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THE EUROPEAN UNION'S INITIATIVE TOWARDS IMPLEMENTING EUROPEAN PUBLIC SECTOR ACCOUNTING STANDARDS – ESTIMATED ADVANTAGES AND BENEFITS VERSUS DISADVANTAGES AND COSTS

Abstract: Standardisation and the harmonisation of accounting rules are common processes in a globalizing world, present in both private and public sectors. Global companies rely on International Financial Reporting Standards and public entities follow International Public Sector Accounting Standards. The European Union also formulated a basis for the national accounting regulation of its member states: directives on the annual accounts of certain types of companies and on consolidated accounts. Economic breakdown in 2010-2011 revealed a lack of mechanisms to monitor public deficit and debt statistics, which is essential for the functioning of an economic and monetary union. As a result of the fiscal crisis in Europe, an idea has been developed of implementing common accounting standards for the European public sector.

The initiative to develop and implement EPSAS (European Public Sector Accounting Standards) as a tool enabling sound and sustainable public finance management brings both benefits and costs. The main advantages refer to high-quality financial information: improved comparability and the transparency of data. On the other side, EPSAS would implicate substantial costs of public accounting reorganisation (a.o. IT modernisation, human resources training). Since the EPSAS project is still in an initial phase, many detailed questions on the possible implementation of the formula remain under consideration.

Keywords: European Union, fiscal stability, fiscal and economic governance, public sector management, budgetary frameworks, standardisation, accounting standards, EPSAS.

JEL classification: H83, M41, M48.

INICJATYWA UNII EUROPEJSKIEJ WOBEC WDRAŻANIA EUROPEJSKICH STANDARDÓW RACHUNKOWOŚCI SEKTORA PUBLICZNEGO – PRZEWIDYWANE KORZYŚCI *VERSUS* NIEKORZYŚCI

Streszczenie: Procesy harmonizacji i standaryzacji zasad rachunkowości są szeroko realizowane we współczesnym świecie zarówno w sektorze prywatnym jak i publicznym. W przypadku standaryzacji rachunkowości przedsiębiorstw ponadnarodowe wytyczne stanowią Międzynarodowe Standardy Rachunkowości (MSR) oraz Międzynarodowe Standardy Sprawozdawczości Finansowej (MSSF), natomiast jednostki sektora publicznego bazują na Międzynarodowych Standardach Rachunkowości Sektora Publicznego (MSRSP). Unijny dorobek prawny w zakresie prawa spółek, rachunkowości i badania sprawozdań finansowych stanowią przede wszystkim dyrektywy: w sprawie rocznych sprawozdań finansowych niektórych rodzajów spółek oraz w sprawie skonsolidowanych sprawozdań finansowych.

Sytuacja gospodarcza i budżetowa państw członkowskich UE w latach 2010–2011 ujawniła brak skutecznych i sprawnych narzędzi umożliwiających uruchomienie mechanizmów monitorowania i zapobiegania kryzysom, co spowodowało, że także na forum unijnym podjęto działania na rzecz ujednolicenia standardów rachunkowości dla jednostek sektora finansów publicznych. Działania na rzecz utworzenia i wdrożenia Europejskich Standardów Rachunkowości Sekora Publicznego, jako narzędzia usprawniającego zarządzanie administracją publiczną, niosą określone korzyści i koszty. Wśród korzyści wymieniane są: polepszenie jakości sprawozdawczości finansowej, poprawa efektywności zarządzania finansami publicznymi, ujednolicenie zasad rachunkowości wewnątrz UE oraz praktyczne rozwiązania dla samorządów. Z drugiej strony wdrożenie standardów wiąże się ze znaczącymi kosztami zmian w rachunkowości sektora publicznego obejmującymi m.in. modernizację systemów informatycznych czy też szkolenia pracowników. Na obecnym, wstępnym etapie zaawansowania prac nad wdrożeniem standardów wiele kwestii pozostaje nierozstrzygniętych.

Słowa kluczowe: Unia Europejska, stabilność budżetowa, koordynacja gospodarcza, zarządzanie budżetowe, sektor finansów publicznych, ramy budżetowe, standaryzacja, standardy rachunkowości, Europejskie standardy rachunkowości sektora publicznego.

Introduction

Globalisation and regionalisation processes have triggered changes in accounting, namely a tendency towards the standardisation of its rules, and facilitating the performance of international companies and organisations. Initiatives towards unified accounting standards derive originally from the private sector and a legal basis for enterprises comprise International Financial Reporting Standards. However, the accounting standardisation process encompassed also the public sector for which purposes International Public Sector Accounting Standards have been developed.

The necessity to follow the idea of accounting standards for public sector entities was also raised at the European Union level, as a consequence of the fiscal crisis in the euro zone and an attempt to build better tools to measure and forecast the financial situation. The role of fiscal discipline in safeguarding economic and monetary union laid the basis for developing and implementing European Public Sector Accounting Standards (EPSAS) that would enable to measure the fiscal situation in member states and construct a comparable assessment of the situation in the entire EU. The EPSAS project, initiated by the European Commission in 2012, is aimed at improving trust in the fiscal situation measurement and contributing to sustainable public finance management and macroeconomic planning.

