EUROPEAN COMMISSION
EUROSTAT

Directorate C: National accounts, prices and key indicators
Task Force EPSAS

EPSAS WG 17/14
Luxembourg, 31 October 2017

EPSAS Working Group
To be held in Luxembourg

on 21-22 November 2017, starting at 09:30

Item 8 of the Agenda

Measurement and monitoring of fiscal transparency

Report by PwC on behalf of Eurostat
- for discussion

October 2017

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

EPSAS Project

Sub-task 2.4: methodology for the measurement and monitoring of the main aspects of the transparency of public sector financial reporting in the Member States

Final Report

pwc

Contents

1. Executive summary

Following the sovereign debt crisis in the European Union (EU), the European Commission emphasised the need for more rigorous and more transparent reporting of fiscal data across Member States[1]. For this purpose, Article 3 of Council Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the Member States insists upon the necessity to have in place public accounting systems comprehensively and consistently covering all sub-sectors of ***general government*[2]** *and containing the information needed to generate accrual data with a view to preparing data based on the European System of Accounts (ESA).*

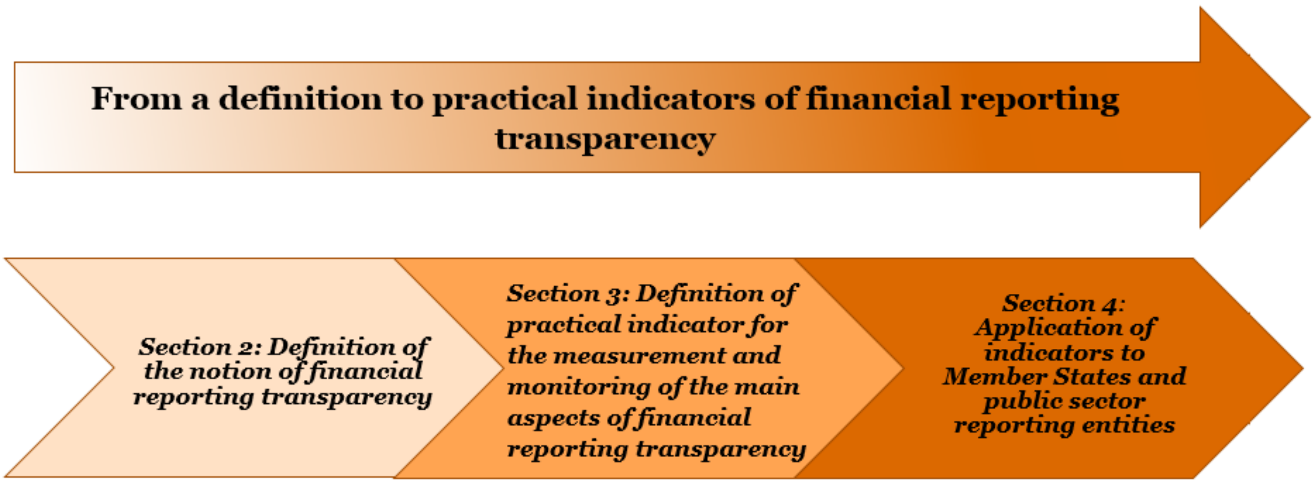
In this context, Eurostat is in charge of monitoring the quality of the fiscal indicators reported by Member States for general government under the ESA throughout the European Union (EU). It is also in charge of developing harmonised and accrual based accounting standards for EU public sector entities - the EPSAS (European Public Sector Accounting Standards) - in order to increase the comparability and comprehensiveness of public financial data reported across the EU.

In the context of the implementation of EPSAS, Eurostat commissioned PwC to design a methodology aimed at measuring the main aspects of financial reporting transparency. The aim is to assess the extent to which reporting public entities in each EU Member State report transparent data.

However, measuring financial transparency requires an operational definition of this notion. Although transparency is one of the most listed benefits sought by Member States through the implementation of accrual-based and/or harmonised standards, this concept is indeed not defined when accounting reforms are conducted (or not specifically addressed along the reform process). National financial accounting and reporting standards generally understand transparency as a necessary aspect of reporting, without providing illustrative definition or even actionable guidance.

As a consequence, the methodology for measuring and monitoring transparency presented in this report by PwC relies on the three following aspects:

- ***A definition of the notion of financial reporting transparency****, which will be as basis for identifying relevant aspects of financial reporting transparency which can be measured and monitored (****section 2 below****);*
- ***A definition of practical indicators*** *for the measurement of the main aspects of financial reporting transparency which have been previously identified as measurable* ***(section 3 below);***
- ***The application of the chosen indicators*** *to reporting entities or to the general government sector in a given Member State (****section 4 below****).*



[1] http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52013DC0114&from=EN
[2] See the ESA 2010 definition notion in Annex A

2. Definition of the notion of financial reporting transparency

2.1. Financial reporting transparency as an essential aspect of public transparency

Public transparency can be defined as a means to satisfy the classic democratic requirement of public accountability through adequate information regarding public processes, as emphasized by the Universal Declaration on Democracy adopted in Cairo in 1997[3]. Economic or sociological literature usually sees transparency as "*an increased flow of timely and reliable economic, social and political information, which is accessible to all relevant stakeholders*"[4].

In developed countries, public transparency –when it is defined- pursues two main goals: citizen information and accountability of public decision-makers (and administrations). For instance, a 1997 decision of the Supreme Court of Canada states that the basic right to information of citizens "*helps to ensure foremost, that citizens have the information they need to participate meaningfully in the democratic process, and, secondly, that politicians and democrats remain accountable to the entire population*".[5]

Public transparency is all the more important in the field of public finance that, according to a principle defined –among other sources- in the French Declaration of the Rights of Man and of the Citizen, "*Society has the right to call for an account of the administration of every public agent*" (Article 15). Democratic countries therefore tend to develop comprehensive mechanisms of control by citizens and their representatives on the management of money entrusted to executive branches of governments, such as the vote of discharge bills.

Transparency about the financial position, financial performance and cash flows of a public sector entities is specifically important in developed countries from a macroeconomic point of view, in so far as revenues from taxpayers alone represent more than a third of the GDP of OECD countries on average[6].

The capacity of international institutions such as the European Commission or the IMF to have access to transparent data regarding the state of public finances is indeed essential to financial stability. According to the International Monetary Fund (IMF), the achievement of "fiscal transparency" [7] is described as essential for effective fiscal policymaking and effective monitoring by both internal and external stakeholders. However, the main question is to assess whether the components defining transparency - according to the IPSAS Conceptual Framework (IPSAS CF)[8] - are relevant and applicable in this exercise. What are the possible indicators, with which limits or obstacles?

Moreover, contrary to private entities, the purpose of most public sector entities is not to make profit, but to provide a large array of public services for the general public. Therefore, as the International Public Sector Accounting Standards Board (IPSASB) underlines in its *Conceptual framework for general purpose financial reporting by public sector entities –i.e. IPSAS CF-*[9], public financial reporting should not solely focus on financial performance, financial position and cash flows of public entities, but should also include information regarding, for instance, whether the entity provided its service to constituents in an efficient manner, or to what extent the burden of future year taxpayers of paying for current services has changed.[10]

Therefore, the transparency of public financial reporting is an essential aspect of public transparency. It can be defined as a way to satisfy the information needs of various stakeholders in a democratic context. Section 2.2. of this report defines these stakeholders and their information needs.

[3] "Public life as a whole must be stamped by a sense of ethics and by transparency, and appropriate norms and procedures must be established to uphold them" – Universal Declaration on Democracy (Article 15), adopted by the Inter-Parliamentary Council at its 161st session (Cairo, 16 September 1997).
[4] "*Trans parenting transparency: initial empirics and policy applications*", Bellver A., Kaufmann D. (2005).
[5] Dagg c. Canada (Ministry of Finance) [1997] 2 R. C. S. 403, 433.
[6] In 2015, tax revenues represented 34.27% of GDP in OECD Member States on average, according to the OECD.
[7] Consultation on IMF's Revised Draft of the Fiscal Transparency Code (2013).
[8] « *The conceptual framework for General Purpose Financial Reporting by Public Sector Entities* », IPSASB by IFAC (October 2014).
[9] « *The conceptual framework for General Purpose Financial Reporting by Public Sector Entities* », IPSASB by IFAC (October 2014).
[10] Paragraph 2 of the 2014 IPSAS CF.

2.2. Financial reporting transparency as a means to satisfy the needs of the users of General Purpose Financial Reports (GPFRs)

2.2.1. Satisfaction of the needs of information for accountability and decision-making purposes

PwC's view is that financial reporting transparency must be defined as a state in which public financial reporting provides an information that is useful for the different types of users of financial reports, such as citizens and public institutions in charge of monitoring the evolution of the financial position, financial performance and cash flows of public sector entities.

Financial reports will be defined in this report according to the IPSASB definition, as General Purpose Financial Reports **(GPFRs)**[11] meant to satisfy the needs of their various users. GPFRS, which can be made of several reports, encompass financial statements[12] including their notes, and the presentation of information that enhances, complements and supplements the financial statements of public sector entities.[13]

For the definition of the needs of the users of these GPFRs, the IPSAS CF will be taken as a reference.[14] These needs are also defined taking into account the objectives and users of GPFRs under EPSAS, such as they are being defined by the Cell on Principles underlying EPSAS governance of the EPSAS Working Group[15].

