FEE
Federation of European Accountants
Fédération des Experts comptables Européens

Issues paper on EPSAS

Standing for trust and integrity

March 2014

Public Sector Accounting Standards

There is an urgent need for a reform of public sector accounting with the objective of greater transparency and accountability. Mandatory accruals accounting and harmonised public sector accounting standards are one of the key instruments which can contribute to achieving it.

The European Commission has evaluated the suitability of the existing International Public Sector Accounting Standards (IPSAS) for Member States and concluded that developing specific European Public Sector Accounting Standards would be the way forward in the EU.

The European Commission's initiative has triggered a policy debate where a number of issues should be considered. With this paper, FEE would like to share the issues for discussion emerging in this important public interest debate.

Better public sector financial information is needed

Greater transparency and accountability of the public sector is indispensable to restore public finance and ensure more effective delivery of public services and better stewardship of taxpayers' money. More reliable, timely and comprehensive financial information, including comparable statistical accounting and financial accounting, necessitates a common, robust and accruals-based accounting and reporting framework.

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.

In a situation where Europe needs foreign investors and sovereign debt is traded on global markets, these standards should ideally be international. Investors operate globally and need comparability of financial information across the world.

Making European public sector information more accessible and understandable should facilitate investment and benefit Europe.

Sound public sector financial information will also better contribute to effective and robust public sector financial management.

International standards are available

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

As with 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 that their current governance process lacks public oversight.

Nevertheless, most of these issues can be resolved.

Some of them are already in the process of being addressed. Regarding the coverage of IPSAS, the IPSASB is working on its completion, for example regarding social benefits. Regarding governance and oversight of the IPSASB, the IPSASB Governance Review Group was formed to propose future governance and oversight arrangements for the IPSASB. It is chaired by the World Bank, the International Monetary Fund (IMF) and the Organisation for Economic Cooperation and Development (OECD) and has as a first step of its work issued a public consultation to garner views from stakeholders and the public at large on the governance and oversight of the setting of accounting standards for the public sector.

Other issues are typical for standard-setting and also for law-making and can therefore not be seen as a specific shortcoming of IPSAS. Providing options between alternative accounting treatments is for example also a practice in the recently adopted EU Accounting Directive. The need for reviewing and updating the rules where needed occurs in any standard-setting and law-making process.

Which issues do European standards raise?

Despite international support and a number of EU Member States making some references to IPSAS in their national public sector accounting standards, no EU Member State has implemented IPSAS in full.

The European Commission now suggests developing European standards (EPSAS), further to the consultation held between February and May 2012, in which Member States expressed their reluctance to move toward IPSAS. In its report of March 2013, the European Commission concluded that developing specific EPSAS would be the way forward in the EU[1]. This gives rise to the following concerns:

- The EU might become isolated or at least rendered less attractive on global markets if financial statements are not comparable on international level.
- 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. It might be better to invest the resources into solving the issues related to IPSAS, especially as there are already some initiatives on the way (see above). In this regard, the smart-regulation principle should be kept in mind when developing EPSAS, and an effective cost-benefit analysis of developing the standards should be carried out.

  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.

- Developing EPSAS for the EU within the European Union's legislative process has limited chances to produce a timely 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 cast 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.

- Developing EPSAS for the EU within the European Union's 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 concerns, the governance structure proposed by the European Commission poses some questions, for example in terms of stakeholders involvement.

- Moreover, when developing EPSAS, the European Commission should be mindful of ensuring that the

[1] http://epp.eurostat.ec.europa.eu/portal/page/portal/government_finance_statistics/documents/1_EN_ACT_part1_v5.pdf

necessary skills and capacities are mastered by representatives of Member States. In this respect, the adequate training and knowledge in public sector accounting of EPSAS Committee members is of prime importance.

- When developing and implementing EPSAS, policymakers should be mindful that the standards should be able to genuinely guide investors in their decision-making process.

Nevertheless, although a global solution would be ideal in the long term, FEE is aware that political compromises may have to be made to encourage some Member States to move towards accrual 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.

Under which conditions would EPSAS be acceptable?

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

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 begin, we cannot understand from the proposed governance structure put forward how this resource need will be met. In this regard, the criticism regarding the IPSAS governance can be mirrored for the proposed EPSAS governance model.

