacity in harmonising and comparing their practices, and lack a common reference to compare the quality of financial statements within and across Member States
- Section 4.2.2: **internal control and internal audit** still need to be deployed in some cases. In addition, internal controls need reliable accrual data
- Section 4.2.3: **internal and external budgetary controllers** are faced with an unavailability of reliable and accrual data. Moreover, it can be more difficult to monitor budgetary execution when financial statements and budgets are prepared on a different basis
- Section 4.2.4: **budgetary control over EU expenditures** is made difficult by the lack of comparability for both financial statements and budgets, and by the absence of common criteria to recognize non-exchange transactions throughout the EU
- Section 4.2.5: **performance auditing and public policy evaluation** face the same challenges as budgetary control over EU expenditures. Most of the time, the unavailability of accrual data, and the lack of available data about the costs of public services are also a challenge.

Section 4.3: EPSAS contribute to mitigate current financial and control audit issues in the EU:

- **Section 4.3.1: EPSAS as a way to mitigating issues related to quality and availability of financial data**, mainly for facilitating internal control, budgetary control at different levels, performance auditing and public policy evaluation
- **Section 4.3.2: EPSAS as an enabler to mitigate other issues**, such as the lack of comparability of methods of auditors and controllers, the ongoing deployment of internal control and internal audit, or the lack of analytical data for performance audit and public policy evaluation.

As illustrated in section 4.3, EPSAS are aimed at closing a gap in the current public sector financial accounting frameworks. The EPSAS will indeed be a common set of reference standards for preparing public sector accounts, and against which internal and external audit processes could be improved, with a view of providing better audit quality between and within EU Member States.

Figure 8 - Opportunities and solutions brought by EPSAS to mitigate current financial audit and control issues in the EU context



5. Annex – Questionnaire

In order to collect the necessary insights from actors either directly involved in or impacted by each reform, the following questionnaire was sent to key contacts belonging to a wide range of stakeholders’ entities in each Member State (cf. *Section 1.2.2. Sources*). Validated with the EPSAS’ taskforce, this questionnaire was divided into three themes:

- The content of theme 1 was a source for section 2 of this report;
- The content of theme 2 was a source for section 3 of this report;
- The content of theme 3 was a source for section 4 of this report.

The detailed content of the questionnaire is show in the table hereafter.

Content of the questionnaire

<p>Theme 1. Lessons learnt from accrual accounting reforms in EU member states</p>	<ul style="list-style-type: none"> • Implementation strategy • IT strategy • Governance • Successes and failures of the implementation strategy • Good ideas and difficulties • Good practices and conditions for success
<p>Theme 2. Tackling the skills and training issues</p>	<ul style="list-style-type: none"> • Actions taken to tackle the skills and training issues • Impact of the reform on careers and skills • Successes and failures of strategies to deal with skill and training issues • Good practices to tackle skills and training issues in the context of the implementation of accrual accounting
<p>Theme 3. How the EPSAS can support financial audit and control in the Member States in the EU context</p>	<ul style="list-style-type: none"> • Impact of the reform on financial audits and controls • Impact of audit and controls on the accounting reform

Theme 1: Lessons learned from accrual accounting reforms in EU member states

Implementation strategy (Questions 1.1 to 1.6)

Q1.1. To what extent was the reform of public accounting a part of a wider reform of public financial management?

[Tick this box if you think that this question is irrelevant or if you cannot answer:]

Q1.2. What were the key principles chosen to set a realistic and sustainable timeline for the implementation of the accounting reform?

[Tick this box if you think that this question is irrelevant or if you cannot answer:]

Q1.3. To what extent did the chosen approach take into account the expectations and constraints of the actors responsible for the implementation of the reform?

[Tick this box if you think that this question is irrelevant or if you cannot answer:]

Q1.4. Which were the main milestones? The key organizational elements for leading and implementing the reform (including IT aspects)?

[Tick this box if you think that this question is irrelevant or if you cannot answer:]

Q1.5. Which strategy was chosen to communicate about the reform internally and externally?

[Tick this box if you think that this question is irrelevant or if you cannot answer:]

Q1.6. Was there a political consensus / an administrative consensus around the timeline for the reform?

- **If a consensus was found, what were the key factors, and who were the key actors?**
- **If a consensus could not be reached, how can this be accounted for?**

[Tick this box if you think that this question is irrelevant or if you cannot answer:]

IT strategy (Questions 1.7 and 1.8)

Q1.7. Which importance was given to IT aspects in the implementation strategy? Which were the main difficulties in articulating IT issues and accounting issues?

[Tick this box if you think that this question is irrelevant or if you cannot answer:]

Q1.8. To what extent did the modernization of IT systems make the accounting reform easier?

[Tick this box if you think that this question is irrelevant or if you cannot answer:]

Governance (Question 1.9)

Q1.9. Did the governance for the implementation of the reform include the following elements?