The main goal of the article is to identify the most important benefits/advantages of developing and implementing EPSAS versus the costs/disadvantages of this solution. Furthermore, this paper is aimed at presenting the reasons leading to the EPSAS project and the following steps undertaken by European institutions towards this initiative. In order to fulfil above mentioned goals, the paper has been divided into four sections. The first part explains briefly the development processes of accounting standardisation and harmonisation. Subsequently part two and three describe the background for the EPSAS initiative and the subsequent steps towards their adoption. Finally, the fourth section, according to paper's main objective, outlines the estimated advantages and benefits versus the disadvantages and costs of implementing EPSAS.

1. Towards accounting standardisation and harmonisation

The world economy has been shaped for decades by parallel processes of globalisation and regional economic integration referring to many aspects of economic life. Although both processes are evaluated not only positively in reference to economic effects, there are many reasons for the fact that they have resulted in unprecedented growing links and interdependence between states and companies during last few decades. The more integrated an economic environment is it then creates new conditions for economic and business activities and has its aftermath in growing pressure for the convergence of numerous rules and regulations in many aspects of economic activity.

The mentioned globalisation and economic integration processes have resulted among others in the standardisation and harmonisation of accountancy rules in both the private and public sector. Although standardisation and harmonisation are commonly mixed expressions, there are in the literature attempts to distinguish both terms. Harmonisation is used by accountants in presenting a rather liberal approach and is understood as a movement from diverse practices towards a limited number of applied methods. Standardisation on the other hand is a further on-going process which means that engaged parties agree to apply the same or similar accounting standards and practices [Dobija 2009].

The harmonisation and standardisation of accounting rules in the private sector are commonly known and have been implemented worldwide for many years due to the advantages and benefits they bring alongside. Companies base themselves mostly on the International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS). These are developed and updated by a private and independent institution (International Accounting Standards Board – IASB) that is aimed at the unification of accounting rules and the routines of financial reporting used by enterprises and other organisation all around the world [Zuchewicz 2011].

Economic integration processes in Europe, leading to the free movement of people, goods, services and capital, resulted also in the harmonisation and standardisation of accounting rules for companies in the European Union: Fourth Council Directive (78/660/EEC of 25 July 1978 on the annual accounts of certain types of companies) and the Seventh Council Directive (83/349/EEC of 13 June 1983 on consolidated accounts). Both directives have been adopted by countries joining the EU and constitute the basis for the national accounting acts of EU member states. These directives facilitated the comparability of information presented in the financial reports of companies, which is important from the perspective of managers, investors, banks, tax authorities, statistics offices and other entities [Komisja Europejska 2009]. Rules gathered in the directives compose the unification of the a.o. balance sheet, profit and loss statement, definitions included in financial reports and with an obligation to prepare consolidated financial reports. Despite the fact that these directives comprise an important milestone in the harmonisation of accounting rules in the European Union, *acquis communautaire* in this area has been criticised for missing solutions such as: valuation, leasing, financial instruments and cash flow. Moreover, legislative procedure at the EU level is quite complex and time-consuming as far as implementation process in all member states is concerned, which is inadequate to changing dynamically accounting [Mućko 2009]. On the other hand, the International Financial Reporting Standards that have been developed throughout the years by an independent body and appear to represent more a detailed approach. This is the main reason standing behind policy makers' decision at the EU level to adopt International Accounting Standards, which was confirmed by the European Commission's regulation [Olchowicz 2009].

The harmonisation and standardisation of accounting standards play also an important role for the public sector. Based on IFAS and taking into account the special requirements of the public sector, the International Public Sector Accounting Standards (IPSAS) has been developed. Solutions presented in IPSAS are widely implemented not only by international institutions and organisations (such as the European Commission, the Council of Europe, NATO, OECD, the International Monetary Fund and Interpol) but also by the public sector in developed countries. IPSAS are regularly updated by the International Public Sector Accounting Standards Board with support of the International Federation of Accountants (IFAC) [Deloitte 2013]. The institution governing IPSAS is also responsible for enhancing the quality and transparency of public sector financial reporting. Its strategic goal relies on developing accurate accounting standards in line with public sector needs and financial reporting requirements. Moreover, the IPSASB – while developing public sector standards – cooperates with IASB and focuses on convergence with the International Financial Reporting Standards. The set of standards for public sector entities has been accepted worldwide and now consists of 32 accrual based standards and one standard based on a cash principle[1]. The cash based standard gives the

[1] Two principle methods of accounting (cash and accrual) differ regarding the time at which a transaction is recorded. According to cash method transactions they are recorded when the amount is received or paid whilst the accrual-based rule implicates to record when the transaction occurs, regardless whether the payment is actually received or made [European Commission 2013b].

background for entities that decided to apply cashed based formula; however it also encourages disclosing accrual-based information [Aggestam-Pontoppidan 2013].

