



GFS quality management and  
government accounting  
European Commission  
Eurostat D4  
BECH B4/401  
5, rue Alphonse Weicker  
L-2721 Luxembourg

19 February 2014

Ref.: PSC/AKI/OBT/PWE/JPL

Dear Sir, dear Madam,

**Re: FEE comments on Eurostat's consultation on future EPSAS governance principles and structures**

FEE (the Federation of European Accountants, [www.fee.be](http://www.fee.be)) has taken note of the public consultation launched by Eurostat on the future EPSAS governance principles and structures. The reply to the consultation is attached to this letter.

FEE avails itself of the opportunity given by this public consultation to raise a series of points regarding the development and implementation of EPSAS.

First of all, it is to be stressed that FEE has always supported accruals-based accounting in the public sector and fully supports its implementation at all levels of government. The majority of EU Member States have already implemented accruals accounting or are at least in the process of doing so.

A single set of high quality principle-based standards could greatly contribute to stability and sustainability of public finance – accruals-based accounting standards would ensure completeness and reliability of information; harmonised public sector accounting standards would enhance comparability.

International standards (IPSAS) already exist. They are the only recognised set of international standards. They are based on IFRS, which are endorsed in the EU and they have been developed through a thorough due process including public consultation with the opportunity for everybody (also in Europe) to contribute.

As any set of standards, IPSAS may have pros and cons for certain stakeholders, or some shortcomings. Critical voices point out that they are not complete in terms of coverage (e.g. social benefits), they need to be updated in line with IFRS developments, they provide options between alternative accounting treatments and the current governance process lacks public oversight. Never the less, most of these issues could be solved.

As a result of the consultation on the suitability of IPSAS, the European Commission now suggests developing European standards (EPSAS).

After due consideration and debate with the profession across Europe, FEE has identified some concerns related to the development and implementation of EPSAS:

- a. Duplicating the organisation and the effort of creating public sector standards for the EU when global standards are already available does not seem to be entirely logical and cost efficient. In this respect, there might be other, more time- and cost-efficient solutions to make accruals accounting mandatory in the EU and ensure that Member States use the same model, for example an EU endorsement of IPSAS. Taking into account that IFRS are used in some countries for public sector accounting, it might also be worth leveraging their experience.
- b. Developing EPSAS for the EU within the European Unions' legislative process has limited chances to produce a timely and harmonised solution, as 28 Member States would need to agree. This problem occurs in any area of EU legislation; a recent example is the EU Accounting Directive, which has casted light on the difficulties in brokering a consensual, European common approach. The number of Member State options left in this directive can only prove the challenges incumbent to harmonising financial information at a European level. The problem is even more likely to occur when EU legislation has an impact on Member States' financial statements and the related transparency.
- c. Developing EPSAS for the EU within the European Unions' legislative process also makes the standard setting process vulnerable to political tinkering. When developing the standards as implementing acts, decisions in the EPSAS Committee would be made by representatives from Member States, who may want to push forward their domestic agenda regarding public sector accounting. The standards produced in such process and the financial statements produced on the basis of such standards might trigger less investor confidence than those produced on the basis of independent international standard setting.

Additional to these general concerns, the governance structure proposed by the European Commission poses additional concerns, for example in terms of stakeholder involvement (please refer to the consultation response).

Although in the long-term, a global solution would be ideal, FEE is aware that political compromises may have to be made to encourage some Member States to move towards accruals accounting. The development of EPSAS may be the vehicle for helping Europe to move forward, but if that is the case, we strongly urge the Member States and the European Commission to align EPSAS as closely as possible to IPSAS.

In this respect, FEE would support the development of EPSAS under the following conditions:

- a. The EPSAS governance structure and the standard-setting process need to be fully transparent and include broad stakeholder participation as well as public consultations. It would be wrong to assume that public sector accounting is only an issue for competent authorities, regulators and civil servants. It is a public interest issue and therefore multi-stakeholder involvement is important at any stage of the standard-setting process. As the provision of appropriate resources is an important condition before standard setting can start, we cannot understand from the proposed governance structure put forward how this resource need will be met.
- b. The governance and the standards-setting process should be independent, protected from any undue influence, should not fall hostage of national interest and should effectively prevent potential political tinkering.
- c. In any instance, the solutions that have been chosen should be publicly explained. In order not to fall behind the level of transparency already reached in some Member States and the European Commission itself who are already using internationally accepted standards (IPSAS or IFRS conversion), EPSAS should be as close to IPSAS (IFRS) as possible, any divergences and reasons to diverge should be clearly disclosed, explained and justified.
- d. Once approved the standards should be consistently applied and all Member States should provide as a minimum the detail and quality of information required by the approved standards. Any other approach would dilute the benefits of having one set of standards. Therefore, to avoid this problem, a regulation seems to be the most suitable model to ensure an effective harmonisation of public sector accounting in the EU. Countries that already have implemented public sector accounting standards should not have to compromise transparency by adopting less rigorous standards.