According to these definitions, the needs of users of GPFRs are the provision of financial and non-financial information necessary for **two purposes:**

- **Accountability**: information reported in GPFRs about the costs, efficiency and effectiveness of past service delivery activities, the amount and sources of cost recovery, and the resources available to support future activities can be necessary for the discharge of accountability ;
- **Decision-making**: the information reported in GPFRs can be useful to permit donors and other financial supporters to make decisions about whether or not to provide resources to an entity.

According to the IPSAS CF, different stakeholders can be considered as users of GPFRs for accountability and decision-making purposes. These different users can be divided into main categories of users, which are the main users of GPFRs and the other users of GPRS.

2.2.2. Satisfaction of the needs of the main users of GPFRs

The IPSAS CF and EPSAS definition presented above rely on the idea that governments and other public sector entities receive resources from taxpayers, donors, lenders and other resources providers to provide services to citizens and other service recipients. Consequently, public sector entities are accountable for the management of the resources they were entrusted with by **resource providers.**

They are also responsible towards persons who depend on the management of these resources to deliver public services (**service recipients**). Resource providers and service recipients are thus seen in our definition of financial reporting transparency as main users of GPFRs.

Because **citizens** receive services from, and provide resources to, the government and other public sector entities, they are also regarded as main users of GPFRs. **Representatives of citizens** are also considered as

[11] See definition in Annex A.
[12] The publication of general purpose financial statements, which may include, according to IPSAS 1, up to six documents including a statement of financial position –or balance sheet-, and a statement of financial performance or income statement, can be defined as the minimum requirements to meet the users of GPFR's requirements (Paragraph 1.2 of the 2014 IPSAS CF). The usefulness of the information contained in general purpose financial statements is also defined by IPSAS 1 as the capacity for financial statements to "provide information about the financial position, financial performance, and cash flows of an entity that is useful to a wide range of users in making and evaluating decisions about the allocation of resources[12]. They therefore directly contribute to the achievement of the goal of providing information suitable for the purposes of accountability and decision making.
[13] Paragraph 1.6 of the 2014 IPSAS CF.
[14] This conceptual framework aims at providing guidance in dealing with financial reporting issues not dealt with by Recommended Practice Guidelines (RPGs) and International Public sector accounting standards (IPSAS) defined by the IPSAS board for public sector entities applying IPSAS (Paragraph 1.8 of the 2014 IPSAS CF).
[15] Cf. Page 3 of the Final Report of the Cell on Principles underlying EPSAS governance.

the main users of GPFRs, since they make extensive and ongoing use of GPFRs when acting in their capacity as representatives of the interests of service recipients and resource providers.

2.2.3. Satisfaction of the needs of other users of GPFRs

The IPSAS CF considers a wide range of other potential users of GPFRs (including special interest groups or those transacting with public sector entities). Some of the users may have the authority to require the preparation of GPFRs tailored for their needs. However, these users may also use information contained in GPFRs for accountability and decision-making purposes.

Figure 1: Information needs of all users of GPFRs (sections 2.14 to 2.30 of the IPSAS CF)

Information provided by GPFRs

- **Financial position** of the entity in order to identify the resources of this entity and the claim to those resources at a reporting date ;
- **Financial Performance** of the entity during the reporting period, regarding the meeting of its service delivery objectives or the management of the resources it is responsible for ;
- **Liquidity** (for instance, ability to meet current obligations) **and solvency** (for instance, ability to meet obligations over the long term), capacity to face the current level of debt or repay donors ;
- **Budget information and compliance with legislation or other authority governing the raising and use of resources** to assess if an entity reached its objectives ;
- **Achievement of service delivery objectives**, such as quantitative information about the outputs of outcomes of service delivery activities ;
- **Prospective financial and non-financial information**, such as the consequences of past decisions regarding the capacity of an entity to deliver services in the future or the potential needs of additional resources in the future to deliver services.

Use of this information by different users for accountability and decision-making processes

- **Lenders, Creditors, Donors**: voluntary decisions about providing resources to support the current and future activities of the government or other public sector entities ;
- **Legislative bodies and other similar bodies**: decisions about the service delivery objectives of government public policies, agencies or programs and the resources allocated to them ;
- **Advocacy groups, bond rating agencies, credit analysts, public interest groups:** advice given to service recipients or resources providers ;
- **Regulatory and oversight bodies, statisticians, committees of the legislature or other government bodies:** regulatory or political decisions, monitoring of the entity's compliance with existing legal, budgetary and financial requirements.
- **Citizens.**

2.3. Financial reporting transparency as a combination of qualitative aspects

2.3.1. Qualitative aspects[16] underlined by the IMF and the IPSAS CF approaches

According to the IPSAS CF, in order to satisfy the GPFRs users' needs of information for the purpose of accountability and decision-making, the information included in these reports must respond to different qualitative characteristics, which are attributes "that make that information useful to users and support the achievement of the objectives of financial reporting"[17]. These qualitative characteristics are relevance, faithful representation, understandability, timeliness, comparability and verifiability.[18]

Moreover, according to IMF's fiscal transparency code, transparent financial reporting, which is defined as the first pillar of the notion of "fiscal transparency" implies comprehensiveness, clarity, verifiability, timeliness and relevance of public reporting on the past, present and future state of public finances,[19] in order to permit effective fiscal policymaking and effective monitoring by both internal and external stakeholders, and provide a basis for assessing the fiscal policies of government.

Although these two approaches partly overlap[20] (for instance, the notion of timeliness is both a good practice identified in the IMF code and a qualitative characteristic of financial reporting according to the IPSAS CF), they remain complementary. Indeed, although the IPSAS CF approach is a more relevant basis for defining appropriate characteristics of financial reporting transparency at the reporting entities' level, the IMF's approach relies on the monitoring of the public sector as a whole, which is an interesting approach for the assessment of the financial reporting transparency within an EU Member State as a whole.

Moreover, the IMF insists upon the comprehensiveness of financial reporting, which encompasses aspects such as the comprehensiveness of the coverage of fiscal stocks in balance sheets (point 1.1.2 of IMF's code of fiscal transparency) and the coverage of fiscal flows by income statements and cash flow statements (point 1.1.3 of IMF's code of fiscal transparency). Such a perspective is interesting, in so far as a set of accrual-based accounting standards like the EPSAS is expected to enable a comprehensive coverage of the events affecting these elements in public accounts.

2.3.2. PwC's view regarding accessibility of financial data

Beyond the perspective of the IMF and the IPSAS board, PwC believes that financial reporting transparency, defined as a means to promote accountability and informed decision making, cannot be reached without proper efforts made on the part of account producers, independent auditors and other relevant stakeholders to make the financial and non-financial information contained in GPFRs easily accessible and usable.

A 2014 survey conducted by the *Institute of Chartered Accountant of England and Wales* (ICAEW) and PwC[21] shows that less than 1 in 5 European citizens feel that their government provides them with sufficient information about the state of public finances. This low level of satisfaction means a high demand for action on the part of governments to facilitate greater awareness on this subject. About 2 over 3 Europeans want their governments to provide them with more comprehensible and transparent information about the situation of public finances and the way taxpayers' money is used.

Indeed, even though sources of information are generally numerous in Member States, they still lack a relevant and regular use by citizens and their representatives or other stakeholders, because they remain under the form of primary data or are not easily accessible (or readable, or even relevant enough from their perspective).

Therefore, the extent to which financial and non-financial information of GPFRs is both made accessible to their users by account producers, and is used for accountability and decision making purposes, is also a qualitative aspect of financial reporting transparency.

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[16] The notion of qualitative aspects was chosen here to define the concept of financial reporting transparency. It is broader than the notion of "qualitative characteristics" presented in Chapter 3 of the IPSAS CF, in order to include to our definition of financial reporting transparency elements inspired both by the IMF approach and PwC perspective (cf. this section and section 2.4 below).
[17] Paragraph 3.1 of the 2014 IPSAS CF.
[18] These characteristics are described in Chapter 3 of the IPSAS CF.
[19] Consultation on IMF's Revised Draft of the Fiscal Transparency Code (2013).
[20] Whenever a quality was defined both by the IMF and the IPSAS CF approach, the latter was preferred due to its greater relevance for the measurement of transparency in the context of the EPSAS framework, which takes the IPSAS as a reference.
[21] Survey focusing on trust in public finances in 10 European countries.

2.4. From a theoretical definition to practical indicators

2.4.1. A theoretical definition of financial reporting transparency

Definition of the notion of financial rep orting transparency

The transparency of public financial reporting is an important aspect of public transparency, achieved by the provision, in General Purpose Financial Reports (GPFRs) such as defined by the IPSAS CF, of financial and non-financial data and information whose qualitative aspects permit to satisfy their users' needs. The qualitative aspects of the information contained in transparent financial reports are defined in Figure 2 below.

Figure 2: Qualitative aspects of financial reporting transparency[22]

Comprehensiveness (coverage)	• GPFRs are comprehensive when they provide a comprehensive overview of the financial activities of the public sector and its subsectors, as well as a comprehensive coverage of events affecting the stocks and flows of value they own.
Comparability	• Information contained in GPFRs is comparable when it can be compared with the information contained in the entity's financial reports of previous periods and with the information contained in the GPFRs of other entities nationally or abroad.
Consistency	• Consistency refers to the use of the same accounting principles or policies and basis of preparation, either from period to period within an entity or in a single period across more than one entity. Consistency helps achieving comparability.
Faithful representation	• Faithful representation is attained when the depiction of the phenomenon is complete, neutral, and free from material error.
Verifiability	• Verifiability is the quality of information in GPFRs that faithfully represents the economic and other phenomena that they purport to represent.
Timeliness	• Information in GPFRs is timely when GPFRs are published in a timely manner, so that the information they contain remains useful for decision-making and accountability purposes at the time they are published.
Frequency	• Frequency implies that in-year financial reports are published on a frequent and regular basis.
Understandability	• Understandability is the quality of information that enables users to comprehend its meaning. Financial information included in GPFRs should be « written in plain language, and presented in a manner that is readily understandable by users ».
Relevance	• Financial and non-financial information in GPFRs is relevant when it has confirmatory or predictive value. Information has predictive or confirmatory value if it confirms or changes past expectations about the management of an entity.
Accessibility	• Information contained in financial reports is accessible when it is easily accessible and usable by relevant stakeholders – for instance, when it is easily accessible on the internet and/or summarized and explained in external accessible documents.