2. Need for common public sector accounting standards within the European Union

The European Union is one of the most advanced examples of economic integration and regionalisation on a world scale[2]. The advancement of economic integration union within the EU is expressed in a form of economic and monetary union (EMU), realized currently in full form by 19 of the 28 EU member states. As a component of the EMU, fiscal policy coordination refers to both: countries that are euro zone members already and also to those that according to treaties are obliged to adopt the common currency in the future. In the current shape of the European Union, macroeconomic policy coordination is based on certain goals and obligations for fiscal policy (budget policy). The Economic union is much less developed than the monetary one and shortages in the macroeconomics policy coordination resulted in the fiscal crisis that EU member states suffered from in 2010–2011 as a consequence of the financial breakdown that had happened before (2008–2009) [Mazur 2015].

As mentioned above the economic and fiscal background triggered the EU initiative towards implementing unified accounting standards for pub-

[2] Although the EU may be considered as one of the most advanced examples of economic integration, there are numerous initiatives of economic integration around the word. 'The third wave' of economic regionalisation, that has been observed since the 1990's, has resulted in a skyrocketing number of free trade agreements around the world: as of 1 February 2016 there were 419 regional trade agreements in force. Being the most prominent for the global economic system the following should be mentioned: the Trans-Pacific Partnership (TPP) (Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States and Vietnam) concluded in October 2015 after five and a half years of negotiations as well as the Transatlantic Trade and Investment Partnership (TTIP) which is still being negotiated between the European The Union and the United States. Both agreements, aimed at creating comprehensive free trade areas between the parties, will have – when ratified – a significant impact on business conditions, including regulations on financial markets and disciplines on accounting practices (TPP). Regarding to TTIP, although the final text and regulations are still being negotiated, it might be expected that the agreement, even if not directly, may stimulate the further convergence of accounting standards between the US and the EU [Fleming 2013; Teo 2015; WTO 2016].

lic sector entities. Therefore EU policy makers have been forced to tackle the significant challenges of public finance sector management. Economic slowdown and growing budgetary disparities in many member stares (exceeding accepted levels for budget deficit and public debt) have become a severe threat for the further existence of the EMU and thus initiated an idea to improve control mechanisms and tools to counteract similar crisis situations in the future [Mazur 2015].

According to the Maastricht criteria[3], subsequently article 126 of the Treaty on the Functioning of the European Union (TFEU) and Protocol No 12 on the excessive deficit procedure annexed to the treaties, the relation of planned or actual government deficit and government debt to GDP must not exceed 3% and 60% respectively [European Commission 2013a]. These two requirements referring to the public finance sector enable to assess if member states are ready to use the common currency and join the EMU. During the crisis mentioned above in the situation within the euro zone only two countries fulfilled the budget deficit criteria (Luxembourg and Finland). At the same time, many states exceeded a very acceptable level: in 2010 Ireland, Greece, Portugal, and Spain reached the highest deficits within the euro zone (–31.2%; –10.3%; –9.8% and –9.3%) [Ministerstwo Finansów 2011]. Regarding the second fiscal criterium acceptable levels were also exceeded. Growing public debt much above 60% of GDP caused that countries such as Greece, Portugal, Italy and Cyprus lost their credibility on the financial markets, which resulted a.o. in an increase of the interest rate of state debt papers and consequently had difficulties in debt payout and its management. Since the level of public debt had been in some countries exceeded already before the financial crisis (Belgium, Greece, and Italy), economic slowdown influenced and intensified negative tendencies: the highest level of debt in 2013 was noted in Greece, Portugal, Italy and Ireland (175.1%; 129%; 127% and 123.7%). Taking into account the EU the biggest economies such as Germany or France, also in these countries public debt reached above the 60% threshold, but the consequences of the crisis were not so harmful [Ministerstwo Finansów 2014].

The problems mentioned above revealed a significant issue for the EU policy makers, namely the lack of effective tools and mechanisms to monitor, predict and counteract an economic crisis based on available sta-

[3] Maastricht criteria were introduced in the Treaty on the European Union (known as the Treaty of Maastricht) and include fiscal and monetary requirements that a country joining the economic and monetary union needs to fulfil.

tistics. That is why member states together with the European Commission in 2011 and 2012 undertook several initiatives to strengthen EU fiscal and economic governance such as the Euro Plus Pact, the so called 'six-pack' (five regulations of the European Parliament and the Council and the Council directive 2011/85/UE on requirements for the budgetary frameworks of the member states) and the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union. The main goals of these actions were: to maintain public finance balance, support financial stability, strengthen macroeconomic policy coordination, improve public finance management and give the possibility to monitor potential future macroeconomic imbalances in EU member states [Mazur 2015].

