



European Commission - Eurostat
Directorate D: Government Finance Statistics
Joseph Bech building
5 Rue Alphonse Weicker
L-2721 Luxembourg

By email: [ESTAT-
IPSASconsultation@ec.europa.eu](mailto:ESTAT-IPSASconsultation@ec.europa.eu)

4 June 2012

Dear Sir or Madam,

Re: FEE Comments on the Eurostat's public consultation on the suitability of the IPSAS for EU Member States

- (1) FEE (the Federation of European Accountants) is pleased to provide you with its comments on the Eurostat's public consultation on the suitability of the IPSASs for EU Member States (the "Consultation").
- (2) FEE supports high quality accounting standards in the public, not-for-profit and the private sector which are based on robust and clearly articulated principles. FEE has also been long supportive of the work of the IPSASB.
- (3) The sovereign debt crisis and the related government fiscal crisis emphasised the need for better transparency, accountability, adequate financial management, quality financial reporting and auditing in the public sector. There is a genuine need for reliable and relevant financial reporting to protect the interest of the public and foster stewardship in the public sector.
- (4) High quality accrual-based accounting has a beneficial role to play to restore and contribute to an efficient and sustainable EU economy. It creates the necessary transparency to identify matters, thus enabling their resolution.
- (5) While cash based accounting is still a widespread practice in the public sector, it only represents a stepping stone to full and complete disclosures and does not come close to reflecting the complexity of the government's and other related public sector organisations' operation. Accrual-based accounting provides more reliable information which is more suited to supporting decision making and fostering stewardship in the public sector.
- (6) On that basis, *we support the implementation of the IPSASs*. Although, it is on the understanding that they will be completed on public sector specific issues and become a stabilized referential point for public sector accounting.
- (7) After having finalised the core set of IPSASs and the convergence programme with IFRSs, the IPSASB should continue to focus on public sector specific standards in the short term. The time that is needed for the IPSASB to complete its work plan would need to be taken into account while deciding about their implementation.

- (8) We also recognise that there are major challenges and other practical issues (e.g. limited existing capabilities or accounting systems) in implementing IPSASs in many countries in the short term. Countries are at different stages of implementing accrual accounting and those countries that are still using cash based accounting would need more time to adopt IPSASs. All the different challenges present in the European countries should be factored into the decision on the timetable for implementation.
- (9) It would be also important to reassess the current governance arrangements for the IPSASB, with specific consideration to the public sector, to enable it to gain wider acceptance of the standards. We are aware of the ongoing assessment by IFAC and various governments, therefore we recommend the European Commission to engage with these stakeholders.
- (10) In addition, other important matters such as endorsement process, implementation and enforcement of the standards, audit, internal control system and education of the public sector accountants should also be considered in the context of the implementation process of the IPSASs.
- (11) In summary, we believe that once IPSASs 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.

Our detailed responses to the questions in Consultation are included as an Appendix to this letter.

For further information on this letter, please contact Tibor Siska, project manager, at the FEE Secretariat on +32 2 285 40 74 or via e-mail at tibor.siska@fee.be.

Yours sincerely,

Philip Johnson
President



Encl.

Question 1**Please state the main motivations for your interest in this public consultation.**

- (12) FEE is an international not-for-profit organisation based in Brussels that represents 45 institutes of professional accountants and auditors from 33 European countries, including all of the 27 EU Member States.
- (13) FEE has a combined membership of more than 700.000 professional accountants, working in different capacities in public practice, small and big accountancy firms, businesses of all sizes, government and other public sector organisations and education, who all contribute to a more efficient, transparent and sustainable European economy.
- (14) FEE supports high quality accounting standards in the public, not-for-profit and the private sector which are based on robust and clearly articulated principles. It strongly believes that high quality accounting standards would greatly contribute to transparency and efficient public finance management and audit.
- (15) For many years, FEE has been closely following the developments of IPSASs. It has also actively contributed to their development by having regularly responded to the IPSASB's consultations. We support and commend the IPSASB for what it has achieved and accomplished to date in establishing and developing a set of principles-based accounting standards for the public sector.

Question 2**Do you consider that International Public Sector Accounting Standards (IPSASs) are suitable for implementation in the EU Member States? (Yes/No/Partly)**

- (16) Yes.
- (17) While we support the implementation of accrual basis IPSASs for the EU Member States, we have also raised some additional points that we believe the European Commission would need to address and factor into its decision about the timetable for implementation, as detailed below in the following sections.