[Select all items that apply]

- Administrative centralized supervision and links with operational departments and financial departments
- Involvement of inspection and audit bodies
- Active involvement of HR and training departments
- External qualified experts
- Other *[Define]*:

Inapplicable

[Comment on you answer if you want]

Approach to balance the costs and the benefits of the reform (Questions 1.10 to 1.12)

Q1.10. Have the costs of the reform been assessed? If so, were the costs estimated before or after the reform?

[Tick this box if you think that this question is irrelevant or if you cannot answer:]

Q1.11a. Which expected benefits did you try to achieve in priority?

[Select all items that apply. Place “1” after the benefit with the highest priority, “2” after the benefit with the second highest priority, and so on]

- Financial statements production:
- Certification without reservation:
- Implementation of risk management:
- Cost analysis methods:
- Asset management:
- Link with long term budget planning:

[Comment on you answer if you want]

Q1.11b. Which of the benefits selected in question 11a have been achieved? How would you qualify the extent of each benefit?

[Select all items that apply. Qualify the selected benefits by placing the adjective “substantial”, “moderate”, “negligible” or “unmeasurable” after each item selected]

- Financial statements production:
- Certification without reservation:
- Implementation of risk management:
- Cost analysis methods:
- Asset management:
- Link with long term budget planning:
- Reduction of administrative cost and burden: substantial
- Other [Define]:
- Inapplicable

[Comment on you answer if you want]

Q1.12. Which implementation costs did you try to control in priority?

[Select all items that apply. Place “1” after the cost with the highest level of priority, “2” after the cost with the second highest level of priority, and so on]

- Modernization of IT systems: licence costs, hardware, hiring consultants
- Training:
- Recruitment:
- Other(s) [Define]:
- Inapplicable

[Comment on you answer if you want]

Successes and failures of the implementation strategy (Questions 1.13 to 1.15)

Q1.13. Among the following elements, which progressed the most thanks to the accounting reform?

- Inventory, assessment and monitoring
- Decision-making process
- Management and budgeting
- Analysis and cost control
- Internal control and risk management
- Production of accounts (organization, workload, deadlines)
- Contributions to the financial services modernization
- Financial communication and accounts transparency
- Appropriation of financial information by key stakeholders (Parliaments...)
- Inapplicable

[Comment on you answer if you want]

Q1.14. In which areas did the reform have indirect beneficial outcomes?

- Development of risk management
- Modernization of financial services
- Relationships between budget planning departments and accounting departments
- Larger interest for accounting documents
- Other [*Define*]:
- Inapplicable

[Comment on you answer if you want]

Q1.15. What positive impacts are to be noticed for other financial productions? Could you qualify this positive impact?

[Select all items that apply. For each positive impact selected, choose one adjective]

- Budgetary accounting: Substantial Moderate Negligible/Inexistent
- ESA national accountancy: Substantial Moderate Negligible/Inexistent

- Cost analysis accountancy: Substantial Moderate Negligible/Inexistent
- Inapplicable

[Comment on you answer if you want]

Good ideas and difficulties (Questions 1.16 to 1.18)

Q1.16. Among the following practices, which enabled to facilitate the implementation and the appropriation of the accounting standards?

[Select all that apply]

- Progressive implementation schedule with intermediary milestones
- Upper level administrative and political sponsorship
- Very early involvement of concerned stakeholders
- Establishment of accounts by entity
- Appropriate recruitment and training plan
- Communication plan suited for relevant audiences
- Other [Define]:
- Inapplicable

[Comment on you answer if you want]

Q1.17. To what extent did the approach chosen to implement the accounting reform not have the expected outcomes? Why?

[Tick this box if you think that this question is irrelevant or if you cannot answer:]

Q1.18. According to you, what are the main reasons accounting for the difficulties to implement the reform?

[Select all items that apply. Place “1” after the most important reason selected, “2 after the second most important reason, and so on]

- Excessively short deadlines or ambitious timelines:
- Insufficient training:
- Additional and unexpected complexity:
- Limited interest of non-financial actors:
- Other *[Define and rank if selected]*:
- Inapplicable

[Comment on you answer if you want]

Good practices and conditions for success (Questions 1.19 to 1.22)

Q1.19. Retrospectively, which key subjects should have been given more attention, or would have deserved a more important effort?

- Organization of the work in departments
- Reduction of closure delays
- Communication
- Training
- Risk management
- Other(s) *[Define]* :
- Inapplicable

[Comment on you answer if you want]

Q1.20. From your experience, what would you avoid or do differently to limit or prevent the additional costs?

[Tick this box if you think that this question is irrelevant or if you cannot answer:]

Q1.21. What are your priorities in the next 3 years to improve the accounting reform's efficiency?