Sources

Qualitative aspect inspired by the IPSAS CF	Qualitative aspect inspired by the IMF's code	Qualitative aspect inspired by PwC's perspective

[22] IMF's fiscal transparency code is seen as a source (cf. section 2.3.1), but the various dimensions of fiscal transparency it defines were adapted for the purpose of the methodology presented in this report. For instance, the IMF takes into account "fiscal reports" which include both outturn/execution reports, fiscal statistics, and annual financial statements. However, in the table presented above, the sole notion of "GPFRs", taken as a synonym of "financial reports" and including financial statements, is mentioned.

2.4.2. Definition of practical indicators to measure and monitor the main aspects of financial reporting transparency

The definition of financial reporting transparency presented above provides a useful framework reference for developing indicators to measure financial reporting transparency on the basis of information provided to the general public. Nonetheless, the aspects of financial reporting transparency defined are not meant to be measured directly, but only to be a more or less direct basis for the definition of practical indicators.

2.4.2.1. Identification of measurable qualitative aspects for the construction of indicators

Among the qualitative aspects of financial reporting transparency, some are not a suitable basis for the construction of indicators. PwC selected measurable aspects of transparency which are the most appropriate for the definition of indicators by using three criteria:

- **Absence of excessive complexity***:* the chosen aspect should not be too complex to measure by using indicators;
- **Absence of excessive subjectivity***:* the aspect of financial reporting transparency can be assessed in a not too judgmental manner, thanks to a solid methodology or an objective element of comparison.
- **Absence of redundancy with another measurable aspect of financial reporting transparency**: if a measurable aspect A significantly overlaps with another measurable aspect B, and if it is easier to measure aspect B than aspect A, aspect B shall be preferred to aspect A.

On this basis, PwC selected seven measurable qualitative aspects of financial reporting transparency (comprehensiveness, comparability, verifiability, frequency, timeliness, understandability and accessibility) as a basis for the definition of 16 indicators focused on Reporting entities (E) and Member States (MS). These indicators are detailed in section 3 of this report, as shown in Figure 3 below.

Figure 3 - Overview of indicators built from measurable qualitative aspects

	Indicators for reporting entities	Indicators for Member States
Comprehensiveness (Section 3.1)	E1: Index of compliance with paragraph 21 of IPSAS 1	MS1: Rate of expenses reported on an accrual basis of accounting in the general government sector MS2: Level of consolidation of accounts in the general government sector
Comparability (Section 3.2)	E2: Legal scope of application of accounting standards E3: Compliance of financial statements with IPSAS 1 concerning comparative GPFSs	MS3: Legal scope of application of the most widespread set of accounting standards in the general government sector MS4: Compliance of GPFSs with IPSAS 1 concerning comparative GPFSs in the general government sector
Verifiability (Section 3.3)	E4: Type of financial audit carried out on financial statements	MS5: Type of financial audits carried out on financial statements in the general government sector
Frequency (Section 3.4)	E5: Frequency of publication of financial statements within a year	MS6: Frequency of publication of financial statements within a year in the general government sector
Timeliness (Section 3.4)	E6: Timeliness of the publication of financial statements	MS7: Timeliness of the publication of financial statements in the general government sector
Understandability (Section 3.5)	E7: Availability of explanatory information about financial statements	N/A
Accessibility (Section 3.5)	E8: Online accessibility of GPFRs and other complementary information	MS8: Online accessibility of consolidated GPFRs and other complementary information about the general government sector

2.4.2.2. Institutional scope and focus of indicators

Each indicator applies to one institutional scope: the scope of "reporting entities" or the scope of "Member States" (level of the general government sector). These two scopes are included in the definitions of the ESA 2010 framework, such as shown in table 1 below.

Table 1- Institutional scope of indicators

Types of indicators	*Institutional scope*
Reporting entity (E) indicators[23]	Any reporting entity defined by national legislation and included in the general government sector (as defined by ESA 20.05 onwards), except the general government sector as a whole defined as a single reporting entity by national legislation.
Member State (MS) indicators	The general government sector as a whole (as defined by ESA 20.05 onwards).

In order to measure and monitor financial reporting transparency, **indicators can be focused on:**

- ***Legal requirements***: these requirements are those applicable to reporting entities or the general government in a Member State. Indicators focused on legal requirements measure how demanding these requirements are in terms of transparency ;
- ***Practices in terms of financial reporting***: these practices include the actual practices, for entities or Member States. Indicators focused on practices in terms of financial reporting are meant to measure how transparent the actual practices of the institutional scope considered are.

In order to facilitate future data collection for the construction of indicators, Member State (MS) indicators will focus as little as possible on practices of institutions included in the general government sector. Focusing on such a scope indeed requires a significant amount of data collection. On the contrary, reporting entity (E) indicators will focus on one element or the other, whenever relevant (see Table 2 below).

Table 2 – Focus on legal requirements or practices

Scope of indicators	*Focused on applicable legal requirements*	*Focused on practices in terms of financial reporting*
Reporting entity (E) indicators	Whenever relevant	Whenever relevant
Member State (MS) indicators	In priority	As little as possible

[23] See definition in Annex A.

2.4.2.3. Generic content of indicators

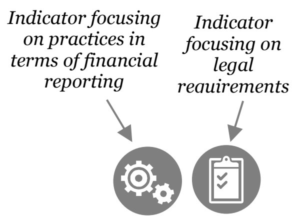
Overview

All 16 indicators will be detailed in the following section 3. They are gathered by measurable aspects of financial reporting transparency (sections 3.x), and by institutional scope covered (sections 3.x.x), such as shown in Figure 3 above.

Each indicator has a relevance for the measurement of a specific aspect of financial reporting transparency and a specific focus (legal requirements/practices). For each indicator, sources, a construction method and limits (if relevant) are defined. When necessary, common notions used in indicators are defined in Annex A – Definition of the notions used in indicators.

Each indicator can be given different values ranking from Low (0) to Advanced (3). An intermediate value (1 or 1.5) and/or a high (2) value are also defined, depending on the indicators. The generic content of each indicator is defined in Figure 4 below.

Figure 4 – Generic content of indicators detailed in section 3



Indicator E(X)/MS(x): Name of the indicator

Relevance for the measurement of a measurable aspect of financial reporting transparency
Explanation on why this indicator is relevant to measure a given measurable qualitative aspect of financial reporting transparency. *N.B: To reflect the dimension of financial reporting transparency that each indicator is meant to measure, each table has the same colour as this dimension of financial reporting transparency such as it appears in Figure 2 (section 2.4.1., page 9).*

Sources	***Construction***	***Limits***
List of the sources necessary to build the indicator.	Description of what the value of indicator E(x) or MS(x) reflects. Explanation of the content of the “Values” table (definition of some notions if applicable).	Explanation of the possible limits of the indicator (if applicable).

Values[24]	***Description***
0 (Low)	Description of the situation in which a value of 0 (if applicable) is given to the indicator.
1/1.5 (Intermediate)	Description of the situation in which a value of 1 or 1.5 is given to the indicator.
2 (High)	Description of the situation in which a value of 2 (if applicable) is given to the indicator.
3 (Advanced)	Description of the situation in which a value of 3 is given to the indicator.

[24] Some indicators in section 3 have an intermediate value while others do not. For indicators using an intermediate value, this value can be defined as 1 –if a “high” value is defined- or 1.5 –if no “high” value is defined.

3. Indicators for the measurement and monitoring of the main aspects of financial reporting transparency

3.1. Indicators of comprehensiveness

Presentation

Comprehensiveness is measured by taking into account the comprehensive reporting of the events affecting the financial position, financial performance and cash flows of reporting entities, by measuring -with indicator E1- the compliance of their financial statements with paragraph 21 of IPSAS 1. This dimension is measured at the level of the general government in Member States by indicator MS1. Indicator MS2 measures the comprehensiveness of the coverage of the institutions of general government by consolidated financial statements.

3.1.1. Reporting entities

Indicator E1: Index of compliance with paragraph 21 of IPSAS 1

Relevance for the measurement of comprehensiveness		
The publication of the first six mandatory financial statements defined by paragraph 21 of IPSAS 1 permit to have a comprehensive view of the stocks and flows of value of an entity.		
Sources	***Construction***	***Limits***
Last financial statements published by the reporting entity.	The value of indicator E1 is given to reflect the level of compliance with paragraph 21 of IPSAS 1, by using the “Description” table below. The table focuses on the first 6 financial statements defined by paragraph 21 of IPSAS 1 as a set of financial statements: Statement of Financial Position[25]; Statement of Financial Performance[26]; Statement of Changes in Equity[27]; Cash flow statement[28]; Comparison between budget and actual amounts[29]; Explanatory notes[30].	N/A.

Values	***Description***
0 (Low)	The reporting entity publishes **none** of the financial statements.
1 (Intermediate)	The reporting entity publishes **one or two** financial statements.
2 (High)	The reporting entity publishes **three or four** financial statements.
3 (Advanced)	The reporting entity publishes **five or six** financial statements.