Important background regarding the unification of accounting standards for the public sector was included in the Council directive 2011/85/EU of 8 November 2011 on requirements for the budgetary frameworks of the member states. This document introduced detailed rules on budget policy, which are important with regard to meeting by member states fiscal convergence criteria, especially budget deficit [Kaczurak-Kozak 2013]. According to directive 2011/85/UE the budgetary framework means the set of arrangements, procedures, rules and institutions that comprise the basis to conduct budgetary policy in public entities (at national, regional and local government level). One of its elements is the system of budgetary accounting and statistical reporting. As agreed, national accounting systems in the public sector in the EU member states shall encompass in a comprehensive and consistent manner all sub-sectors of general government (at national, regional and local level) and include appropriate figures to generate accrual data in line with Eurostat statistics (ESA 95 standards[4]). Those public accounting systems shall be subject to internal control and independent audits. The Council supported also through the directive identifying and sharing the best practices at international level regarding different aspects of national budgetary frameworks and accounting. Moreover, the European Commission was obliged to assess the suitability of the International Public Sector Accounting Standards for EU member states [Council 2011].

Taking into account the EU's fiscal surveillance and fiscal convergence criteria, the European Commission's task was to assess on a regular basis the quality of financial data reported by member states and the compliance of sector accounts with the ESA 95 standards. Based on well prepared financial statistics by national and regional/local governments, policy mak-

[4] European system of national and regional accounts in the Community.

ers and stakeholders are able to analyse the financial position, performance and long-term sustainability of public sector entities. These statistics come from accounting records and reports together with financial information from entities at different government levels. That is why reliable local and national government financial accounts are essential when preparing a comprehensive analysis at national and supranational level, which is essential for correct fiscal planning, coordination and supervision within both member states and the EU as a whole. The high quality of debt and deficit information, enabling to monitor if fiscal criteria at macro level are fulfilled, depends on comparable and coherent accrual-based financial data reported by entities at the micro level. Nowadays, multiple variants and ways of presenting financial data in micro public sector accounting induce difficulties in comparing information both within and between member states. Moreover, there is a significant incoherence between public sector accounts recording cash flows and EU budgetary surveillance statistics (ESA 95) based on accruals data. As a consequence cash data needs to be transferred into accruals through approximations and adjustments. In cases where accrual accounting does not exist at the micro level, financial reports have to be converted using different sources, which all together may lead in consequence to statistical discrepancies and a misleading picture at the national and EU level. As a result the existing approach to reconcile non-harmonised micro-level public-sector accounting data to monitor fiscal criteria, result in a non-satisfactory outcome and as such reached its limits [European Commission 2013a].

Fiscal crisis within the euro zone revealed imperfections in the fiscal statistic system, in particular inappropriate financial reporting in selected member states. These incidents demonstrated that the statistical system did not eliminate unsatisfactory and poor quality data notified by countries to Eurostat. It has resulted in the necessity to design new tools of generating high quality statistical data, based on unified accounting standards, common for the EU public sector entities and reflecting their needs. Compiled deficit and public debt accrual-based data for the whole EU can be only achieved through the harmonisation of micro-accounting systems for all public-sector entities (at local, regional and national level) in all member states of the European Union. The initiative to adapt IPSAS at European level for local and state institutions would give the possibility to create in the European Union own standards (called EPSAS – European Public Sector Accounting Standards), adjusted to member states' needs and requirements and implemented at their own pace: set of harmonized accrual-based accounting standards for EU public sector entities. Thus implementing EPSAS within the EU would enable to build the EU statistics using simplified and less complex methods, to compile processes to transform data and to increase the comparability and credibility of data presented by Eurostat [European Commission 2013a].

EPSAS are supposed to be designed as a tool that would enable the gradual integration of budgetary frameworks and budgetary policies ensuring at the same time better public finance management, a step towards sound national budgetary policies and mechanisms to resist economic shocks in the euro zone and the whole EU in the future. Thus it would contribute to sustainable growth and macroeconomic stability in line with idea included in the report of the President of the European Council that '*sound national budgetary policies are the EMU's cornerstone*' [Van Rompuy et al. 2012]. Furthermore, the public sector is especially important regarding the described fiscal stability rules in the European Union. The expenditures of national and regional/local public institutions comprise a substantial part of the gross domestic product in European economies and their assets and liabilities are significant in all EU countries. In this connection it is important to provide effective management in the public sector, enhanced by the transparency and comparability of financial reports and to ensure accountability for public sector management to citizens, their representatives, investors and other stakeholders [European Commission 2013a].

3. The European Union's steps towards implementing EPSAS

The European Commission, which is an executive body responsible for implementing decisions and proposing legislation, entitled Eurostat to proceed in establishing accounting standards for public sector entities within the EU. Eurostat, as the Directorate General of the European Commission, provides and publishes statistical information and also leads the process of promoting the harmonisation of statistical methods across member states. In May 2013 the European Commission organised together with Eurostat a conference that became the first opportunity for interested stakeholders to discuss harmonised accounting standards for the public sector. The conference agenda covered themes such as: political context, debt crisis, economic governance, trust in fiscal data, fiscal transparency, suitability of IPSAS, experiences in public accounting reforms and the next steps towards developing EPSAS [Aggestam-Pontoppidan 2013].

