

Briefing paper on EPSAS

Standing for trust and integrity

October 2014

Public Sector Accounting Standards

This briefing paper gives an overview of the European Commission's initiative to develop European Public Sector Accounting Standards (EPSAS) and the related activities of FEE. It also contains relevant information about the functioning of EU policy and legislation.

1. Why does the European Commission deal with EU Member States' public sector accounting?

The Council Directive on requirements for budgetary frameworks of the Member States requires high quality government finance statistics data from EU Member States to ensure a proper functioning of EU fiscal surveillance. For that purpose, the implementation of uniform and comparable accruals-based accounting practices for all the sectors of General Government in EU Member States (Central Government, State Government, Local Government and Social Security) could help ensure quality data.

As an internationally recognised set of standards for public sector accounting is available in form of IPSAS,¹ the European Commission chose to consult stakeholders about the suitability of IPSAS for EU Member States in 2012.

The European Commission received 68 responses to its consultation from a variety of stakeholder groups, including several types of public authorities, organisations, and associations, as well as private individuals.

FEE FEE's response to the consultation: FEE supports high quality global accounting standards and accruals-based accounting. FEE believes that once IPSAS fully become a stable platform for public sector accounting, their implementation will certainly enhance transparency, comparability, accountability and provide a basis for improved governance in the public sector. In our view, the implementation may be costly depending on the circumstances but it is expected that the (partly intangible) benefits would still outweigh costs in medium and long term.



EU info: When the European Commission starts working on a new policy initiative or revises existing legislation, it usually opens a public consultation. Individuals, businesses and other organisations with an interest in or expert knowledge on a given topic can respond to help shape the Commission's views. The consultations and the summaries of the responses are published on the Commission's website.

2. Why does the European Commission suggest developing European Public Sector Accounting Standards (EPSAS)?

After having analysed the outcome of the consultation, the European Commission published the report "Towards implementing harmonised public sector accounting standards in Member States" in March 2013.


In this report, the European Commission concludes that based on the input received from stakeholders it seems clear that IPSAS cannot easily be implemented in EU Member States as it stands currently for the following reasons:

- At present, the national government accounting standards of 15 EU Member States make some link to IPSAS. Of these, nine have national standards based on or in line with IPSAS, five make some references to it and one uses it for some parts of local government. However, despite recognition of the high value of IPSAS, no Member State has implemented it in full.
- Concerns raised by stakeholders referred for example to the fact that currently, the IPSAS standards do not describe sufficiently precisely the accounting practices to be followed, the suite of standards is not complete in


¹ International Public Sector Accounting Standards, IPSAS, are developed and overseen by the IPSAS Board, which is an independent standard-setting body. The IPSAS standards are founded on International Financial Reporting Standards (IFRS), adapted as necessary to the specific requirements of the public sector. IPSAS standards are focussed on accruals-based accounting.


terms of coverage or its practical applicability to some important types of government flows, such as taxes and social benefits, that IPSAS lack the capacity to resolve the problem of consolidating accounts, that participation from EU public-sector accounting authorities in the standard setting process is insufficient and that the IPSASB is not governed by monitoring and oversight bodies.

The European Commission believes that European Public Sector Accounting Standards (EPSAS) would give the EU the capacity to develop its own standards to meet its own requirements with the requisite rapidity. It would offer a set of harmonised accruals-based public-sector accounting standards, adapted to the specific requirements of EU Member States that could be implemented in practice.

 FEE's press release: FEE has been a long standing supporter of accrual-based accounting in the public sector and welcomes the report, which is an important step forward – a single set of high-quality standards would greatly contribute to stability and sustainability of public finance. Nevertheless, before creating EPSAS it is essential to gather more information and points of view, including comprehensive stakeholders' consultations.

In May 2013, the European Commission organised the conference "Towards implementing EPSAS". Based on input from participants of the conference, the European Commission concluded that EPSAS were seen as a necessary tool for further fiscal and budgetary integration in the EU.


 FEE's speeches: FEE CEO Olivier Boutellis-Taft spoke on "The need for fiscal transparency and harmonised public sector accounting standards". Thomas Müller-Marqués Berger, Chair of the FEE Public Sector Group, was representing FEE on the panel on "Accounting standards, governance, the way forward".


 EU info: After a public consultation, the European Commission reports to the Council and the European Parliament about the outcome of the consultation and the Commission's conclusions. A report can contain suggestions for future actions, but the report as such has no legal impact.