[Tick this box if you think that this question is irrelevant or if you cannot answer:]

Q1.22. According to you, what are the 3 or 4 necessary conditions to be fulfilled for the successful deployment of accrual-based accounting standards?

[Tick this box if you think that this question is irrelevant or if you cannot answer:]

Theme 2: Tackling the skills and training issues

Actions taken to tackle the skills and training issues (Questions 2.1 to 2.3)

Q2.1. For each of these themes, which were the most constraining variables during the reform? Can you estimate the level of these constraints?

[For each question, select all constraints that apply. Qualify the level of each constraint selected by writing one adjective after each constraint selected: “substantial”, “moderate” or “negligible”]

- Career attractiveness:
- Remuneration:
- Volume of staff to be trained: substantial
- IT systems complexity:
- Other *[Define the constraint(s)]* : willingness to reform of the organisation: substantial, education level of accounting personnel: moderate
- Inapplicable

Q2.2. Did you create shared public services centres? If so, are they functional or geographical centres? What are the main benefits of their creation? If no shared public services centres were created, why?

[Tick this box if you think that this question is irrelevant or if you cannot answer:]

Q2.3. Among the following elements, which were included in the implementation strategy and what was their level of priority?

[Select all the items that apply. For each selected item, place “1” after the item with the highest priority, “2” after the item with the second highest priority, and so on]

- Recruitment from the private sector: I was recruited from a Big Five, some consultants and financial analyst were recruited.
- Association of consultants and contractors to obtain specialized assistance and enable knowledge transfers: Consultants from Oracle
- Development of customized public sector courses in academic or other training institutions:
- Definition of new initial and/or ongoing training programs for managers and/or accountants:
- Training of selected agents to facilitate diffusion of new concepts to colleagues ("train the trainers" approach):
- Inapplicable

[Comment on you answer if you want]

Impact of the reform on careers and skills (Questions 2.4 and 2.5)

Q2.4. Which were the actors most impacted by the implementation of the reform?

[Tick this box if you think that this question is irrelevant or if you cannot answer:]

Q2.5. To what extent were public finance employees impacted by measures aimed at reducing the public payroll?

[Tick this box if you think that this question is irrelevant or if you cannot answer:]

Successes and failures of strategies to deal with skill and training issues (Questions 2.6 and 2.7)

Q2.6. For each of the listed actors below, what was in your opinion the level of commitment to the implementation of the reform?

- Accounting services: Good Moderate Limited
- Budget planning departments: Good Moderate Limited
- Control and audit bodies: Good Moderate Limited
- Parliament: Good Moderate Limited
- Inapplicable

[Comment on you answer if you want]

Q2.7. According to you, what is the level of appropriation of the accounting concepts by the actors you have selected in question 2.6?

- Accounting departments: Good Moderate Limited
- Budget planning departments: Good Moderate Limited
- Control and audit bodies: Good Moderate Limited
- Parliament: Good Moderate Limited
- Inapplicable

[Comment on you answer if you want]

Good practices to tackle skills and training issues in the context of the implementation of accrual accounting (Questions 2.8 and 2.9)

Q2.8. Please give 3 or 4 pieces of advice based on your experience, in order to efficiently tackle the training and skill issues in the context of accrual accounting reforms

[Tick this box if you think that this question is irrelevant or if you cannot answer:]

Q2.9. From your experience, can you give three or four priority actions to strengthen staff skills in order to facilitate the implementation of accrual accounting?

[Tick this box if you think that this question is irrelevant or if you cannot answer:]

Theme 3: How the EPSAS can support financial audit and control in the Member States in the EU context

Impact of the reform on financial audits and controls (Questions 3.1 to 3.4)

Q3.1. To what extent has the accounting reform facilitated the implementation of internal control and risk management systems, as well as budgetary and financial controls?

[Tick this box if you think that this question is irrelevant or if you cannot answer:]

Q3.2. To what extent has the accounting reform enabled to rationalize the organization of:

a-Audit and monitoring systems?

[Tick this box if you think that this question is irrelevant or if you cannot answer:]

b-Budgetary and financial controls?

[Tick this box if you think that this question is irrelevant or if you cannot answer:]

Q3.3. Has the reform strengthened the following aspects of audit programs?

- Use of cost control
- Use of commitment data to improve the reliability of budget programming
- Other *[Define]* :

[Comment on you answer if you want]

Q3.4. In your opinion, has the reform improved the efficiency of budgetary and financial controls exerted by the following actors?

- Finance and budget committees in Parliaments: YES NO
- EU Institutions: YES NO
- National and European Statistical offices: YES NO

[Comment on you answer if you want]

Impact of audit and controls on the accounting reform (Question 3.5)

Q3.5. To what extent is the strengthening of budgetary, financial and accounting controls an incentive to improve the quality of accrual data and financial reports?

[Tick this box if you think that this question is irrelevant or if you cannot answer:]