



Sovereign debt crisis: How can accounting be (part of) the solution?

FEE Public Sector Roundtable

15 June 2016, Brussels

Summary

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

On 15 June 2016 the Federation of European Accountants (the Federation) organised the 5th edition of its roundtable series dedicated to public sector accounting. It brought together European and national policy makers, representatives from the public sector, and accountants and auditors from across Europe. The purpose of the roundtable was to explore the benefits of accrual accounting for politicians and civil society, as well as how accrual accounting could help governments better manage their resources.

The Federation's President **Petr Kriz** opened the event by welcoming the attendees and speakers. He emphasised the importance of accurate and complete financial information for politicians in order to improve their financial decision-making. Accrual-based accounting (in brief: accruals) can produce such information.

Why accruals?

In the first panel session the benefits of accruals for a wider audience including national governments, investors, and taxpayers were discussed.

For governments and public sector entities, the information produced by an accounting system has to be relevant – having better information is key, and **better** does not necessarily mean **more**. Better information is useful for the purpose of accountability: internal, between different level of governments or institutions, and towards taxpayers. Better information is also a useful basis for decision-making – but it must actually be used in practice by the decision-makers.

From the taxpayer's side, transparency was mentioned as key factor when it comes to the management of public funds. Transparency leads to more trust in the government as well as better use of taxpayers' money. Accruals is a transparent accounting system, but other measures are also needed, for example sanctions in case of mismanagement of public funds.

For investors, comparability is important and this comparability should be global. Europe should have a strategy to implement accruals systematically; impact assessments can help in this regard. When setting standards for accruals, the process must be transparent and independent. A government accounting quality index could be a tool for rating agencies.

Overall, speakers agreed that not using accruals has downsides for all stakeholders. There should be a better understanding of the problem. There is still much work to be done to convince politicians – and action from their side is essential for a successful transition to accruals.

What do Member States want?

In the second panel session Member States' delegates elaborated on their expectations of accruals and in particular the political context of implementation.

In the City of **Hannover**, the transparency of accrual accounting system is acknowledged as higher than in the previous system. However, the implementation of the current accounting system had high cost implications. Some concerns were expressed that the government will have to go through yet another implementation process in a very short period.

A study group has been established in the **Netherlands** to have an open discussion on the costs and benefits of implementing accruals. The cash system remains important to the public sector and accruals can supplement that. The accountancy profession should take a step forward and make this information understandable to a wider audience. All Member States should operate on a harmonised basis.

Slovakia had a good starting position to switch to accruals but faced some issues during the implementation process. Education of public officials on how to work with the system was crucial. National standards seemed to be a better choice for the smaller country. Slovakia's current concerns are the quality of consolidated statements and the low use of data obtained from accruals.

Strong political support was a major success factor for the accounting reform in **France**. The key concern was the importance of understandable financial statements especially for a wider audience. In the long term, a consistent use of the accounting system is important.

How does the EU help?

The European Commission is working on European Public Sector Accounting Standards (EPSAS). The rationale for this was that a balance sheet crisis and a sovereign debt crisis was behind the financial crisis, which emphasised the importance of public sector accounting. The private and public sectors should be treated equally, there is no need to have different accounting systems. The potential future EPSAS can help provide more financial transparency and sustainable public finances, and when used across the EU it will allow for better comparison. EPSAS should be based on international standards, e.g. IPSAS.

Olivier Boutellis-Taft, CEO of the Federation of European Accountants, encouraged the participants to continue the conversation on accruals and look for ways to improve. There is a growing interest from NGOs and civil society in financial public information, and investors are calling for progress in the area. Accountants should contribute to the debate.