[25] Provides information about a public sector entity’s assets, liabilities and equity at the end of the reporting period.
[26] Shows an entity’s revenues and expenses during the reporting period.
[27] Presents surplus or deficit for the reporting period, as well as expenses or revenues directly recognised in equity, the effects of changes in accounting policies and all amounts attributable to owners or to minority interest.
[28] Shows the entity’s ability to generate cash inflows and outflows, and how cash and cash equivalents have been used during the period.
[29] Informs users of GPFSs about the initially approved budget, the subsequently adjusted budget, and the amounts of actual execution.
[30] Provides additional detailed description of the main items presented in the other financial statements.

3.1.2. Member States

Indicator MS1: Rate of expenses reported on an accrual basis of accounting in the general government sector

Relevance for the measurement of comprehensiveness
In some Member States such as France[31], legal requirements can make accrual accounting mandatory for all subsectors of government. In some federal countries such as Germany, state governments may be able to choose whether to apply accruals accounting or not[32]. The rate of general government sector expenses reported in accrual based financial statements in a given Member State is a way to assess the extent to which economic events impacting the stocks and values of all general government sector entities are comprehensively reported in their GPFRs.

Sources	*Construction*	*Limits*
1. Questionnaires to public sector accounting standards setters: about the existing legal accounting requirements in the general government sector (a) and the number of reporting entities they apply to by subsectors of government and/or type of reporting entity (b). 2. Data sets and/or aggregates published by Eurostat or national statistical offices: about the total reported expenses in the general government sector[33] (a); about the total reported expenses by subsectors of government or types of reporting entities (b).	The value of indicator MS1 is given to reflect the rate of the total expenses reported on an accrual basis in the general government sector, by using the "Description" table below. The rate mentioned in the table below is constructed as (A/B)*100, where: • A is the estimate of expenses in the general government sector which are legally required to be published in financial statements using an accrual basis of accounting; • B is the total reported expenses in the general government sector in a given Member State.	N/A.

Values	*Description*
0 (Low)	According to the legal requirements in place in the general government sector, **no more than a third (≤33%)** of the total reported expenses of the general government have to be reported in financial statements using an accrual basis of accounting.
1.5 (Intermediate)	According to the legal requirements in place in the general government sector, **more than a third (>33%) and up to two thirds (≤66%)** of the total reported expenses in the general government have to be reported in financial statements using an accrual basis of accounting.
3 (Advanced)	According to the legal requirements in place in the general government sector, **more than two thirds (>66%)** of the total reported expenses in the general government have to be reported in financial statements using an accrual basis of accounting.

[31] In France, although different charts of accounts apply to the three different levels of local government (municipalities, departments and regions), the November 7 2012 decree for public budgetary and accounting management makes reporting on an accrual basis mandatory.
[32] Step by step, municipalities have been allowed by the Lander to choose to prepare their accounts on an accrual basis. In 2010, the Budgetary Principles Act was modernised so that all government entities could adopt accrual accounting on a voluntary basis.
[33] See definition in Annex A.

Indicator MS2: Level of consolidation of accounts in the general government sector

Relevance for the measurement of comprehensiveness		
The level of consolidation of GPFRs is a good indicator of the comprehensiveness of GPFRs published in a given Member State for the general government sector as a whole.		
Sources	***Construction***	***Limits***
Last consolidated financial statements published.	The value of indicator MS2 is given to reflect the level of consolidation of accounts defined by legislation for the general government sector, by using the "Description" table below.	N/A.

Values	***Description***
0 (Low)	**No consolidated statement of financial position and no consolidated statement of financial performance are published for any of the subsectors** of government defined by ESA 2010. Some consolidated statements could be published at the entity level (for instance, for the budgetary central government).
1.5 (Intermediate)	At least a consolidated statement of financial position **and** a consolidated statement of financial performance are published for **one of the four subsectors** of government defined by ESA 2010 (central government, state government, local government or social security funds).
3 (High)	At least a consolidated statement of financial position **and** a consolidated statement of financial performance are published for at least **two of the four subsectors** of government defined by ESA 2010 (central government, state government, local government and social security funds).

Good practices: Publication of "whole of government accounts" in the United Kingdom

The United Kingdom Treasury publishes "Whole of government accounts" every year since 2013[34]. These reports encompass the consolidated central government with its related entities -including the National Health Service-, local governments and public corporations. The accounting policy applied, which adapts IAS 27, requires HM Treasury to consolidate entities that appear to HM Treasury to "exercise functions of a public nature" or to be "substantially funded from public money".

Some minor entities listed in the reports –such as some local councils- or entities that are not responsible to an executive arm of government –such as the National Audit Office- are excluded from the scope of these consolidated accounts. Nonetheless, the whole of government accounts include the data of over 6000 audited accounts of public sector entities in the UK.

[34] https://www.gov.uk/government/collections/whole-of-government-accounts

3.2. Indicators of comparability

Presentation

The comparability of the GPFRs of reporting entities is measured by taking into account the comparability of the information presented in financial statements with that of other financial statements nationally or abroad, taking into account the legal scope of application of their accounting standards (Indicator E2). For Member States, this same dimension of comparability is measured by identifying the largest legal scope of application of a common set of accounting standards in the general government sector (Indicator MS3). The comparability of the content of the financial statements in time is measured by Indicator E3 for reporting entities, and by Indicator MS4 for the general government sector in Member States.

3.2.1. Reporting entities

Indicator E2: Legal scope of application of accounting standards

Relevance for the measurement of comparability		
The comparability of the data presented in the financial statements of a reporting entity depends on the legal scope of application –nationally and abroad- of the accounting standards these financial statements are legally required to comply with. Indeed, the comparability of financial statements, -according to the notion of comparability defined by the IPSAS CF- relies on the possibility to compare the accounts of a reporting entity with the accounts of other reporting entities.		
Sources	***Construction***	***Limits***
Questionnaires sent to public sector accounting standards setters: about the set(s) of accounting standards which legally apply to the reporting entity (a) and about the legal scope of application of this or these set(s) of standards in the general government sector or in other national jurisdictions (b).	The value of indicator E2 is given to reflect the legal scope of application of the accounting standards applying to the GPFSs[35] of a reporting entity, by using the "Description" table below. If a reporting entity is in a situation where two values could be given to indicator E2, indicator E2 takes the highest possible value.	Even the compliance with a set of accounting standards applying to a large number of reporting entities, such as the IPSAS, cannot ensure a complete comparability of the data presented, because of the possible national or sectorial adaptations of such standards.

Values	*Description*
0 (Low)	The reporting entity's financial statements are legally required to comply with accounting standards applicable **within the same subsector of government[36] of the reporting entity** within a Member State.
1.5 (Intermediate)	The reporting entity's financial statements are legally required to comply with accounting standards applicable across **several subsectors of government** within the Member State of the reporting entity.
3 (Advanced)	The reporting entity's financial statements are legally required to comply with accounting standards applicable **in one or several other national jurisdiction(s)**.

[35] See definition in Annex A.

[36] The value of 1 is given, for instance, when the reporting entity is a municipality, and its financial statements are legally required to comply with a set of accounting standards applicable only to municipalities, but not to other local governments. The value of 1 is also given if the financial statements of all the local governments are legally required to comply with a common set of accounting standards.

Indicator E3: Compliance of financial statements with IPSAS 1 concerning comparative GPFSs

Relevance for the measurement of comparability		
The comparability of information contained in GPFRs –and in the GPFSs they include- depends on the comparability of these documents in time. Paragraph 53A of IPSAS 1 provides an easy and relevant way of measuring if a reporting entity provides comparable information in time in its published financial statements.		
Sources	***Construction***	***Limits***
Last financial statements published by the reporting entity.	The value of indicator E3 is given to reflect the level of compliance of the financial statements mentioned by paragraph 53A of IPSAS 1 with this paragraph, by using the "Description" table below.	This indicator only takes into account the minimum requirements to make figures contained in financial statements comparable in time.[37]

Values	*Description*
0 (Low)	The reporting entity is not legally required to publish financial statements including comparative information for the preceding period.
1 (Intermediate)	The reporting entity is legally required to publish **one** of the financial statements listed in paragraph 53A of IPSAS 1 among the following: statement of financial position / statement of financial performance / cash flow statement / statement of changes in net assets/equity - **including comparative information** in respect of the previous budgetary period.
2 (High)	The reporting entity is legally required to publish **two** of the financial statements listed in paragraph 53A of IPSAS 1 among the following: statement of financial position / statement of financial performance / cash flow statement / statement of changes in net assets/equity - including comparative information in respect of the previous budgetary period.
3 (Advanced)	The reporting entity is legally required to publish **at least three** of the financial statements listed in paragraph 53A of IPSAS 1 among the following: statement of financial position / statement of financial performance / cash flow statement / statement of changes in net assets/equity - including comparative information in respect of the previous budgetary period.

[37] Indeed, other requirements that can make information comparable in time, such as those defined in paragraphs 55 and 56 of IPSAS 1, are more difficult to measure in a practical way.