3. How did the EPSAS project proceed?


Developing the idea of EPSAS further, the European Commission issued a public consultation on future EPSAS governance principles and structures in November 2013.

The European Commission believes that the legal basis for EPSAS should be established in a Framework Regulation. The EPSAS standards would take the form of binding legal acts, developed by a Committee that is composed of representatives of Member States and chaired by the European Commission. The Committee would be supported by technical working groups and task forces. Other stakeholders would be involved via consultations or as observers. The European Commission believes that IPSAS should serve as reference point for EPSAS.

 FEE's response to the consultation: FEE reiterated its support for accruals-based accounting in the public sector. Although international standards would be preferable for harmonising public sector accounting, European standards (EPSAS) could be acceptable under certain conditions (see 4.). Nevertheless, the governance structure proposed by the European Commission poses concerns, for example in terms of stakeholder involvement.

 EU info: A regulation is a binding legislative act. It has to be applied in its entirety across the EU directly. This is the difference to a directive, which needs to be transposed by Member States.

In order to proceed further with the project, the European Commission has set up two expert groups: a Task Force on EPSAS governance and an EPSAS Working Group.

 FEE is engaged in the work of these groups.

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4. The FEE position on EPSAS

With its series of roundtables on public sector accounting, FEE has provided a forum to discuss and influence the harmonisation of European public sector accounting with European and national policymakers, representatives from the public sector, accountants and auditors. Summaries of the events of 22 January 2014, 1 April 2014 and 17 July 2014 are available on the FEE website, together with presentations, photos and videos. The series of roundtables will continue along the EPSAS development.

In its issues paper on EPSAS, FEE points out that a global solution, i.e. international standards – which already exist in form of IPSAS – are the preferred solution.

EPSAS – which would need to be developed – give rise to a number of concerns, for example:

- An isolation of the EU on global financial markets if financial statements are not comparable on international level;
- A duplication of work in an area where international standards are already available;
- A lack of chances for a timely solution due to the EU legislative process where 28 Member States need to agree;
- A risk of making the standard setting process vulnerable to political tinkering.

However, taking into account that there is an urgent need for a reform of public sector accounting with the objective of greater transparency and accountability and that mandatory accruals-based accounting and harmonised public sector accounting standards are one of the key instruments which can contribute to achieving it, EPSAS could be acceptable to encourage EU Member States to move towards accruals-based accounting and increase the quality of their reporting.

Nevertheless, a number of conditions would need to be met:

- The EPSAS governance structure and the standard-setting process would need to be fully transparent and include broad stakeholder participation as well as public consultations;

- The governance and the standard-setting process should be independent, protected from any undue influence, should not fall hostage to national interest and should effectively prevent potential political tinkering;
- The solutions that have been chosen should be transparent and sufficiently 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;
- 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.

5. What are the next steps in the EPSAS project?

The European Commission is working on a Communication regarding EPSAS and on the Impact Assessment regarding an EPSAS Framework Regulation. They plan to publish both in October.



EU info: A Communication is a policy document with no binding effect. The Commission takes the initiative of publishing a Communication when it wishes to set out its own thinking on a topical issue.

Impact assessments are prepared for Commission initiatives expected to have significant direct economic, social or environmental impacts. An impact assessment gives decision-makers evidence regarding the need for EU action and the advantages and disadvantages of alternative policy choices.

On 1 October 2014, the European Commission published a study which analyses the potential costs and benefits of implementing EPSAS in the Member States and the suitability of IPSAS for developing EPSAS. The study aims to inform the EPSAS Communication, the related impact assessment and the EPSAS legislative proposal planned by the Commission.

The possible timeline of the European Commission is as follows:

2014/2015: Propose a Framework Regulation including a core set of European Public Sector Accounting Principles (accruals-based accounting, double entry book-keeping, harmonised financial reporting with IPSAS as first reference base, consistency with ESA principles).

2015 - 2020: Develop batches of EPSAS standards in a staged approach.



FEE will analyse the European Commission's Communication and Impact Assessment and

comment where appropriate. FEE will also monitor the potential legislative process and contribute where appropriate.



EU info: The European Commission can propose the framework regulation. In order to become law, the proposal would then need to be adopted by the European Parliament and the European Council (composed of Member States' representatives), which is the EU's ordinary legislative procedure. The standards would be issued by the European Commission as separate legal acts (delegated acts or implementing acts).

About FEE

FEE (Fédération des Experts-comptables Européens – Federation of European Accountants) is an international non-profit organisation based in Brussels that represents 47 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.

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