



## Overview and comparison of public accounting and auditing practices in the 27 EU Member States

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## Executive summary

This overview aims to collect relevant information on, and compare the existing public accounting and auditing practices for the 27 EU Member States, for all subsectors of general government.

In order to gather accounting information on each of the general government sub-sectors, a two-wave survey approach was chosen in each of the 27 Member States. The first wave of questionnaires was sent to representatives of national accounting divisions in either national statistical offices, ministries of finance or public courts of auditors in each country, to get an overview of the accounting and auditing arrangements in place. The second wave of questionnaires was submitted to accounting and auditing practitioners, seeking to get a deeper understanding of the current practices and reform plans, as well as considerations about IPSAS.

The information collected encompasses all the Member States. Nevertheless, in some countries the information collected is incomplete in the sense that it does not cover all government subsectors. Furthermore, to the extent possible (i.e. when available) the information collected has been systematically validated by nominated public sector representatives in each country. This report relies entirely on information received and potentially validated by country representatives.

### Accounting arrangements (EU-wide)

The comparative analysis reveals that the European government accounting arrangements are greatly heterogeneous.

Countries which include a state government have the most complex accounting arrangements. State governments usually follow their own accounting standards, mainly for independence reasons, and these standards can be very different from one state to another. Indeed, in the same country some state governments follow accrual-based accounting whereas others use cash-based accounting. Thus, the accounting complexity introduced by the presence of a state government appears to be more important than the simple inclusion of an additional layer of government. Furthermore, state government standards show little resemblance with the IPSAS.

Among the countries which have adopted accrual accounting, we found :

- ▶ Countries which have recently joined the European Union are more likely to follow an accrual accounting model than historical members<sup>1</sup>. However, the analysis of the nature of the standards applied reveals again a great heterogeneity.
- ▶ The Nordic countries and France have implemented an accrual-based accounting system. These countries appear to have modernized their accounting system. Although their accounting arrangements appear to be complex in terms of the number of accounting standards applied, a deeper analysis indicates that these standards are often similar and that the differences are only at a high level.
- ▶ The United Kingdom has a simple accounting arrangement and an accrual-based accounting system.

Among the historical members of the EU, southern and central European countries have still cash-based accounting systems with complex accounting arrangements (i.e. a large number of differing accounting standards per subsector of government).

<sup>1</sup> Those joining before 2004

In terms of accounting practices, it seems that public entities do not use fair value as a measurement method for property, plant and equipment. They rely generally on the historical cost method and, to a lesser extent, replacement cost.

Regarding the recognition and measurement of provision, the documents disclosed by the public entities are not as comprehensive as the IPSAS requirements.

In terms of financial reporting, the statement of changes in net assets is often missing from the financial statements. Respondents indicated that this statement was only relevant for consolidation.

There is generally a great diversity of bookkeeping systems used by the different subsectors of government within a country. Although double-entry bookkeeping systems are widespread, none of the European countries has a unique bookkeeping system for all subsectors of government.

Respondents were also asked about the practical issues linked to the implementation of IPSAS. Their replies often point out training costs, time and equipment as the main impediments to the implementation of IPSAS. More interestingly, this argument is made by representatives of accrual-based accounting entities. For these respondents, IPSAS is nothing but another accrual accounting system and, as such, the cost of moving to IPSAS far exceeds the expected benefits.

On the other hand, for representatives of cash-based accounting entities, moving to IPSAS is not a priority. Indeed, other issues must be dealt with first before considering adopting IPSAS.

Finally many respondents highlight the fact that IPSAS was either incomplete or too theoretical for use in public accounting.

### **Financial audits (EU-wide)**

A very limited number of countries do not conduct financial audits. Most of the public entities in Europe are subject to an annual financial audit.

The auditing arrangements appear to be less heterogeneous than the accounting arrangements. Most of the respondents reported that the applied auditing standards were close to ISA or the ISAIL.