According to the Council directive 2011/85/EU of 8 November 2011 on the requirements for the budgetary frameworks of the member states, the European Commission was obliged to present a report on implementing harmonised public sector accounting standards in the EU. The document was presented in March 2013 and includes conclusions on the suitability of IPSAS for the member states and future steps towards EPSAS. According to EC's analysis, the public accounting standards of 15 EU countries refer to international standards (are based or in line with IPSAS, with some references or use of complete parts), however none of the member states implemented them in full. Although IPSAS are the only worldwide recognised set of standards for the public sector, envisaged in line with effectiveness and efficiency in order to provide timely, accurate and reliable financial information, they cannot be implemented entirely in their current shape in the EU member states. On the other hand, international standards represent a good basis for further work on harmonized rules for the public sector in the EU, taking into account the below stated concerns [European Commission 2013a]:

1. IPSAS standards give the possibility to choose between alternative solutions and do not describe sufficiently or precisely the accounting practices to be followed, leaving thus space for interpretation.
2. IPSAS in their current shape are not complete regarding their capacity (issue of consolidating accounts based on definition used for general government) and practical applicability in the case of significant government flows (a.o. taxes, social benefits).
3. IPSAS can be regarded as not stable enough since some standards will need to be updated once work is completed on the current project of completing the IPSAS conceptual framework.
4. The governance of IPSAS faces insufficient participation from the EU accounting authorities. Moreover, the IPSAS Board suffers from limited resources to respond to new standards' needs and guidance on emerging issues, in particular on fiscal crisis ones.

The European Commission in its report in 2013 drafted a roadmap of establishing EPSAS: the process of developing standards together with a timetable. It presumes that the first version of European standards shall be based on a set of IPSAS that all member states agree for, including necessary adjustments. There were also identified conditions crucial for benefiting from the idea of common standards at EU level [European Commission 2013b]:

– political support and joint ownership of the project;

- public administration competent to run a complex accounting system;
- integrated IT systems for budget, payment, contract management, double-entry bookkeeping, invoice management, and statistical reporting;
- timely reporting of all economic events;
- skilled human resources and modern IT;
- effective internal control mechanisms and external financial audits.

The main challenge, especially for those countries that use only cash accounting, would be implementing standards based on accruals. A major reform in this case would require focusing a.o. on: conceptual and technical accounting issues, staff training, educating managers, cooperation with auditors, modernisation of IT systems and adapting national regulations [European Commission 2013a].

The European Commission assumed that EPSAS development and implementation shall be a gradual process with a medium-term horizon. As a first step, member states shall focus on accounting issues most significant for harmonisation (revenue and expenditure, taxes and social benefits, liabilities and financial assets). A detailed strategy and roadmap would include priorities, deadlines and the described milestones together with impact assessment. A core basis and governance system with a procedure of standards development shall be a compromise agreed between the Commission and member states. An adoption process should start from categorising IPSAS as: 1) standards that might be implemented with minor or no adaptation, 2) standards that need adaptation or for which a selective approach is needed and 3) standards that need to be amended for implementation. The process of moving towards accrual based accounting shall be supported by the experience of those counties that have already implemented this rule in the public sector. The Commission presumed that the process of moving toward EPSAS could take place in three stages [European Commission 2013b]:

1. Preparatory stage to collect needed information and to create a roadmap including detailed proposals;
2. Developing framework regulation (covering issues such as: finance, governance, forecasted synergies, smaller government entities concerns);
3. Implementation stage.

EU member states were given an opportunity to express their position on an initiative towards implementing European standards for the public sector, including opinions on further integration needed in this area, effectiveness improvement in public finance management, accounting rules alignment and benchmark solutions for local governments [Kaczurak-Kozak 2013]. However, some controversies arise around the formula proposed by the European Commission of one single solution for all, benefits and costs related to such substantial reform, middle-term horizon that seems to be a too short-time perspective and doubt if the initiative itself does not interfere with the subsidiarity principle[5] [Ministerstwo Finansów 2013].

The European Commission invited interested stakeholders to express their opinion on implementing EPSAS during public consultation: finance and treasury ministries in the EU member states, professional associations, regional and central control offices, audit companies, accountants, statistical offices and international organisations [Kaczurak-Kozak 2013]. In total 68 submissions were received: more than 80% of participants were stakeholders from the EU, with German entities representing the majority. The consultation was held by Eurostat on behalf of the European Commission between February and May 2012. It was carried out in the context of a financial crisis and the need to improve fiscal discipline and to rebuild trust across the public finance sector in Europe. The main objective of public consultation was to collect the opinions of relevant stakeholders on the idea to adopt IPSAS for public sector entities and gather views on the potential advantages and disadvantages of this solution [Aggestam-Pontoppidan 2013].

