Financial Accounting Advisory Services

GAAP conversion for the public sector
GAAP conversion for the public sector

Issues public entities are facing today

- **Transparency and accountability**: As the sovereign debt crisis has highlighted, high-quality accounting and financial reporting standards are vitally needed in the public sector to enhance transparency and accountability.

- **Demand for timely information**: Citizens, parliaments and other interest groups are increasingly demanding timely, reliable and detailed information from governments.

- **Dependency on capital markets**: Private investors and rating agencies, in particular, are not satisfied when governments only provide them with cash information. They want a broader range of data, such as pension liabilities and depreciation.

- **Robust financial management systems**: International financing and donor organizations are urging their beneficiaries to implement robust and sound public financial management systems. International Public Sector Accounting Standards (IPSAS) are the only globally accepted set of standards for the public sector.

- **Harmonized public sector accounting**: The European Union has expressed strong support for harmonized public sector accounting and is expected to use IPSAS as its starting point for the development of its new European Public Sector Accounting Standards (EPSAS).

EPSAS - Advantages and disadvantages

- **Disadvantages**
  - Implementation cost (EU level = € 1,2 à 6,9 billion)

- **Advantages**
  - Improved financial reporting
  - Increased transparency at EU level
  - Better use of public funds
  - Improved decision making
  - The development of an appropriate governance model for the EU
### EPSAS implementation timeline

- **EC Legal**
  - Communication EC (March – April 2015)
  - Framework Regulation (end 2015)
  - Standards as binding legal acts
- **EC Technical**
  - Definition EPSAS (2015)
  - Consolidation (2017-2018)
- **Member States**
  - Implementation EPSAS, prepare opening balance sheet (tot 2019)
  - Implementation EPSAS + consolidation (start 2019)
  - Implementation EPSAS + adjusting OB

### Conversion impact and challenges

- The new standards involve changes in presentation, new valuation rules and additional disclosure requirements.
- A successful conversion requires planning and change management across business processes, technologies, and the organization impacting both the group and business unit levels.
- ERP configurations will likely be impacted across multiple modules.
- Financial system architectures may require substantive modifications.

1. A conversion will impact all levels of accounting in an entity!
2. A conversions will impact several areas of the entity outside of the accounting function!
3. A top level conversion may not be sufficient!
EY’s GAAP conversion methodology

EY has structured its services around the major stages of the conversion process:

**GAAP conversion - steps 1 to 3**

1. **Sensitivity:**
   - Facilitating high-level conferences and round tables for politicians and senior executives
   - Awareness-raising initiatives, such as seminars and publications
   - In-house training for staff and other stakeholders

2. **Gap analysis and feasibility:**
   - Identification differences from existing accounting rules
   - Suitability assessment IT environment
   - Assessment capacities and capabilities
   - Development measures to close identified gaps
   - Roadmap development

3. **Legal foundation:**
   - Help ensuring conversion meets legal requirements
   - Supporting development of accounting standards
   - Developing accounting manuals
   - Designing chart of accounts
GAAP conversion - steps 4 to 6

4. Capacity building:
   - Development overall training strategy and concepts
   - High-level senior executive briefings
   - Content design for user training and train-the-trainer sessions
   - Training for public auditors
   - Additional training formats, such as e-learning

5. IT and processes:
   - IT assessment: selecting new ERP system, providing support in the new system design and implementation, supporting management of interfaces to subsystems
   - Improvement process landscape: assessment and redesign accounting processes and redesign operational processes

6. First-time adoption:
   - Identifying and valuing assets and liabilities (EY can carry this out or provide coaching services to the client)
   - Advice with respect to accounting options at first-time adoption
   - Development of a trial balance
   - Project management and support in quality checks

GAAP conversion - steps 7 and 8

7. Audit readiness:
   - Assessment of the audit readiness of an entity (accompaniment to the conversion)

8. Consolidation:
   - Training in consolidation principles and techniques and related knowledge transfer
   - Implementation consolidation processes and new IT system
   - Design reporting packages
   - Development consolidation guidelines/manuals
   - Consolidation process and project management
Why EY?

What benefits and outcomes can you expect?

**Comparability**
- Improved national, as well as international, comparability of public sector entities and improved consistency of financial information
- Quality of governmental financial information improves

**Transparency**
- Improved transparency can lead to better positioning in capital markets and lower costs of financing
- Stakeholders will be provided with better information about their government’s finances

**Accountability**
- Oversight of public spending strengthened
- With improved data, politicians and senior executives can effectively demonstrate the use of public funds and measure performance

**Decision-making**
- More accurate and comprehensive information for improved decision-making is available
- Better decisions with regards to risks, opportunities, cost awareness and cost-efficiency are possible

**Overall**
An updated accounting and reporting system can provide both governments and their stakeholders with better information on public sector financial performance

---

**EY publications**
- Guidance on applying IPSAS - IPSAS Explained: A Summary of IPSASs (Second edition)
  A global study on the state of public sector accounting - Toward transparency
  Illustrative IPSAS financial statements - Model Public Sector Group

**Strong connection to IPSAS Board**
- EY is the only Big Four organization currently represented at the IPSAS Board.

**IPSAS network**
- EY has a highly integrated global IPSAS network of more than 200 professionals in the field of public sector accounting.

**Multidisciplinary teams**
- EY’s multidisciplinary teams match to your needs in your GAAP conversion.

**Varied experience**
- EY has served ministries of finance, accountant general and auditor generals around the world.

**Robust conversion framework**
- EY has extensive experience working on IPSAS conversions and can provide a full range of conversion services.
About EY
EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization and/or one or more of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

© 2015 EYGM Limited. All Rights Reserved.
ey.com/be

Your EY contacts

Martine Blockx  
Partner FAAS  
+32 (0)2 774 94 31  
martine.blockx@be.ey.com

Marleen Mannekens  
Partner Assurance Services  
+32 (0)9 242 54 10  
marleen.mannekens@be.ey.com

Olivier Lemaire  
Associate Director  
+32 (0)2 774 63 25  
olivier.lemaire@be.ey.com

Corinne Degouys  
Senior Manager FAAS  
+32 (0)2 774 63 68  
corinne.degouys@be.ey.com

Catherine Ameye  
Senior Manager FAAS  
+32 (0)2 774 99 50  
catherine.ameye@be.ey.com

Guy Serraes  
Administrative Contractor  
+32 (0)9 242 51 76  
guy.serraes@be.ey.com

Carolien Redant  
Senior Manager FAAS  
+32 (0)2 774 63 02  
carolien.redant@be.ey.com

Johan Christiaens  
Assistant Director  
+32 (0)2 774 91 27  
johan.christiaens@be.ey.com

Lieven Penninck  
Executive Director  
+32 (0)2 774 91 32  
lieven.penninck@be.ey.com