3.2.2. Member States

Indicator MS3: Legal scope of application of the most widespread set of accounting standards in the general government sector

Relevance for the measurement of comparability		
The comparability of financial statements, -according to the notion of comparability defined by the IPSAS CF- relies on the possibility to compare the accounts of a reporting entity with the accounts of other reporting entities. The extent to which the set of accounting standards which is the most widespread in the general government sector applies to a large number of entities –nationally and abroad- is therefore a good indicator of the comparability of accounts of public reporting entities in Member States.		
Sources	***Construction***	***Limits***
1. Questionnaires sent to public sector accounting standards setters: about all the sets of accounting standards applicable in the general government sector (a) and about the legal scope of application of these sets of standards by subsector of government and type of reporting entity (b). 2. Data sets or aggregates published by Eurostat or national statistical offices: about the total reported expenses in the general government sector (a); about the total reported expenses by subsector of government and type of reporting entity (b).	The value of indicator MS3 is given to reflect the legal scope of application of the most widespread set of accounting standards in the general government sector. This value is given by using the "Description" table below. If a Member State is in a situation where two values could be given to indicator MS3, indicator MS3 takes the highest possible value.	1. Even the compliance with a set of accounting standards applying to a large number of reporting entities, such as the IPSAS, cannot ensure a complete comparability of the data presented, because of the possible national or sectorial adaptations of such standards. 2. This indicator does not take into account the level of compliance of the accounts of reporting entities with the standards (in order to facilitate data collection).

Values	***Description***
0 (Low)	There is no common set of accounting standards applicable to more than half (>50%) of the total reported expenses in the general government sector.
1 (Intermediate)	**More than half (>50%)** of the total reported expenses in the general government sector are reported in financial statements which are legally required to comply with a set of financial accounting standards applicable **inside of one subsector of government in a Member State**[38]**.**
2 (High)	More than half (>50%) of the total reported expenses in the general government sector are reported in financial statements which are legally required to comply with a set of financial accounting standards applicable **across several subsectors of government in a Member State.**
3 (Advanced)	More than half of the total reported expenses in the general government sector are reported in financial statements which are legally required to comply with a set of financial accounting standards applicable **in one or several other national jurisdiction(s).**

[38] It is often relevant to compare the accounts of similar types of public sector entities existing within a same subsector of government –for instance, the three different types of local governments in France (municipalities, departments and regions).

Indicator MS4: Compliance of financial statements with IPSAS 1 concerning comparative financial statements in the general government sector

Relevance for the measurement of comparability		
Indicator MS4 is a transposition of indicator E3 at the level of the general government sector.		
Sources	***Construction***	***Limits***
1. Questionnaires sent to public sector accounting standard setters: about the existing legal accounting requirements in the general government sector which comply with paragraph 53A of IPSAS 1 (a) and the number of reporting entities these requirements apply to by subsector of government and type of reporting entity (b). 2. Data sets and/or aggregates published by Eurostat or national statistical offices about: the total reported expenses in the general government sector (a); about the total reported expenses by subsector of government or type of reporting entity (b).	The value of indicator MS4 is given to reflect the level of compliance of the financial statements of the general government sector in a Member State with paragraph 53A of IPSAS 1, by using the "Description" table below. The rate mentioned in the table below is constructed as (A/B)*100, where: • A is the amount of expenses in the general government sector which are legally required to be published in financial statements complying with paragraph 53A of IPSAS 1; • B is the total reported expenses in the general government sector in a given Member State.	This indicator only takes into account the minimum requirements to make figures contained in financial statements comparable in time.[39]

Values	***Description***
0 **(Low)**	**No more than a third (≤33%)** of the total reported expenses in the general government sector are reported in financial statements which are legally required to be compliant with paragraph 53A of IPSAS 1.
1.5 **(Intermediate)**	**More than a third (>33%) and up to two thirds (≤66%)** of the total reported expenses in the general government sector are reported in financial statements which are legally required to be compliant with paragraph 53A of IPSAS 1.
3 **(Advanced)**	**More than two thirds (>66%)** of the total reported expenses in the general government sector are reported in financial statements which are legally required to be compliant with paragraph 53A of IPSAS 1.

[39] Indeed, other requirements that can make information comparable in time, such as those defined in paragraphs 55 and 56 of IPSAS 1, are more difficult to measure in a practical way.

3.3 Indicators of verifiability

Presentation

Despite the fact that the content of financial statements may be comprehensive and comparable, the content of these statements can provide a view of the financial situation, financial performance and cash flows which is not free from material error. This is why the verifiability of the information contained in financial statements must be ensured by mandatory independent audits. To measure the level of verifiability of financial statements, indicators presented in this section thus bear on the type of audit exerted on financial statements, at the level of reporting entities (Indicator E4) and at the level of the general government sector in Member States (Indicator MS5).

3.3.1. Reporting entities

Indicator E4: Type of financial audit carried out on financial statements

Relevance for the measurement of verifiability		
The independence of audit helps ensure users of GPFRs that their content faithfully represent the economic and other phenomena that they purport to represent. Indeed, as pointed out by a 2017 OECD study of four countries which have had accrual standards in place for more than ten years[40], citizens and their representatives often point out that financial statements and disclosure notes independently audited in compliance with international standards of audit are of great importance for this purpose.		
Sources	***Construction***	***Limits***
1. Questionnaires sent to public sector auditing standards setters about the applicable standards. 2. Last published financial statements.	The value taken by indicator E4 is given to reflect the level of independence and compliance with international standards of the financial audit carried out on the financial statements of a reporting entity. This value is also higher when audits provide an opinion. The value of indicator E4 is given by using the "Description" table below.	N/A.

Values	***Description***
0 (Low)	The financial statements of the reporting entity are not subject to a mandatory independent audit.
1 (Intermediate)	The financial statements of the reporting entity are subject to a legally required mandatory independent audit. **This audit does not comply with international audit standards -** but may comply with national, regional, local or sectorial audit standards. **The audit carried out does not provide an audit opinion** (but may provide audit recommendations).
2 (High)	The financial statements of the reporting entity are subject to a legally required mandatory independent audit. This audit does not comply with international audit standards - but may comply with national, regional, local or sectorial audit standards. **The audit carried out provides an audit opinion**.
3 (Advanced)	The financial statements of the reporting entity are subject to a legally required mandatory independent audit. **This audit complies with international audit standards.**

[40] *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.

3.3.2. Member States

Indicator MS5: Type of financial audits carried out on financial statements in the general government sector

Relevance for the measurement of verifiability
Indicator MS5 is a transposition of indicator E4 at the level of the general government sector.

Sources	*Construction*	*Limits*
1. Questionnaires sent to public sector auditing standards setters about the audit standards applicable in the general government by subsector of government (a) and type of reporting entity (b). 2. Data sets or aggregates published by Eurostat or national statistical offices: about the total reported expenses in the general government sector (a); about the total reported expenses by subsector of government or type of reporting entity (b).	The value of indicator MS5 is given to reflect the level of independence and compliance with international standards of the financial audits carried out on the total reported expenses in the general government sector, by using the "Description" table below. This table takes into account three criteria: • Are more than half of the total expenses of the general government sector reported in GPFSs which are legally required to be submitted to mandatory independent audits? • If so, do these mandatory independent audits comply with international audit standards or not? • Do these mandatory independent audits give an audit opinion on the accounts of the reporting entities?	N/A

Values	*Description*
0 (Low)	**No more than half (≤50%)** of the total reported expenses in the general government sector are reported in financial statements which are legally submitted to a mandatory independent audit.
1 (Intermediate)	**More than half (>50%)** of the total reported expenses in the general government sector are reported in financial statements which have to be submitted to mandatory independent audits according to the applicable legal requirements. **These audits do not comply with international audit standards**, but may comply with national, regional, local or sectorial audit standards. **These audits do not provide an audit opinion.**
2 (High)	More than half (>50%) of the reported expenses in the general government sector are reported in financial statements which have to be submitted to mandatory independent audits according to the applicable legal requirements. These audits do not comply with international audit standards, but may comply with national, regional, local or sectorial audit standards. **These audits provide an audit opinion.**
3 (Advanced)	More than half (>50%) of the reported expenses in the general government sector are reported in financial statements which have to be submitted to mandatory independent audits according to the applicable legal requirements. **These audits comply with international audit standards.**

3.4. Indicators of timeliness and frequency

Presentation

According to IPSAS 1, an entity should be in a position to issue its financial statements within six months of the reporting date (paragraph 69). Moreover, according to point 1.2 of the IMF's fiscal transparency code, "fiscal reports –including financial statements- should be published in a frequent, regular, and timely manner".

Indicators E5 and E6 measure the frequency and timeliness of reporting for reporting entities, while Indicators MS6 and MS7 measure the frequency and timeliness of reporting at the level of the general government sector in Member States.

3.4.1. Reporting entities

Indicator E5: Frequency of publication of financial statements within a year

Relevance for the measurement of frequency		
This indicator enables to measure the extent to which a given reporting entity is legally required to provide up-to date financial information. One can indeed note that various practices are in place. Most EU central governments issue a year-end report, but fewer issue quarterly reports about items such as the evolution of revenue or borrowing, like the German federal government. Among OECD countries, the Australian central government is one of the few institutions which publish monthly reports on an accrual basis.		
Sources	***Construction***	***Limits***
Questionnaires sent to public sector accounting standards setters about the standards applicable to the reporting entity.	The value of indicator E5 is given to reflect the legal requirements regarding the frequency of publication of financial statements within a year, by using the table below. If an entity is in a situation where two values could be given to indicator E5, indicator E5 takes the highest possible value.	This indicator does not reflect whether the general government sector entities actually manage to publish financial statements as frequently as legislation requires.