The main conclusion outlined from the consultation was that designing accounting standards for the public sector based on IAS and IFRS (that were originally for IPSAS) may turn them too much towards investors needs that are not fundamental financial reports' users in the public sector. Among the raised doubts participants mentioned also the significant question that if forecasted benefits from adopting IPSAS in their full shape for the EU entities at all levels would equal implementing costs?: a.o. financial reporting reform, IT tools or accountant training. Moreover, adopting a complex set of IPSAS for small public sector entities (small municipalities, cultural institutions, nurseries, etc.) may turn out to be unfeasible. Implementing IPSAS to the national accounting systems of EU member states was perceived differently by the consultation's participants: 38% of those interviewed said 'yes' for the initiative, 31% agreed for a part of the suggested solutions whereas 28% addressed the idea with resolute opposition [Kaczurak-Kozak 2013]. The conclusions from the held consultation were published by Eurostat in March 2013 in a report entitled: *The Suitability of IPSAS for the Member States*. The

[5] In line with the subsidiarity principle the EU does not take action (except areas of its exclusive competence), unless it is more effective than the action taken at national, regional or local level [TEU and TFEU 2010, art. 5].

main outcome of the report reflects the idea that IPAS in their current shape (opinion of the majority of the EU member states) are not a ready solution and cannot be implemented in full within the EU. The consultation's participants however agreed that European standards shall be developed using IPSAS as an important reference point [Aggestam-Pontoppidan 2013].

The stakeholders that expressed their enthusiasm for the initiative to implement accounting standards for the EU public sector entities articulated their understanding for the need to improve the accountability, transparency and comparability of public sector accounts. They found such a tool significant for improving public finance management and for enforcing the trust of citizens and the capital markets. Furthermore, IPSAS implementing optimists raised the limits of cash-based methodology, especially regarding the full complexity of government accounting. Participants that said 'yes' for the initiative mentioned also the fact that IPSAS are functioning in numerous developed countries, regions and also international organisations and constitute the only worldwide accepted set of standards for the public sector [Eurostat 2012].

On the other hand, doubts collected during the consultation referred to the origins of IPSAS in the private sector and as a consequence an insufficient response to public sector requirements (pension liabilities, taxation, and social benefits) and not being suitable for preparing government finance statistics. The experiences of countries, regions and bodies that adopted IPSAS show also that they needed to adjust the standards to their own situation. Also an argument on subsidiarity was raised that a sovereign state is empowered to decide on its accounting standards, rather than to accept an imposed solution. Overall, the main arguments against the implementation of IPSAS concerned [Eurostat 2012]:

- incompleteness with respect to public sector accounting requirements,
- complexity of IPSAS and rules on disclosure,
- conceptual framework and governance arrangements (governance and review by the IPSASB),
- link to IFRS and thus the private sector.

Among the comments concerning the process and timetable of implementation, it was perceived that a medium or even long term horizon is accurate. Most of the respondents referred to a perspective of at least 10 years. Another important aspect mentioned was the issue that there is no 'one fit all solution' and establishing the starting point for each EU member state is necessary, followed by a unique implementation plans with individual milestones. Also a phased approach was recommended in order to introduce standards steadily (e.g. either sector by sector or recognition of financial assets and liabilities first and non-financial later) to moderate the implementation process. There was also a contribution that IPSAS implementation would require substantial resources regarding staff training and IT modernisation, which would engage sizable expenditures [Eurostat 2012].

Since the idea of developing and implementing accounting standards for the public sector is still rather in a start-up phase, the European Commission established a platform for member states and interested stakeholders to prepare input to Eurostat regarding the EPSAS project. As a result a working group was launched within Eurostat structures (technical experts group) in September 2015. Its purpose is to support the work of the Eurostat task forces and to build a more permanent form of cooperation regarding the development, introduction and operation of EPSAS in the fitting perspective (middle/long). Moreover, the working group was set up to provide Eurostat with professional knowledge and expertise in the preparation of harmonised standards and on accrual based financial reporting at all government levels. Later on, the working group will provide advice on the introduction and operation of EPSAS. It is supposed to identify the key issues for EPSAS governance and discuss how to develop and introduce suitable structures and requirements [Eurostat 2015].

Eurostat together with member states has set up priorities regarding the EPSAS project for the period of autumn 2015/2016. According to an agreed plan the next steps include the following actions [Eurostat 2015]:

1. Continuing support for voluntary accruals implementation in EU member states, finalisation and release of a guidance document in this area (First Time Implementation Guidance).
2. Inviting new bodies and interested parties that might contribute to EPSAS work (a.o. administration entities, auditors or academics).
3. Envisaging the EPSAS framework proposal (in the form of a regulation or directive).

4. EPSAS' benefits and advantages versus costs and disadvantages

The discussion on developing and implementing common accounting standards for all public entities in the EU countries has revealed benefits and advantages but also disadvantages and the potential costs of this idea. Member states have had the opportunity to evoke their point of view by answering questions in public consultation held by Eurostat (see point 3) but also the European Commission contracted a study by a private consulting company (PwC) to analyse the impact assessment of the EPSAS project. The main advantages identified by member states and professional stakeholders refer to the quality of the financial data and the benefits that it brings alongside. Nevertheless, many sources underline that quantifying and valuing the potential benefits seems to be impossible [European Commission 2013b].