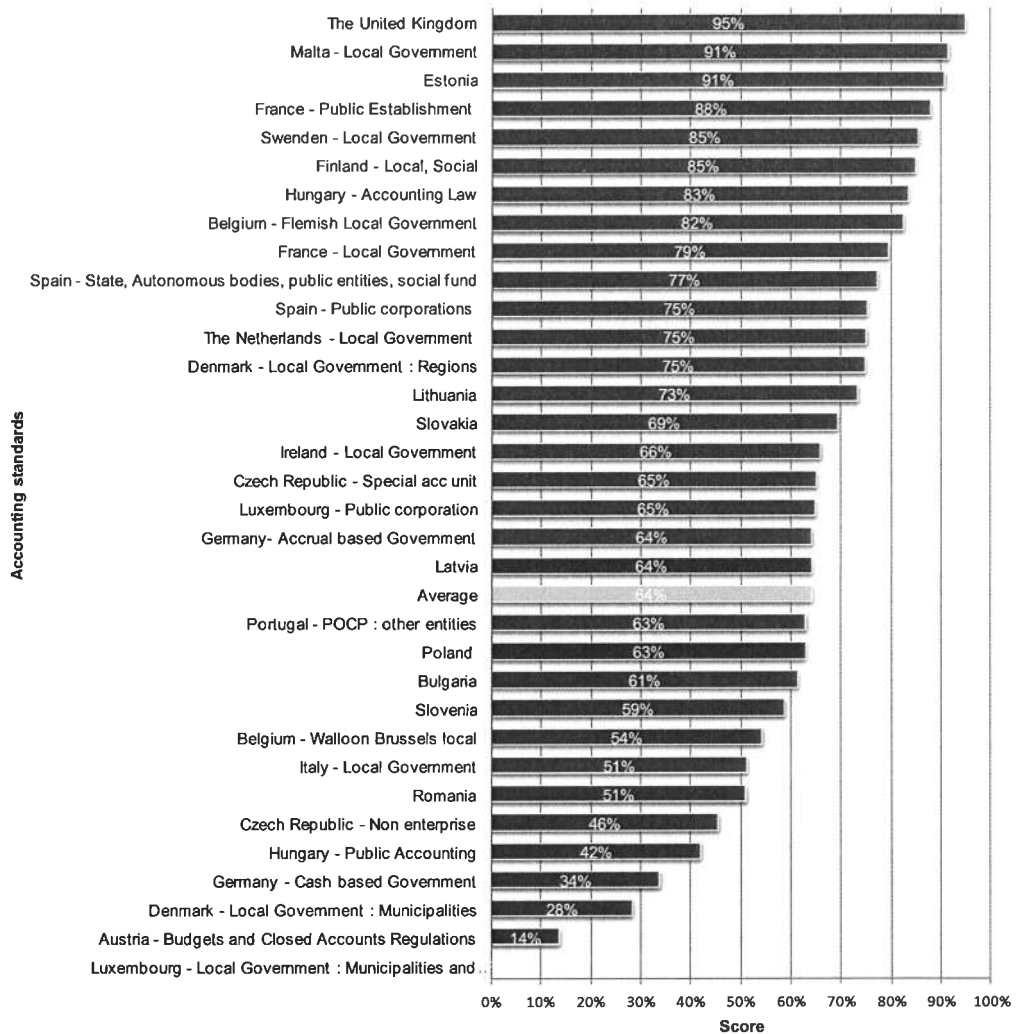
### **Accounting and auditing reforms**

All European countries are at different stages of accounting reforms which reflect the status of their accounting arrangements. A few countries are engaged in auditing reforms.

Countries with a cash-based accounting system are likely to be moving to accrual accounting. Countries which have recently joined the European Union seem to have implemented quick reforms and are now likely to be finalizing their accrual accounting systems.

The survey reveals that moving from cash to accrual accounting often takes more times than anticipated. It requires a lot of staff training and organizational changes. In Portugal, for instance, the move to accrual accounting was decided in the 1990s and, at present, accrual accounting has only been implemented in a limited number of entities in Portugal. Likewise in Lithuania, although the move to accrual accounting was fast, many issues remain unresolved. For instance, it was reported that many public accountants have difficulties in applying accrual accounting.

Figure 8: Nature of the local government accounting standards per Member State



69. The above Figure echoes the observations made for the central government. It is worth noting that in Denmark the local government appears to apply very heterogeneous standards. Indeed, although the regional public entities are all accrual-based, some municipalities still apply a cash-based accounting system.