Values	***Description***
0 (Low)	The reporting entity is not legally required to publish financial statements at all.
1 (Intermediate)	The reporting entity is legally required to publish accrual based financial statements **annually.**
2 (High)	The reporting entity is legally required to publish accrual based financial statements on a **semi-annual** and/or **quarterly basis**.
3 (Advanced)	The reporting entity is legally required to publish accrual based financial statements on a **monthly basis.**

Indicator E6: Timeliness of the publication of financial statements

Relevance for the measurement of timeliness
As shown in a 2017 OECD study (*The future of financial reporting: Better addressing users' needs*), members of parliaments or other similar representative bodies often note that accrual based financial statements cannot inform the next year's budget session because they are often published too late to still be useful for this purpose. Therefore, the earlier GPFRs are published, the more likely they are to be timely, and remain relevant for parliaments and other similar representative bodies in general for accountability and decision-making.

Sources	*Construction*	*Limits*
Questionnaires sent to public sector accounting standards setters about the standards applicable to the reporting entity.	The value of indicator E6 is given to reflect the timeliness of the publication of financial statements after the end of the year they refer to, by using the "Description" table below. This table takes into account two elements: • Paragraph 69 of IPSAS 1 states that an entity should be in position to issue its financial statements within six months of the reporting date. This period of time is thus regarded as a reference for measuring the timeliness of the publication of financial statements; • Reporting entities publish audited and unaudited financial statements. Therefore, the value of E6 is higher when both reports are legally required to be published within six months after the end of the year they refer to.	This indicator does not reflect whether the general government entity actually manages to publish financial statements in the period of time required by legislation.

Values	*Description*
0 (Low)	According to the legal requirements applicable, **neither** annual unaudited GPFSs **nor** audited annual GPFSs have to be published within six months of the end of the year they refer to.
1.5 (Intermediate)	According to the legal requirements applicable, annual unaudited GPFSs have to be published within six months of the end of the year they refer to, **but** annual audited financial statements do not have to be published within the same period of time.
3 (Advanced)	According to the legal requirements applicable, **both** annual unaudited and annual audited GPFSs have to be published within six months of the end of the year they refer to.

3.4.2. Member States

Indicator MS6: Frequency of publication of financial statements within a year in the general government sector

Relevance for the measurement of frequency
Indicator MS6 is a transposition of indicator E5 at the level of the general government sector in a Member State.

Sources	*Construction*	*Limits*
1. Questionnaires sent to public sector accounting standard setters about the standards applicable to each subsector of government and to each type of reporting entity. 2. Data sets or aggregates published by Eurostat or national statistical offices: about the total reported expenses in the general government sector (a); about the total reported expenses by subsector of government or type of reporting entity (b).	The value of indicator MS6 is given to reflect the frequency of reporting for a majority of the expenses in the general government sector required by legislation, by using the “Description” table below. If a Member State is in a situation where two values could be given to indicator MS6, indicator MS6 takes the highest possible value.	This indicator does not reflect whether the general government sector entities actually manage to publish financial statements as frequently as legislation requires, in order to facilitate data collection.

Values	*Description*
0 **(Low)**	**No more than half (≤50%) of the total reported expenses** in the general government sector are reported in accrual-based financial statements at least once a year or more often.
1 **(Intermediate)**	**More than half (>50%) of the total reported expenses** in the general government sector are reported by reporting entities which are legally required to publish accrual-based financial statements **annually.**
2 **(High)**	More than half (>50%) of the total reported expenses in the general government sector are reported by reporting entities which are legally required to publish accrual-based financial statements **on a semi-annual or quarterly basis.**
3 **(Advanced)**	More than half (>50%) of the total reported expenses in the general government sector are reported by reporting entities which are legally required to publish accrual-based financial statements on **a monthly basis.**

Indicator MS7: Timeliness of the publication of financial statements in the general government sector

Relevance for the measurement of timeliness		
Indicator MS7 is a transposition of indicator E6 at the level of the general government sector in a Member State.		
Sources	***Construction***	***Limits***
1. Questionnaires sent to public sector accounting standards setters about the standards applicable to each subsector of government and to each type of reporting entity. 2. Data sets or aggregates published by Eurostat or national statistical offices: about the total reported expenses in the general government sector (a); about the total reported expenses by subsector of government or type of reporting entity (b).	The value of indicator MS7 is given to reflect the timeliness of the publication of the financial statements of the reporting entities representing at least a majority of total reported expenses in the general government sector in a Member State, by using the table below. This table takes into account two elements: • Paragraph 69 of IPSAS 1 states that an entity should be in position to issue its financial statements within six months of the reporting date. This period of time is thus regarded as a reference for measuring the timeliness of publication of financial statements; • Reporting entities publish audited and unaudited financial statements. Therefore, the value of MS7 is higher when both reports are legally required to be published within six months after the end of the year they refer to. If a Member State is in a situation where two values could be given to indicator MS7, indicator MS7 takes the highest possible value.	This indicator does not reflect whether the general government sector entities actually manage to publish financial statements in the period of time required by legislation, in order to facilitate data collection.

Values	***Description***
0 (Low)	**No more than half (≤50%)** of the total reported expenses in the general government sector are reported by entities which are legally required to publish **either** unaudited annual GPFSs **or** audited annual GPFSs within a period of six months after the end of the year they refer to.
1.5 (Intermediate)	**More than half (>50%)** of the total reported expenses in the general government sector are reported by entities which are legally required to publish annual unaudited GPFSs within six months of the end of the year they refer to, **but** are not legally required to publish annual audited financial statements within the same period of time.
3 (Advanced)	More than half (>50%) of the total reported expenses in the general government sector[41] are reported by entities which are legally required to publish **both** annual audited and unaudited GPFSs within a period of six months after the end of the year they refer to.

[41] See definition in Annex A.

3.5. Indicators of understandability and accessibility

Presentation

Financial reporting transparency, defined as a means to promote accountability and informed decision making, cannot be reached without proper efforts made on the part of account producers to make the information contained in GPFRs understandable and accessible. Indicators E7 measures the understandability of GPFRs, while indicators E8 and MS8 measure accessibility.[42]

3.5.1. Reporting entities

Indicator E7: Availability of explanatory information about financial statements

Relevance for the measurement of understandability
The difficulty to understand financial statements is one of the reasons which can explain the insufficient use of accrual data and fulfilment of users' needs. Because financial statements are technical by nature and cannot be oversimplified to match users' needs, the availability in GPFRs of explanatory information about financial statements, which is written in plain language and presented in a manner which is readily understandable, is a good way to assess the understandability of the financial statements included in GPFRs.[43]

Sources	*Construction*	*Limits*
1. Last GPFRs published by the individual government. 2. Websites on which these GPFRs are published.	The value of indicators E7 is given to reflect the extent to which explanatory information[44] regarding the financial statements of a reporting entity is available, by using the "Description" table below.	This indicator does not enable to assess the quality of the explanatory documents (clarity and quality of information provided, illustrations, clarity of the vocabulary used…).

Values	*Description*
0 (Low)	Additional information tailored to the needs of non-expert public(s) about the key messages to be drawn from the statements of financial position, financial performance, cash-flows, the comparison to the budgeted amounts or the explanatory notes to the statements **is not provided at all.**
1.5 (Intermediate)	Additional information tailored to the needs of non-expert public(s) about the key messages to be drawn from the statements of financial position, financial performance, cash-flows, the comparison to the budgeted amounts or the explanatory notes to the statements **is provided by the reporting entity <u>or</u> an official source or several official sources external to the reporting entity**.
3 (Advanced)	Additional information tailored to the needs of non-expert public(s) about the key conclusions to be drawn from the statements of financial position, financial performance, cash-flows, the comparison to the budgeted amounts or the explanatory notes to the statements **is provided by <u>both</u> the reporting entity and an official source or official sources external to the reporting entity**.

[42] An indicator of understandability was only defined for reporting entities, in so far as it would be too difficult to gather the necessary data to build such an indicator at the level of the general government sector as a whole.
[43] The French accounting department of the MoF publishes a 4 pages document which supplements the year end audited financial statements and explains them, while the US federal Treasury publishes a yearly "Citizens guide financial report of the US government".
[44] This explanatory information should be "written in plain language and presented in a manner which is readily understandable" to make GPFRs understandable according to the IPSAS CF.

Indicator E8: Online accessibility of GPFRs and other complementary information

Relevance for the measurement of accessibility
The extent to which the information defined by the IPSAS CF as contained in GPFRs, or other complementary information, is readily made accessible online is a good indication of the efforts made by account producers and other relevant actors (such as public auditors) to make the data contained in GPFRs used for its purpose.

Sources	***Construction***	***Limits***
Websites on which information defined by the IPSAS CF as being included in GPFRs is published.	The value of indicator E8 is given to reflect the level of accessibility of GPFRs and complementary information online, by using the "Description" table below. In the table, the following notions are defined as such: • "Accessibility" is defined as the characteristic of information which is easily accessible and usable by users of GPFRs. • "Complementary information" is defined as information which enables users of GPFRs to understand them and put them into perspective.	1. This indicator does not take into account the extent to which the efforts made by account producers and other actors responsible for the publication of GPFRs and other complementary information are successful. 2. This indicator only takes into account a few elements which could enhance accessibility.