Public sector financial reports, prepared according to common rules, will result in greater comparability, transparency and consistency of financial information. The EPSAS tool would thus respond to the urgent need of improving the way of collecting and presenting financial information in the EU (determining deficit and debt levels), which is necessary for the proper functioning of the economic and monetary union. It concerns balance sheet information (with a particular focus on liabilities) and true annual costs for items not requiring cash resources (like public sector pension obligations). Common standards would help to eliminate the situation where negative performance is hidden in order to avoid the consequences of an excessive deficit procedure when levels of fiscal criteria are exceeded, so it would help to reduce the risk of political influence. What is most crucial for macroeconomic policy coordination and fiscal management in the European Union, the financial accounting and statistical accounting would be unified: a.o. common chart of accounts, elimination of differences in terms of recognition, valuation, presentation and consolidation. Available audited financial reporting data on an accrual basis would be straightforwardly transformed into statistical data (based on ESA 95 methodology), which is of high relevance for the policy making process [Eurostat 2012].

Moreover, the implemented standards will help to improve budget surveillance and fiscal monitoring at the macro level, which is expected to enable a sound and sustainable fiscal policy. Comparability will be improved not only across member states but also among different government levels (national, regional, and local) and individual public sector entities. In this context EPSAS would support fiscal stability in Europe and enhance economic and financial integration within the EU [PwC 2014].

Reliable financial information is crucial for an accurate decision making process and ensuing the trust of markets, investors and reducing uncertainty to rating agencies based on financial statements. EPSAS will thus provide a more comprehensive and fair view of the financial position of governments based on accrual accounting and constitute a tool to diminish uncertainty for rating agencies and other users of financial statements [Bellanca 2014].

Mainly due to the accrual basis the picture of governments' financial situation would be more meaningful for both internal policy makers and external financial statements' users. Financial management would be improved, also in the long term, when assets and liabilities (that need to be met in the future: borrowings, guarantees, pension liabilities, and social contribution) are identified. Since European standards use IPSAS as a point of reference, there would be an indirect link to IFRS, which may result in the facilitated consolidation of the whole public sector, including government business enterprises [Eurostat 2012]. The experience of countries that implemented IPSAS and accrual accounting shows benefits in efficiency gains, linked to new IT, administrative improvement and better information allowing responsible decision making at managerial level. Improved management information triggered the implementation of result-based management practices and cost accounting [PwC 2014]. It is also expected that the harmonisation of accounting standards will help to decrease bureaucracy in the public sector and modernise financial information and accounting systems. In that way implementing EPSAS will create an opportunity to build more effective administration and reduce on-going costs [European Commission 2013b]

Brought together with EPSAS transparency provides better information for capital markets and thus less fluctuation when reliable data are available. Moreover, a unified set of public accounting standards would support an internal market (free movement of capital) and facilitate investors to compare the financial performance of governments. As a result the public entities of EU member states could compete for financial resources available in the European and global capital markets [Eurostat 2012]. Additionally, transparent financial statements based on EPSAS will enhance the credibility of government financial statements for citizens and other interested parties, in particular investors in government bonds [PwC 2014]. One of benefits thanks to transparency would be a lower yield (risk premium) on government securities. Expected savings in interest payables could be then considered against the costs of implementation. However, practically it seems impossible to calculate this effect separately from other factors that influence interest rates [European Commission 2013b].

Member states that have already experience with IPSAS would provide expertise. In general the adoption of EPSAS would encourage the exchange of accounting expertise and resources across Europe and enhance accordingly staff qualifications and as well as auditing throughout the EU. Employed in public sector accounting officers will have at their disposal a reliable source of detailed information and on the other hand auditors could base their work on solid foundations and suitable criteria [Eurostat 2012]. Moreover, the experience of countries that turned into accruals (for example New Zealand) emphasizes the following advantages: commitments, purchase order systems, payroll, fixed assets, creditors and debtors are integrated into one system. As a result it reduces double processing and reconciliation problems associated with disparate systems [European Commission 2013b].

The benefits and advantages related to implementing EPSAS impact various dimensions that interconnect with each other. In general unified European standards are expected to generate transparent and high-quality financial reports that will strengthen accountability and decision making by both internal and external users. Subsequently, improved accountability and better decisions should contribute to better policy outcomes that all will benefit from [PwC 2014].