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.

In any instance, 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. 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 which have already implemented public sector accounting standards should not have to compromise transparency by adopting less rigorous standards.

Conclusion

In order to address the urgent need for better public sector financial information, 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.

Although public sector accounting standards should preferably be international to ensure that the EU remains competitive on global markets, European standards could be acceptable as a vehicle to encourage Member States to move towards accruals accounting.

The accountancy profession and FEE remain committed to contributing to this important public interest debate and to advancing public sector accounting standards.

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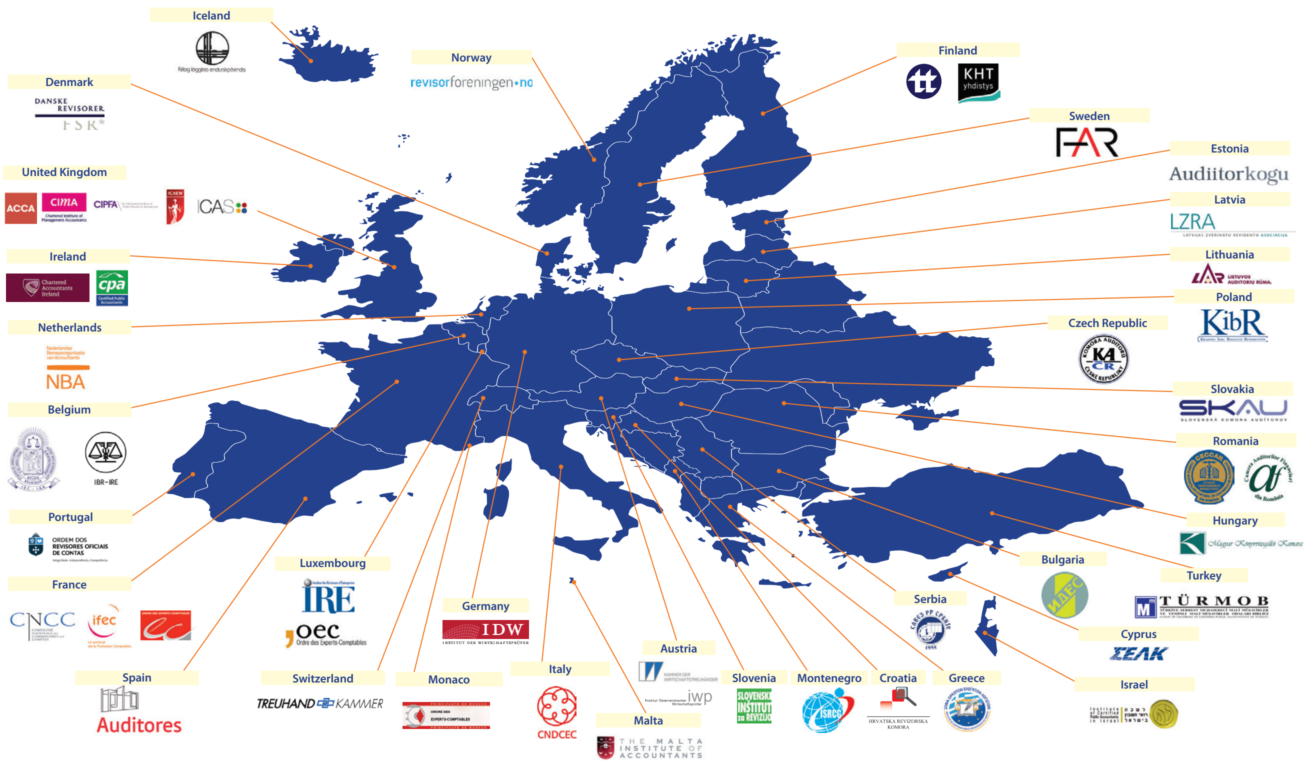
FEE and its Members



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FEE (Fédération des Experts-comptables Européens – Federation of European Accountants) is an international non-profit organisation based in Brussels that represents 45 institutes of professional accountants and auditors from 33 European countries, including all of the 28 EU member states. FEE has a combined membership of more than 700.000 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.