



## FEE Public Sector Roundtable, 17 July 2014, Brussels Harmonising European public sector accounting

### SUMMARY

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

Against the backdrop of the European public sector accounting standards (EPSAS) proposal stemming from the European Commission, [FEE organised the third roundtable of its series dedicated to public sector accounting in Europe on 17 July 2014](#). The roundtable, "Shaping European public sector accounting: a conceptual framework – an imperative?" brought together over 100 representatives from the policymaker, standards-setter, business, investor, civil society, financial and accountancy communities.

The event started with an opening statement from **FEE's President, André Killesse**, followed by a series of presentations. In the afternoon, the speakers engaged in an inspiring panel debate, aimed at examining whether a conceptual framework was necessary for European public sector accounting standards.

With last year's report on implementing harmonised public sector accounting standards in EU Member States, Eurostat has made a strong and convincing case for improved fiscal transparency and public sector accounting. Whether specific European public sector accounting standards (EPSAS) would be the appropriate way forward in the EU remains much debated.

FEE believes that although a global solution would be ideal in the long term, EPSAS may be the vehicle for helping Europe to move forward, but only if certain conditions are met. In particular, the EPSAS governance structure and the standard-setting process need to be fully transparent, broad stakeholder participation and public consultation are essential and above all it must be independent from undue influence and political tinkering. FEE has voiced these concerns in its [recent Issues Paper](#), and is committed to continuing fostering the public debate on this matter.

FEE is very much looking forward to the next steps of Eurostat after the consultation on the EPSAS governance, as well as the results of the external study on the impact assessment of implementing EPSAS in Europe. FEE is committed to ensure that the reform of public sector accounting keeps progressing steadily.

## Taking stock on EPSAS developments

Participants to the roundtable were updated on the progress and developments carried out by Eurostat on the EPSAS project. In this regard, they were reminded of the objectives pursued by the European Commission through the EPSAS project.

Several options were presented, including the creation of EPSAS standards which would be implemented through binding legislative instruments and become mandatory. A binding framework regulation would define the necessary governance structure, as well as the endorsement procedure for the standards. The costs and benefits of such an option were discussed; it would impose higher positive and negative impacts (administrative costs balanced by economic benefits for all stakeholders) than the development of EPSAS standards without legal enforcement.

A possible timeline for steps towards EPSAS implementation was presented. European public sector accounting principles (EPSAP) could be considered to be a “light” conceptual framework of EPSAS. These principles include accruals-based accounting, double entry bookkeeping, harmonised financial reporting, and consistency with the European System of Accounts (ESA). Moreover, these principles would provide the basic necessary definition of assets, liabilities, net assets, expenses and revenues, recognition, measurement and valuation methods, as well as the requirements for structure and elements of financial statements.

## Experiences from the development of the IPSAS Conceptual Framework

When the IPSAS Conceptual Framework was developed, several issues were taken into consideration; the purpose, scope and status of the Conceptual Framework, the phasing and development responsibilities and the due process and timetable. Therefore it was suggested that when shaping a conceptual framework for EPSAS, Europe should be mindful of key public sector characteristics with impacts on concepts. These items should include the primary service delivery objective, the nature and purpose of assets, the volume and significance of non-exchange transactions, financing through compulsory transfers, the importance of approved budgets, the longevity of public sector and the nature of its programmes, the regulatory role and the relationship to ESA

A conceptual framework is an imperative for a mature standard-setter. Defining a conceptual framework is not only an academic exercise; it serves to best shape and guide the drafting of standards. The elaboration of a conceptual framework is a lengthy process, and should not be underestimated. In the frame of this process, it is essential that due process be carried out, and that broad stakeholder consultation is engaged.

## Assessing the need for a European conceptual framework and ways of developing it

### → Defining the content and purpose of a European conceptual framework

A conceptual framework is needed to define the concepts of the framework and to give direction to the process. This approach, which must be carried out in a transparent manner, is important for the overall coherence of the standards as well as for the internal consistency driving the process.

From an academic perspective, a conceptual framework can be defined as a set of consistent principles guiding the financial reporting. It needs to be flexible, comprehensive and valid over a long period, and its purpose needs to be aligned with the objectives of EPSAS.

Sometimes, departure from the conceptual framework is deemed to be necessary, but such departure needed justification. Furthermore, in defining the conceptual framework, constant and strong dialogue between the users, preparers and standard-setters is necessary.

It was also noted that each Board members of standard-setters usually have their personal views of what a conceptual framework should entail; the challenge lies in finding a common, consensual position.

Some panellists argued that the creation of a conceptual framework is a very stringent process, and should be left to professional accountants and standard-setters. Furthermore, although there is a growing consensus on accruals accounting, the same cannot be said for accruals budgeting; this item requires further attention.

In performing his/her work, the auditor draws on the principles of the framework on a daily basis; in this respect, the conceptual framework is seen to be a solid point of reference.

A participant asked whether a third conceptual framework (in addition to IFRS and IPSAS) would be necessary for EPSAS; it was noted that the creation of a conceptual framework for EPSAS would eliminate the need for 28 national frameworks, and create a superseding one.

### → The phasing should stay reasonable

It was noted that a tight implementation timetable might limit the scope of the conceptual framework. The timetable presented by Eurostat looks very ambitious, and some panellists worried that Member States would not be able to deliver against it.

Moreover, there is currently no consensus between Member States to make accruals budgeting mandatory for all 28 countries, as well as no political will to move in this direction. This could influence the debate on EPSAS and its conceptual framework.

Finally, it was said that the European Commission would dedicate all the necessary resources to elaborate the conceptual framework, in order to respect the proposed implementation timeline.

**→ Independence and stakeholder consultation are key in the responsibilities and due process**

Panellists stressed that broad and inclusive stakeholder participation was necessary when elaborating the conceptual framework. Furthermore, consultation papers and exposure drafts are also a good way to get input.

A panellist noted that the EPSAP will be set up before the framework regulation, hence before the governance rules regarding EPSAS will have been finalised. However, it should be a prerequisite that the governance principles be established beforehand.

Eurostat reaffirmed that the elaboration of EPSAS and its conceptual framework would be conducted on the basis of strict professional independence and objectivity. It may be considered to integrate the conceptual framework within the framework regulation; however, this option needs political support from the Member States.

## Conclusion

**FEE CEO Olivier Boutellis-Taft** thanked all panellists and participants for their active involvement, and reminded that the debate on European public sector accounting was crucial, not only for public finance but also to improve public management, policymakers' and politicians' accountability and the overall sustainability of our democratic institutions. The debate is timely but requires a strong sense of purpose and responsibility. Against this demand, he questioned the capacity of our current institutional setting to produce European accounting standard in light of past experience, notably in private sector accounting. The FEE CEO called for a harmonised system, reminding that the many options often granted to Member States would not bring harmonisation.

Noting that a conceptual framework was seen as an imperative for EPSAS, he added that it may also help to identify early in the process critical divergences between member states. In this respect, he reminded that any departure from IPSAS should be duly justified. He concluded by commending Eurostat for its work and efforts in this important project and encouraged the Commission to fully play its role in the *collective* European interest.