Please explain the main reasons for your answer, and provide any available supporting information for your answer. If you answered "partly" or "no", do you consider that accruals accounting standards would nevertheless be suitable for implementation in the EU Member States?***High quality financial reporting enhances transparency and accountability in the public sector***

- (18) The financial crisis underscored the importance of the availability of timely and reliable fiscal data, and emphasised the seriousness of the results of insufficient financial reporting and management in the public sector. These issues and the accountability of public sector are at the centre of many debates worldwide.

Appendix - Responses to specific questions included in the Consultation

- (19) High quality accounting has a beneficial role and added-value to the efficient and sustainable operation of the EU economy. It will create the necessary transparency to identify matters, thus enabling their resolution, and by that contribute to financial stability.
- (20) The implementation of high quality financial standards that the governments at all levels can use is essential to provide accurate information about their operation and financial position to the public. It would also provide the necessary financial, fiscal and other information to make skilful decisions about resources available to the governments at all levels resulting in better public services.

Cash accounting is important but not satisfactory

- (21) We note that cash based accounting is still a widespread practice in the public sector. We also acknowledge the usefulness of cash accounting but it only represents a stepping stone to full and complete disclosures and does not come close to reflecting the complexity of the government's and other related organisations' operation. As a result, organisations in the public sector where only cash accounting is in use do not always have an up-to-date record of all their assets and liabilities, which makes them more vulnerable.
- (22) Accruals based accounting provides better information (including a cash flow statement) on the economic situation of the government and other related government organisations, and the information provided is more suited to supporting decision making and fostering stewardship.

IPSASs have the greatest potential to become fully applicable for public sector accounting

- (23) We support the implementation of IPSASs on the understanding that they will be completed on public sector specific issues and become a stabilized referential point for public sector accounting. Please also refer to q7 for other important matters in relation to the implementation of IPSASs.
- (24) We support the work that has been done by the IPSASB to date, addressing some important specific public sector issues such as non-exchange transactions, non-cash generating assets and other conceptual issues (e.g. objective of the financial statements, the users and their information need) that are different and therefore not covered in other, more commercially focussed accounting frameworks.
- (25) After having finalised the core set of IPSASs and the convergence programme with IFRSs, the IPSASB should continue to focus on public sector specific standards in the short term. In particular, it should finalise the conceptual framework which will provide a basis for development of other specific standards. On that basis, IPSASs will become fully applicable for public sector accounting.
- (26) We recognise that there are major challenges and practical problems in implementing IPSASs in many countries in the short term. Countries are at different stages of implementing accrual accounting and for those countries that are still using cash basis accounting, there would need to be more time to gradually introduce IPSASs. Hence, the timetable for implementation should be carefully assessed by taking into account all these challenges present in different EU countries.

Question 3**What do you consider would be the main advantages, opportunities and benefits from any future implementation of IPSAS in EU Member States?**

- (27) Once IPSASs fully become a stable platform for public sector accounting, the implementation of their principles will enhance transparency, comparability, cost efficiency and provide a basis for improved governance in the public sector.
- (28) Through their robust and principle-based standards, it will support long term thinking and help governments anticipate future financial difficulties (e.g excessive deficit or defaults), meet their future obligation (e.g. guarantees, warranties, pension liabilities, social contribution etc.) and seize the opportunities for efficiency gains.
- (29) IPSASs also work towards alignment with National Accounts (GFS/SNA). There is a common understanding and agreement, that financial accounting and statistical accounting should be widely aligned (common chart of accounts, elimination of differences in terms of recognition, valuation, presentation, consolidation etc.).

Question 4**What do you consider would be the main obstacles and disadvantages concerning any future implementation of IPSAS in EU Member States?**

- (30) The main obstacles and disadvantages will also depend on the circumstances in the individual Member States. The successful introduction of accrual accounting requires:
- skills, capabilities and cultural change in the government and commitment from “the top” e.g. politicians and civil servants,
 - time, necessary resources and excellent planning,
 - the support of the whole government and administration, not just the finance community; for example, service managers will need to understand accrual information if better decision making is to be achieved,
 - significant investments in complex accounting IT and internal control systems (however this may be mitigated by the use of private sector systems after limited adjustments), and
 - data and information to produce opening balances since not all of these may be readily available.
- (31) While cost can be measured from the very beginning of the implementation process, the assessment of the benefits will likely be more difficult at least immediately. The cost of implementation could be significant and would be transparent, whereas the costs of poor decision making resulting from non-reliable accounting information would not be that transparent and measurable.
- (32) We also note that the cost-efficiency of the future implementation of IPSASs can be improved by clarifying what are the most value added standards for instance where there are large real estate investments or existence of significant unfunded pension liabilities.
- (33) In our view, the implementation of IPSASs may prove to be costly but it is expected that the benefits would still outweigh costs in medium and long term. The cost of not acting i.e. total costs in the context of the sovereign debt crisis would be a factor in assessing the magnitude of such benefit.