The potential benefits and advantages of the EPSAS project shall be confronted with expected costs and disadvantages. The main obstacles and disadvantages concerning the future implementation of EPSAS in the EU refer to the complexity of IPSAS standards that would be the basis for European standards. A complex system, unlike simple to use budgetary accounting, may be difficult to be applied within small- and medium-sized entities. It has been also raised that IPSAS standards do not cover all public sector specificities like a.o. the practical issues of consolidation of general government financial statements, social benefits, pension, taxes or historical heritage. There remain also issues of legitimacy and standards' governance since many doubts refer to the fact that public sector standards like IPSAS are developed by private institutions on the contrary to formulating EPSAS that would involve EU member states [Bellanca 2014]. There is also a disadvantage of a single set of standards that may not suit the needs of many different public entities in all member states. Moreover, member states may find EPSAS against the subsidiarity principle since it is considered states' privilege to choose its own accounting and budgeting system. The main obstacle may reveal human resources' unwillingness to change the current system, there is also the possible resistance of senior public civil servants [Eurostat 2012].

The information presented by countries which have moved to accruals accounting allows to estimate only in a broad term what kind of costs implementing new standards may bring, however all countries emphasise that they are likely to be substantial. The greatest challenge would be implementing accrual based rules. The experiences of countries that have already faced such undertakings show that the costs are significant: estimated as a percentage of GDP range from 0.02% to 0.1%. Investment costs include a.o. IT modernisation and maintenance (hardware, software), staff training and overall internal reorganisation to comply with new data gathering. Adopting an accrual accounting system only at central level in a medium-size EU country may generate costs of up to 50 million euro. In the case of smaller member states having accruals accounting already adopted, the costs might be below this threshold. The estimated amount includes the costs of implementing new standards and central IT accounting tools but not a complete reform of the financial reporting system. Higher amounts may be expected by larger countries, with autonomous regional government or more complex government systems. Costs could be much higher in the situation when the transition to harmonised accrual standards is conducted together with the broader reform of an accounting system and reporting practices. Implementing new accounting standards might be a good opportunity to modernise public financial management systems. For instance total spending for accrual and budgeting reforms in France over the past ten years reached almost 1500 million euro. Also the on-going costs of running accounting systems based on EPSAS may be considerable. The expected costs depend on the extent and pace of change, size and complexity of the public sector and the way and how the current system works (its complexity and maturity) [European Commission 2013a].

Conclusions

As a consequence of the fiscal crisis in many EU countries and concerns on the further functioning of the economic and monetary union, European policy makers have forwarded a debate on developing and implementing public sector accounting standards as a tool supporting sound and sustainable public finance management within the EU. The point of reference for the European initiative are International Public Sector Accounting Standards, a set of rules accepted worldwide by countries and organisations and providing guidelines on cash and accrual accounting for public sector entities. However, due to the special requirements and needs of European governments and concerns expressed by interested stakeholders, it has been decided to adapt IPSAS rather than simply adopt them and thus formulate the EU's own standards for the public sector called EPSAS (European Public Sector Accounting Standards).

The idea of developing and implementing European standards brings advantages at both the macro (supranational) and micro level (national, regional and local public sector entities), however their precise quantifying and valuing is perceived as impossible. The benefits of EPSAS at the macro level concentrate on the improved quality of financial and statistical data through greater comparability, transparency and consistency of financial information. The project's enthusiasts underline that EPSAS will enable improving the way of collecting and presenting financial information in Europe regarding deficit and debt levels and thus will help to eliminate hiding negative performance to avoid excessive deficit procedure. As a result common standards will enhance budgetary surveillance and fiscal monitoring at the macro level to prevent a possible crisis situation in future. On the other hand, EPSAS will bring efficiency gains and improve management practices at the micro level in individual public sector entities. Implementing common standards will be combined with the modernisation of IT systems, administrative improvements, better management information, responsible decision making at managerial level, results-based management practices and cost accounting. Moreover, EPSAS reform will improve the exchange of accounting expertise and resources across Europe and enhance staff qualifications.

Parallel to benefits and advantages, there have been outlined the costs and disadvantages of the EPSAS project. First of all, the experiences of countries that turned into accrual based accounting emphasise the substantial costs of all kinds of modernisation up to 0.1% of GDP. Doubts raised by EU member states refer to the complexity of IPAS that are supposed to serve as a basis for European standards. As a result, it may be difficult to adapt IPSAS within small- and medium-sized entities. As a point of reference IPSAS do not cover all public sector specificities and in general even a single set of standards developed within the EU may not suit the needs of many different public entities in all member states. Moreover, some member states raise the issue that common accounting standards are against the subsidiarity principle since it is considered a sovereign state's privilege to decide on their own accounting and budgeting system.

EPSAS reform is still in the project phase and further steps and work on the implementation formula and detailed roadmap are under preparation within a working group in the structures of the European Commission (Eurostat) in cooperation with member states. Further work shall be devoted to those concerns raised during public consultation and answering questions that are stated by interested stakeholders and refer to solution technicalities: what the process of developing EPSAS will look like, what kind of independent institution will be responsible for developing standards and how it will involve member states. Although the raised doubts and disadvantages that the EPSAS reform may bring, it is worth continuing to work on common accounting standards for European public sector entities, especially with regard to the positive experiences of states and bodies that have already adopted such solutions.

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