Values	***Description***
0 (Low)	Financial statements and some other information included in GPFRs according to the IPSAS CF **are not** published online.
1 (Intermediate)	Financial statements and some other information included in GPFRs according to the IPSAS CF **are published on one or several website(s)**.
2 (High)	All the necessary information to give a value of 1 to indicator E8 is published on one or several website(s)**. In addition, the following complementary information is also accessible online and can be easily downloaded:** • Explanatory information about financial statements such as defined by indicator E7 **and/or** information about the political, administrative or legal context enabling users to understand the content of GPFRs more easily; • **And/or** useful additional information to understand and put into perspective the information contained in GPFRs. This information can include budgetary documents and/or fiscal forecasts and/or fiscal outturns.
3 (Advanced)	All the necessary information to give a value of 2 to indicator E8 is published on one or several website(s)**. In addition, the information published is made more accessible by one or several of the following elements:** • Publication of all the information on a unique website specifically dedicated to public financial reporting; • Availability on one or several of the websites of a data visualisation tool; • Tools enabling to create easily exportable reports and or/tailored reports.

3.5.2. Member States

Indicator MS8: Online accessibility of consolidated GPFRs and other complementary information about the general government sector

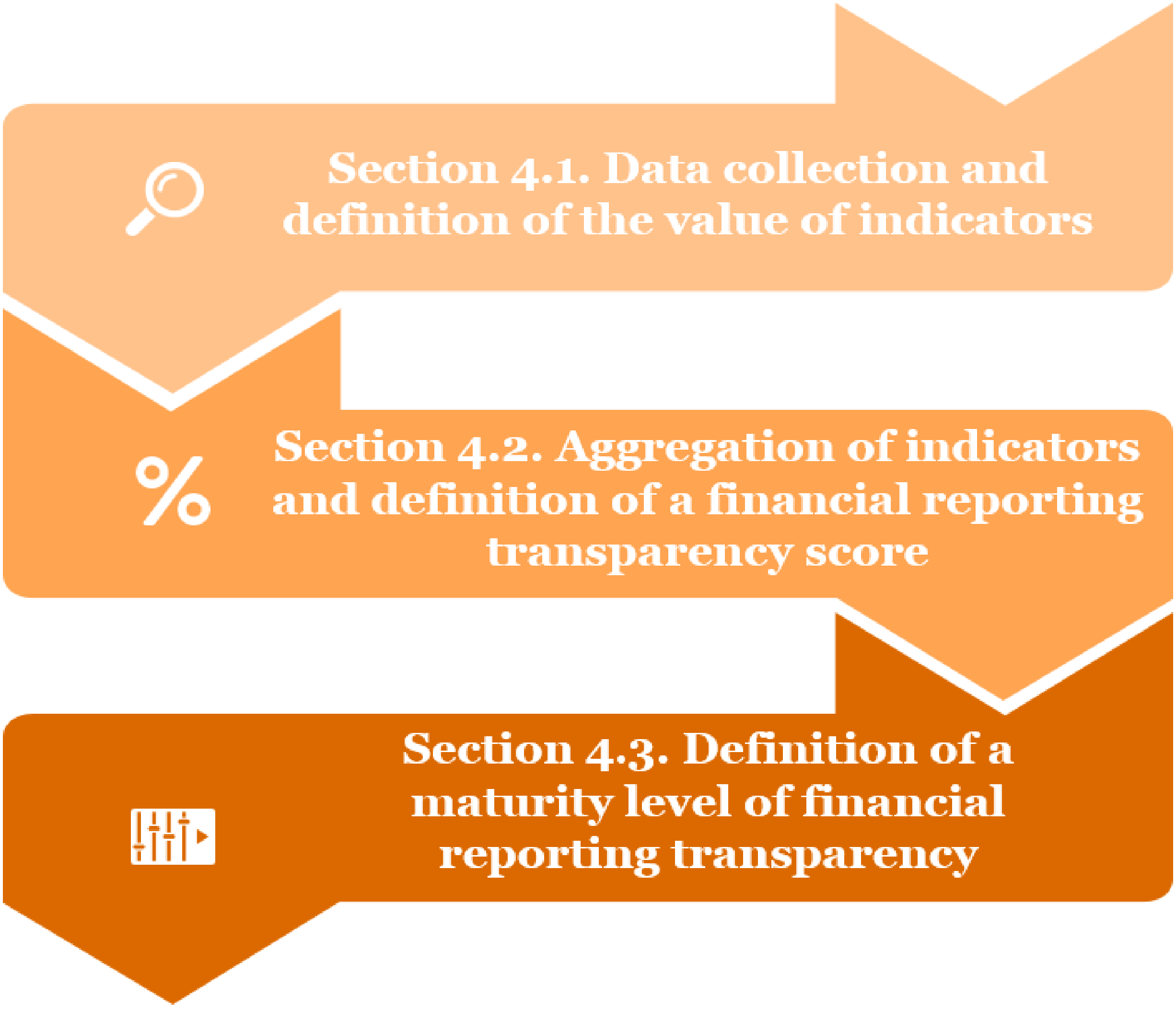
Relevance for the measurement of accessibility		
Indicator MS8 is a transposition of indicator E8 at the level of the general government sector in a Member State.		
Sources	***Construction***	***Limits***
Websites on which information defined by the IPSAS CF as being included in GPFRs is published for several of the subsectors of government defined by ESA 2010.	The value of indicator MS8 is given to reflect the level of accessibility of GPFRs and complementary information online for the general government sector, by using the "Description" table below. In the table, the following notions are defined as such: • "Accessibility" is defined as the characteristic of information which makes it easily accessible and usable by users of GPFRs. • "Complementary information" is defined as information which enables users of financial statements to understand them and put them into perspective.	1. This indicator does not take into account the extent to which the efforts made by account producers and other actors responsible for the publication of GPFRs and other complementary information are successful. 2. This indicator only takes into account a few elements which could enhance accessibility.

Values	***Description***
0 (Low)	Financial statements and some other information included in GPFRs according to the IPSAS CF **are not published** at all on one or several website(s) which provide information about several of the subsectors of government defined by ESA 2010.
1 (Intermediate)	Financial statements and some other information included in GPFRs according to the IPSAS CF **are published** on one or several website(s) which provide information about several of the subsectors of government defined by ESA 2010.
2 (High)	All the necessary information to give a value of 1 to indicator MS8 is published on one or several website(s) which provide information about several of the subsectors of government defined by ESA 2010. **In addition, the following complementary information is also accessible on this or these website(s)**: • Explanatory information about financial statements such as defined by indicator E7 and/or information about the political, administrative or legal context enabling users to understand the content of GPFRs more easily; • **And/or** useful additional information to understand and put into perspective the information contained in GPFRs. This information can include budgetary documents and/or fiscal forecasts and/or fiscal outturns.
3 (Advanced)	All the necessary information to give a value of 2 to indicator MS8 is published on one or several website(s) which provide information about several of the subsectors of government defined by ESA 2010. **In addition, the information published is made more accessible by one or several of the following elements:** • Publication of all the information on a unique website specifically dedicated to public financial reporting; • Availability on one or several of the websites of a data visualisation tool; • Tools enabling to create easily exportable reports and or/tailored financial reports.

4. Application of indicators

Overview

This section presents the way the different indicators defined in section 3 can be applied and used for the measurement and monitoring of financial reporting transparency at the level of reporting entities and Member States. The assessment process begins with data collection operations in order to define the values of the indicators necessary for the assessment of a reporting entity or a Member State (section 4.1). Once the values of these indicators are defined, all the values of applicable indicators are aggregated to define a financial reporting transparency score (section 4.2.). This financial reporting transparency score corresponds to a maturity level for financial reporting transparency (section 4.3).



4.1. Data collection and definition of the value of indicators

Presentation

The value of each indicator has to be defined by collecting the necessary data using the sources below. This value is given by referring to the “Construction” and “Description” boxes of each indicator in section 3.

Sources (Horizontal)/ Indicators (Vertical)	Last published financial statements or GPFRs and websites publishing GPFRs	Questionnaires sent to public sector accounting standards setters	Questionnaires sent to public sector auditing standards setters	Data sets and/or aggregates published by statistical offices
E1: Index of compliance with paragraph 21 of IPSAS 1	X			
MS1: Rate of expenses reported on an accrual basis of accounting in the general government sector		X		X
MS2: Level of consolidation of accounts in the general government sector	X			
E2: Legal scope of application of accounting standards		X		
E3: Compliance of financial statements with IPSAS 1 concerning comparative financial statements	X			
MS3: Legal scope of application of the most widespread set of accounting standards in the general government sector		X		X
MS4: Compliance of financial statements with IPSAS 1 concerning comparative financial statements in the general government sector			X	X
E4: Type of financial audit carried out on financial statements			X	
MS5: Type of financial audits carried out on financial statements in the general government sector			X	X
E5: Frequency of publication of financial statements within a year			X	
E6: Timeliness of the publication of financial statements		X		
MS6: Frequency of publication of financial statements within a year in the general government sector		X		X
MS7: Timeliness of the publication of financial statements in the general government sector		X		X
E7: Availability of explanatory information about financial statements	X			
E8: Online accessibility of GPFRs and other complementary information	X			
MS8: Online accessibility of consolidated GPFRs and other complementary information about the general government sector	X			

4.2. Aggregation of indicators and definition of a financial reporting transparency score

Presentation

Once the value of the E(x) indicators, or of the MS(x) indicators are defined, the values of E(x) indicators (section 4.2.1.) or the values of MS(x) indicators (4.2.2.) have to be aggregated to form a financial reporting transparency score (%).