FEE firmly believes that the European Commission should promote the development of transparent and comparable financial information across the EU and establish a roadmap for all Member States to undertake the implementation of accruals accounting. The public sector in the EU should take a leading role in initiatives to improve reporting in future.

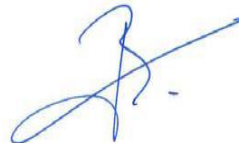
FEE trusts that you will take these matters into account. Please be assured that the accountancy profession and FEE remain committed to contribute to this important public interest debate and to advance public sector accounting standards.

For further information on this matter, please contact Ms. Petra Weymüller, FEE Senior Manager, on +32 2 285 40 75 or via e-mail at [petra.weymuller@fee.be](mailto:petra.weymuller@fee.be).

Yours sincerely,

A handwritten signature in blue ink, appearing to be 'AK', written in a cursive style.

André Killesse  
FEE President

A handwritten signature in blue ink, appearing to be 'OBT', written in a cursive style.

Olivier Boutellis-Taft  
FEE CEO



## FEE response to EC consultation on EPSAS governance and structure

1. Please state the main motivation of your interest in this public consultation.

*FEE (Fédération des Experts-comptables Européens – Federation of European Accountants) is an international non-profit organisation based in Brussels that represents 48 institutes of professional accountants and auditors from 36 European countries, including all of the 28 EU Member States.*

*FEE has a combined membership of more than 800.000 professional accountants, working in different capacities in public practice, small and large accountancy firms, businesses of all sizes, government and education, all of whom contribute to a more efficient, transparent and sustainable European economy.*

*FEE's objectives include analysing and contributing to professional, regulatory and public policy developments of relevance to the profession, ensuring Member Bodies' timely information and offering leadership in representing the profession. FEE also promotes cooperation between its Member Bodies. In representing the European accountancy profession, FEE recognises the public interest. FEE is also a Regional Organisation of IFAC, the International Federation of Accountants.*

Key governance principles

2. Do you consider that the sets of principles described for the EPSAS governance structure and process as well as for the EPSAS standards are relevant? (Yes, No, Partly)

Yes

3. Please provide any comments or proposals on the principles.

*EPSAS standards should be consistent between themselves and over time. It would therefore be useful to confirm, as part of the EPSAS accounting framework regulation, the principles included in the consultation paper and to develop conceptual guidelines in advance of the standard setting.*

*Internal consistency and comparability of the standards across EU Member States is of utmost importance and is the primary objective; international comparison should also be considered as an objective. Deviations from IPSAS should be carefully considered. If such deviations should be decided, a mere explanation of the existing differences between IPSAS and EPSAS is not sufficient. The reasons why such departures from IPSAS would be decided would need to be fully documented and transparency should be made regarding differences in views that experts / stakeholders would have on the EPSAS accounting treatment proposed.*

*In terms of international comparability, the long-term aspiration should be to adopt internationally recognised standards, which would further enhance the credibility of the government financial statements in a globalised world. It would benefit to all stakeholders, including investors in sovereign bonds (also coming from outside the EU). Having global standards may have a positive impact on Member States capacity to attract global investors and finance their debt.*

