



FEE Public Sector Roundtable, 1 April 2014, Brussels Harmonising European public sector accounting

SUMMARY

Disclaimer: This note aims to summarise the discussions held during the roundtable, which do not necessarily reflect FEE's views.

In the frame of the European public sector accounting standards (EPSAS) proposal stemming from the European Commission, [FEE hosted on 1 April 2014 the second roundtable dedicated to public sector accounting in Europe](#). The roundtable, "Harmonising European public sector accounting", brought together over 100 representatives from the policymaker, standards-setter, business, investor, civil society, financial and accountancy communities.

The event started with an opening statement from **FEE's President, André Killesse**, which was followed by a series of presentations by speakers. In the afternoon, the speakers engaged in a stimulating panel debate, aimed at defining the most realistic timeframe for implementation of standards.

The European Commission has made tremendous efforts to advance European public sector accounting. With last year's report on implementing harmonised public sector accounting standards in EU Member States, Eurostat has made a strong and convincing case for improved fiscal transparency and public sector accounting. Whether specific European public sector accounting standards (EPSAS) would be the appropriate way forward in the EU remains much debated.

FEE believes that although a global solution would be ideal in the long term, EPSAS may be the vehicle for helping Europe to move forward, if certain conditions are met. In particular, the EPSAS governance structure and the standard-setting process need to be fully transparent, broad stakeholder participation and public consultation are essential and above all it must be independent from undue influence and political tinkering. FEE has voiced this concern in its [recent Issues Paper](#), and is committed to continuing fostering the public debate on this matter.

Taking stock on EPSAS developments

Participants were updated on the tentative conclusions of the consultation regarding the proposed EPSAS governance structure, including the governance principles, the technical advisory group and the interpretation function proposed; however, further distinction is needed between the governance principles for the standard setting and core accounting principles for EPSAS development.

Although the debate on the move towards EPSAS still remains, it was noted that Member States have agreed on a core set of basic European public sector accounting principles (EPSAP). These include accruals-based accounting, double entry bookkeeping, harmonised financial reporting, and consistency with the European System of Accounts (ESA). Consistency with IPSAS was also mentioned. The optional governance advisory board was seen as not necessarily needed.

Debate on European harmonisation and IPSAS

The adoption of internationally recognised standards such as IPSAS will enhance international comparability, and ensure transparency of public financial accounts. The adoption of IPSAS by European Member States could be done through the means of an endorsement process or a Framework Regulation.

However, it was also noted that the existing IPSAS do not necessarily address the public-sector specificities of Member States. For instance, IPSAS do not provide the necessary standards for expenses and revenues for non-exchange transactions. A speaker noted that the preparation of consolidated financial statements for each Government sub-sector would be appropriate, and in line with general financial statements. The European Commission was asked to study specifically the existing shortcomings of certain IFRS, which cannot be applied *per se* to the public sector accounting models of some Member States.

A staged approach: which way forward?

It was reminded that IPSAS were first developed through a staged approach. The EPSAS standard-setting process would then also go through a staged approach. EPSAS will not be created from scratch, they are likely to be binding; be applied *ipso facto*, and a link between the standard-setting and the implementation is foreseen.

If EPSAS would be the agreed way forward, they should be progressively implemented by batches, by focusing on the following; the objectives of financial reporting, the practicalities of standard setting, and the implementation needs of Member States. The transaction approach, which appears to be the best way forward, could group the standards on the following criteria: assets, debt, revenues, and expenses.

What is a realistic timeframe for implementation?

→ Political will is essential

In implementing public sector accounting standards, panellists highlighted the importance of a strong political will stemming from governmental authorities, ensuring that the new standards will be properly implemented. The adoption and implementation of new standards must be non-partisan, in order to ensure continuity and smooth development. Panellists also stressed that one of the main challenges was to get the accrual-based standards used in financial statements.

→ **Thorough preparation is crucial**

When sharing the lessons learnt in the implementation process, panellists agreed that preparation time was paramount, in order to ensure a robust data quality, and engaging in several dry runs, aimed at ensuring the robustness of the transition process. A high quality IT implementation is one of the cornerstones of the process. Its operability stems from careful planning and risk-assessment, noting that it may be a significant investment for national authorities.

Panellists insisted that the change management process must be highly inclusive, involving all stakeholders in the public sector (the different administrations and individuals) and in the private sector; relevant stakeholders like Courts of auditors or private auditors must also accompany the transition.

National authorities must make sure that the necessary skills and competences are mastered by its staff, who must feel sufficiently empowered and committed to be part of the reform process.

→ **EPSAS implementation is challenging, and must be staged**

Panellists generally agreed that the timeframe proposed by Eurostat to fully implement EPSAS by 2020 is extremely ambitious. Given the diverse starting points of Member States or the differences within governmental bodies in one Member State, a homogeneous implementation period might not seem feasible. It was thus suggested to group Member States and governmental bodies based on their needs for implementation; from cash-based accounting to accruals-based accounting; from partial accrual accounting to full accrual accounting; and from a full accrual accounting system to EPSAS.

Moreover, a focus should be made on transactional groupings; expenditures, tax, pensions, social benefits, debt and reserves, and financial instruments. Panellists agreed that a consensus should be found on the main principles regarding European public sector accounting, perhaps through the Framework Regulation.

It was also noted that bond buyers could help drive reform, as financial markets also play a key role in public finances. Accountants also have a very important role to play in the implementation process, as they will participate in the preparation of accounts, and give their opinion on the final data.

Conclusion

Olivier Boutellis-Taft, FEE's CEO, thanked panellists for the quality of the debate, and participants for the challenging questions they asked and concluded the debate.

He reminded participants that FEE has always supported high-quality principle-based standards. Robust principles would help move all member states in the same direction towards more transparency and comparability. Similarly, having a good conceptual framework would contribute to preventing divergences later down the road. However working toward principles should not be a disguised way of postponing difficult decisions and avoiding the implementation of binding and international standards which are much needed.

The idea of a conceptual framework to achieve these principles should be carefully considered. Any solution should ensure that Member States, who provide high-quality financial reporting and a high degree of transparency and have already implemented accruals-based standards, should not be forced to align on less demanding standards.

Whilst some may be reluctant to change, Olivier Boutellis-Taft stressed that Europe no longer had this luxury: action must be taken in order for Europe to regain its credibility and efficiency with respect to both its economy and social welfare. Europe needs bold decisions to move forward; in this respect, a single set of international standards would prevent isolating it.

The staged approach put forward seems to be a sensible option, as it would allow Member States which are most advanced in accruals-based accounting to proceed with their existing systems while others continue working on necessary improvements. However, the state of Europe's public finance raises a sense of urgency and he noted that the example of Portugal shows that pressure and constraint can help drive change.

Olivier Boutellis-Taft supported the critical points many made during the discussion; political leadership is instrumental and most needed, but may sometimes be missing. He praised the representatives of Eurostat and Member States administrations present for doing their fair share and highlighted that it is the responsibility of citizens, tax payers, public servants, investors – and professionals, to call for greater transparency in public finance and for sustainable and responsible public management. Accompanying the reform towards full accruals-based accounting principles in the European public sector is instrumental. The accountancy profession fully plays its public interest role in this debate.

As FEE will continue to carefully monitor the development of the EPSAS proposal, and engage fully in taking the subject forward, Olivier Boutellis-Taft invited speakers and participants to FEE's next roundtable.