4.2.1. Reporting entities

Indicator	*Value*
E1: Index of compliance with paragraph 21 of IPSAS 1	**Value from 0 to 3**
E2: Legal scope of application of accounting standards	**+ Value from 0 to 3**
E3: Compliance of financial statements with IPSAS 1 concerning comparative financial statements	**+ Value from 0 to 3**
E4: Type of financial audit carried out on financial statements	**+ Value from 0 to 3**
E5: Frequency of publication of financial statements within a year	**+ Value from 0 to 3**
E6: Timeliness of the publication of financial statements	**+ Value from 0 to 3**
E7: Availability of explanatory information about financial statements	**+ Value from 0 to 3**
E8: Online accessibility of GPFRs and other complementary information	**+ Value from 0 to 3**
Aggregation of the value of indicators	**= Value from 0 to 24 (A)**

Financial reporting transparency score of the entity (%)	**(A/24)*100**

4.2.2. Member States

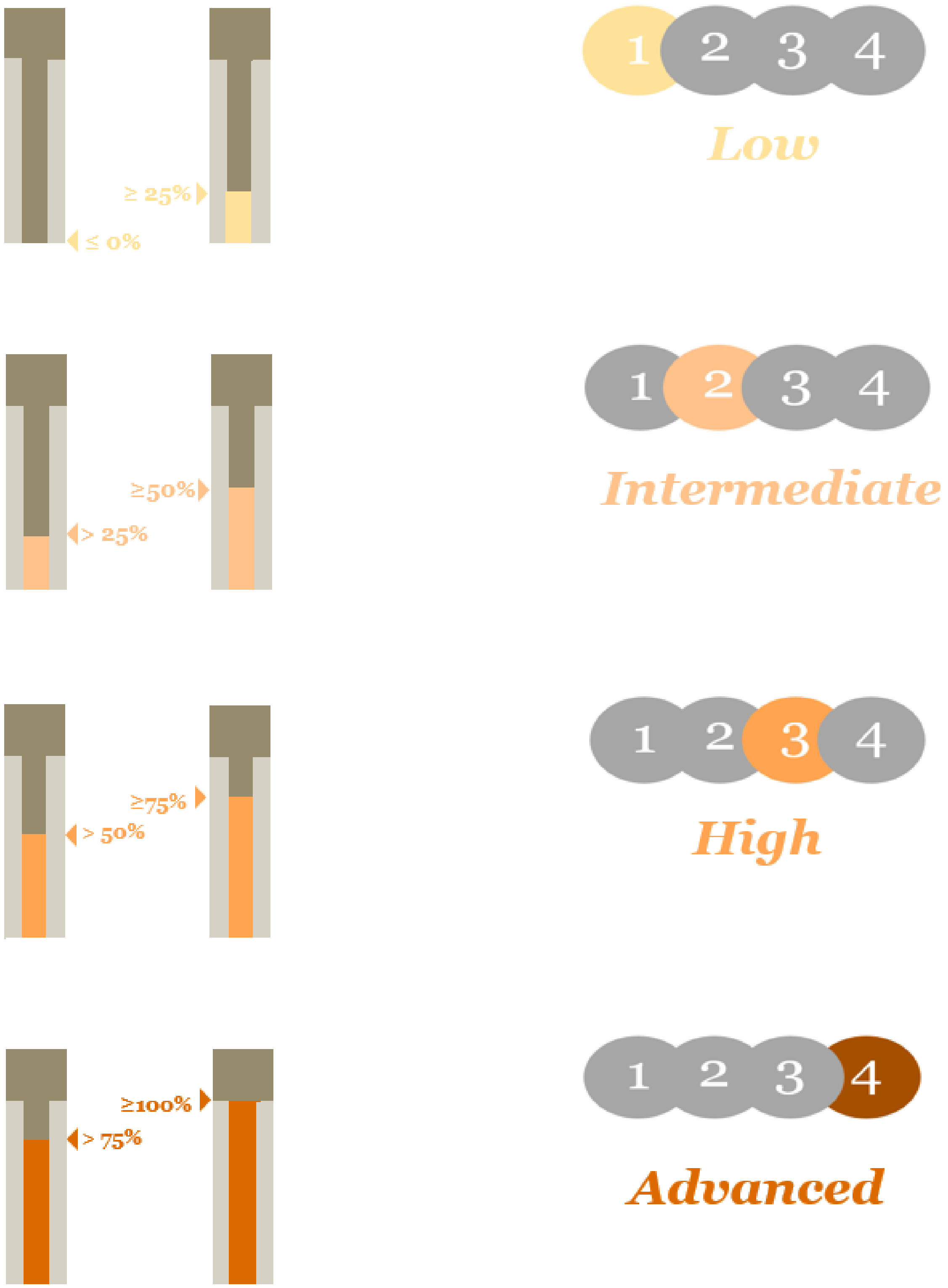
Indicator	*Value*
MS1: Rate of expenses reported on an accrual basis of accounting in the general government sector	**Value from 0 to 3**
MS2: Level of consolidation of accounts in the general government sector	**+ Value from 0 to 3**
MS3: Legal scope of application of the most widespread set of accounting standards in the general government sector	**+ Value from 0 to 3**
MS4: Compliance of financial statements with IPSAS 1 concerning comparative financial statements in the general government sector	**+ Value from 0 to 3**
MS5: Type of financial audits carried out on financial statements in the general government sector	**+ Value from 0 to 3**
MS6: Frequency of publication of financial statements within a year in the general government sector	**+ Value from 0 to 3**
MS7: Timeliness of the publication of financial statements in the general government sector	**+ Value from 0 to 3**
MS8: Online accessibility of consolidated GPFRs and other complementary information about the general government sector	**+ Value from 0 to 3**
Aggregation of the value of indicators	**= Value from 0 to 24 (B)**

Financial reporting transparency score of the Member State (%)	**(B/24)*100**

4.3. Definition of a maturity level of financial reporting transparency

Presentation

The ascribed scores of financial reporting transparency correspond to four levels of maturity for financial reporting transparency which are common to reporting entities and Member States.



Annex A - Definition of the notions used in indicators

Notion	Definition	Source
Expenses	Decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or incurrences of liabilities that result in decreases in net assets/equity, other than those relating to distributions to owners.	IPSAS 1, paragraph 7 (Definitions)
General Government	The general government sector consists of institutional units which are non-market producers whose output is intended for individual and collective consumption, and are financed by compulsory payments made by units belonging to other sectors, and institutional units principally engaged in the redistribution of national income and wealth.	ESA 2010, paragraph 2.111.
General Purpose Financial Statements (GPFSs) or Financial Statements	Financial statements are a structured representation of the financial position, financial performance and cash flows of an entity. The objectives of general purpose financial statements are to provide information about the financial position, financial performance and cash flows of an entity that is useful to a wide range of users in making and evaluating decisions about the allocation of resources. According to IPSAS 1, a complete set of financial statements is a set of six statements, including : • A statement of financial position; • A statement of financial performance; • A statement of changes in net assets/equity; • A cash flow statement; • A comparison of budget and actual amounts either as a separate additional statement or as a a budget column in the financial statements (when the entity makes its budget publicly available); • Notes, comprising a summary of significant accounting policies and other explanatory notes.	*IPSAS 1*
General Purpose Financial Reports (GPFRs) or Financial Reports	GPFRs 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.	IPSAS CF (paragraphs 1.4 and 1.6)
Reporting entity	A reporting entity is one of the entities defined by national legislation inside of one of the subsectors of government defined by the ESA 2010. A reporting entity can be: • An individual central, state or local government, or a social security fund; • An entity constituted by an individual central, state	ESA 2010, national legislation, PwC

	or local government or a social security fund (as defined by ESA 2010) and some related entities funded and/or controlled by such a government or social security fund, which is required by national legislation to issue one or several consolidated financial statements; • An entity defined by national legislation as related to an individual central, state or local government or a social security fund (i.e. a central or local public agency for instance), which is required by national legislation to issue one or several financial statements.	
Local government	This subsector includes those types of public administration whose competence extends to only a local part of the economic territory, apart from local agencies of social security funds.	ESA 2010, paragraph 2.116.
Notes	Contain information in addition to that presented in the statement of financial position, statement of financial performance, statement of changes in net assets/equity and cash flow statements. Notes proved narrative descriptions or disaggregation of items disclosed in those statements and information about items that do not qualify for recognition in those statements.	IPSAS 1, paragraph 7 (Definitions)
Public sector	The public sector consists of general government (i.e. all four subsectors of government defined by ESA 2010 central and state government, local government, social security finds) and public corporations.	ESA 2010, paragraph 20.303
Social security funds	The social security funds subsector includes central, state and local institutional units whose principal activity is to provide social benefits and which fulfil each of the following two criteria: (a) by law or by regulation certain groups of the population are obliged to participate in the scheme or to pay contributions; and (b) General government is responsible for the management of the institution in respect of the settlement or approval of the contributions and benefits independently from its role as supervisory body or employer.	ESA 2010, paragraph 2.117.
State government	This subsector consists of those types of public administration which are separate institutional units exercising some of the functions of government, except for the administration of social security funds, at a level below that of central government and above that of the governmental institutional units existing at local level.	ESA 2010, paragraph 2.115.
Subsector of government	One of the four subsectors of government defined by ESA 2010: central government, state government, local government, social security funds.	ESA 2010
Total reported expenses in the general government sector	Expenses (such as defined by IPSAS 1) of the whole general government sector (such as defined by the ESA 2010), such as reported or estimated by a local/regional/national/European statistical office.	PwC

Annex B - List of abbreviations used

ESA	European system of accounts
EPSAS	European public sector accounting standards
GPFRs	General purpose financial reports
GPFSs	General purpose financial statements
IMF	International Monetary Fund
IPSAS	International public sector accounting standards
IPSASB	International public sector accounting standards board
IPSAS CF	Conceptual framework for general purpose financial reporting by public sector entities
GDP	Gross domestic product
OECD	Organisation for economic cooperation and development