*Concerning independence and neutrality in standard setting, although we understand that EPSAS should be finally decided at political level by the Member States' representatives, we are concerned that the EPSAS standard-setting process is almost exclusively in the hands of government officials. One of the criticisms impacting the acceptance of IPSAS in the EU is related to the lack of a suitable governance structure. In this context the European Commission needs to ensure that it has addressed this issue adequately. In this respect, these proposals do have some shortcomings. FEE believes that there is a great risk that other key objectives such as transparency, reliability and relevance are not met. The EPSAS governance framework as it is currently presented does not provide sufficient guarantee as to the independence and the impartiality of the standard setting process. Concerning competence and capacity, the key body in the EPSAS standard-setting process will be the EPSAS Committee, exclusively composed of high-level representatives of the Member States public administration. However, the EPSAS Working Group EPSAS Standards will be of significant importance to the process of standard setting as to our understanding the drafting would be done at this level. According to the governance proposal, EPSAS working groups and EPSAS task forces which should support the work of the EPSAS Committee will –additionally to representatives of Member States - comprise of experts from government accounting authorities and standard-setters. It is FEE's view, that via invitation to the Working Group EPSAS Standards, the Commission need to ensure that other accounting experts (experienced professionals, academia, etc.) have sufficient opportunity to participate in the interest of independence of standard setting. The participation of these experts should not be limited to the EPSAS Technical Advisory Group. The quality of the accounting debates can only be enhanced if these benefit from the views of experts having a more diversified and wider background. These should also have a sufficient influence in the standard setting. In addition to the fact that experts who are very knowledgeable of the accounting topics to be discussed would not be automatically included in the standard-setting process, it is paramount to ensure that the best experts be associated to the standard-setting process. Indeed, many governments still apply cash-based accounting practices, and FEE believes that all members of the EPSAS Committee should have the necessary practical experience and skills to bring a high-quality contribution to the development of accruals-based EPSAS. Moreover, FEE believes that public sector accounting should remain politically-neutral. However, there is a risk of "political tinkering" due to the fact that the EPSAS Committee will be composed of representatives from Member States, who may want to push forward their domestic agenda regarding public sector accounting.*

#### Governance oversight

4. Following the normal institutional organisation within the EU, the EPSAS governance would be subject to oversight by the Commission itself, and by the Council, the European Parliament and the European Court of Auditors. Do you consider that any further oversight function should be established? (Yes, No)

Yes

4a. Do you consider that the oversight role of the EPSAS Governance Advisory Board as outlined in the consultation paper would be appropriate for EPSAS? (Yes, No, Partly)

Partly

5. Please provide any comments or proposals on the oversight.

*The role of the EPSAS governance advisory board depends on how it organizes the standard-setting process. If users, investors and professional accountants are not sufficiently involved in the standard-setting, the duties and undertakings of the governance advisory body will become increasingly important.*

Stakeholder involvement

6. Taking into account that stakeholders` views could be collected by open consultations during the standard setting process, do you consider that an organised, formal representation of EPSAS stakeholders should be established? (Yes, No)

Yes

6a. Do you consider that the role of the EPSAS Technical Advisory Group as outlined in the consultation paper would be appropriate for EPSAS? (Yes, No, Partly)

Partly

7. Please provide any comments or proposals on stakeholder involvement.

*Stakeholders should be involved in setting the standards. Stakeholders, including technical experts coming from the accounting and audit profession, academia, etc. would only have a very minor influence through their participation in the EPSAS Technical Advisory Group. Participation of these other categories of stakeholders should be foreseen at the level of the EPSAS Committee itself. The quality of the accounting debates can only be enhanced if these benefit from the views of experts having a more diversified and wider background.*

8. If you think that both the EPSAS Governance Advisory Board and the EPSAS Technical Advisory Group would be appropriate for EPSAS, could their role and tasks be fulfilled by a single advisory group? (Yes, No)

No

8a. Please provide any comments or proposals on a single advisory group.

*In the interest of independence of standard setting, we believe that the oversight body should be not involved in the standard setting process at all and therefore should be clearly separated from a technical advisory body. Regarding EPSAS Technical Advisory Group, FEE favours the direct involvement of stakeholders in the standard-setting process rather than creating an extra body which would have more of a formal role rather than providing input in the decision-making process.*

Interpretation of the standards

9. Do you consider that an interpretation function should be foreseen for EPSAS?(Yes, No)

Yes

9a. Do you consider that this interpretation function should be kept separate from the standard setting function? (Yes, No)

No

10. Please provide any comments or proposals on the interpretation?

*We do not see an urgent need for EPSAS interpretation working groups. Focus should first be made on developing high-quality standards (possibly including some additional guidance where needed) before interpreting what does not exist yet. As EPSAS develop and become widely applied, this might be reconsidered in the light of the experience gained over the years.*

Do you have any additional comments concerning the proposed EPSAS governance structure?

*On the proposed governance structure per se, FEE has no further comments than those already expressed. Please refer to the attached cover letter for FEE's views on EPSAS in general.*