Question 5

If you have any observations concerning the connections or links between possible future IPSAS implementation and financial reporting for the Excessive Deficit Procedure, please provide them here.

- (34) IPSASs implementation would enhance the quality of the data to be compiled for the calculation of the EDP. In addition, we believe that IPSAS adoption provides more fundamental and wider benefits. These benefits are described above in this letter.

Question 6

Please give any views or comments concerning the process and timetable for any future implementation of IPSAS in EU Member States.

- (35) As mentioned above, there is no one size fits all timescale. There is a need to consider the readiness of the Member States before mandating IPSASs.
- (36) It would also be necessary to assess how long it will take for the IPSASB to finalise its current workplan focusing on the conceptual framework and other public sector specific issues.

Question 7

Please provide any other observations or information you would like to make available which are not covered by your earlier answers.

The governance of the IPSASB

- (37) The governance structure is critical to the credibility and the wide acceptance of the IPSASB's standards. It should provide for a standard setting environment which is independent of vested interest, but in the same time, it remains accountable to those adopting IPSASs. We fully recognise the hard work that the IPSASB and IFAC have done to date on these matters.
- (38) We also note that these governance arrangements are currently under review by the International Federation of Accountants (IFAC) and also considered by various governments and other relevant parties. Therefore, we recommend that the European Commission engage with all these stakeholders.

Alignment of IPSASs with National Accounts

- (39) The project to align, as far as possible, IPSASs and National Accounts (SNA / ESA) will - over time - provide greater consistency between a Government's financial statements and the public sector element of its National Accounts. Link between IPSAS and the national accounts can be improved by choosing to implement IPSAS the options that are best compatible with national accounts. This applies not only to the link with European guidelines on national accounting, but also to country practice in applying such guidelines

- (40) At present, we understand that the public sector element of National Accounts is of interest to Eurostat. However, we believe that financial statements prepared under an accruals accounting framework could provide additional information that could be of use to Eurostat. A project that provides greater consistency between National Accounts and the financial statements, and which also clearly identifies transactions where the accounting treatment is different could therefore be of great benefit in the future.

Endorsement process for IPSAS

- (41) Consideration would also need to be given to both the European and national legal frameworks that are required for the implementation of IPSASs. One question that would need to be addressed is whether a European endorsement process for IPSASs should be required or not.
- (42) Given the significance of this issue, we consider that a supplementary consultation on the need for a European endorsement process (should IPSAS implementation be agreed) would be appropriate.

Facilitating implementation and enforcement of the standards

- (43) Further consideration will also need to be given to how responsible European and national authorities should facilitate implementation and enforce the standards

Audit of the IPSAS based financial statements

- (44) The value gained from IPSAS based financial statements will be increased where these are subject to independent audit, which adds to the transparency and public trust in the public sector organizations.
- (45) Independent audit would help identify instances of poor financial reporting, and thereby contribute to a further increase in the quality of publicly available information. It also provides an objective assessment of whether public resources are faithfully and effectively managed.
- (46) The improved reporting regime would require auditors to correspondingly update their financial reporting knowledge and their knowledge of audit techniques. The improvement agenda may also motivate public sector audit institutions to consider the use of the INTOSAI framework of auditing standards ISSAIs (International Standards of Supreme Audit Institutions) in those cases where they have not already done so.

Internal control system

- (47) Member States should be encouraged to design or amend internal control systems in parallel with the implementation of IPSASs to ensure appropriate processes and systems are in place. The existence of an adequate system of internal control minimises the risk of errors in public financial reporting and helps detect fraud.

Education and training of public sector accounts

- (48) Consideration will also need to be given to the education and training of public sector accountants, auditors and other officials, to ensure that they will have adequate skills and competencies. The application of one set of standards (IPSAS) would also improve mobility prospects around the EU.
- (49) A qualified accountant will be subject to ethical standards. Therefore, it would also be appropriate to consider the specific requirements for ethical standards and behaviour for the public sector.

Developing best practices in the public sector

- (50) The implementation of IPSASs should not be seen as meeting all the information requirements of citizens. We would recommend that the Commission and the IPSASB continues to engage with organisations developing best practice in other areas. Ideally this engagement would lead to the Commission promoting the adoption of the guidance / initiatives in these other areas on a voluntary basis.