



FEE Public Sector Roundtable, 22 January 2014, Brussels

Going for Governance: EU standard-setting for public sector accounting

SUMMARY

Disclaimer: This note aims at summarising the discussions held in the roundtable, and do not necessarily reflect FEE's views.

In the frame of the European public sector accounting standards (EPSAS) proposal stemming from the European Commission, [FEE hosted on 22 January 2014 the first of a series of roundtable dedicated to public sector accounting in Europe](#). The roundtable, "Going for governance: European standard-setting for public sector accounting", brought together over 100 representatives from the policymakers, business, civil society and tax profession communities. The event started with an opening statement from the **FEE's President, André Killesse**, which was followed by a series of presentations by speakers. In the afternoon, the speakers engaged in a lively panel debate, aimed at defining the best potential EPSAS governance model.

Reform of the public sector in Europe is of paramount importance, as it will provide greater transparency and accountability of the public sector as well as more reliable and timely fiscal statistics, including comparability of statistical accounting and financial accounting. FEE is committed to sustain the momentum for the reform of the public sector and to ensure that the reform keeps progressing steadily.

Why is governance important?

Governance in public sector accounting standard-setting serves as a structural and procedural cornerstone, and is to be understood as the possibility to contribute to shaping and the right to participate in the standard-setting process. Governance serves as a framework between the sovereignty of Member States, the participation of relevant stakeholders, and the impartiality, independence, competence and capacity required.

There is no one ideal governance model; however governance is a tool to strike a fair and equitable balance between stakeholders who have a legitimate interest in setting the standards.

The characteristics of good governance in standard-setting for public sector accounting

Regarding all stages of the proposed EPSAS' development, some stakeholders have raised reservations not only on the model *per se*, but also on the governance structure and decision-making process. Some stakeholders were concerned that their voice would not be sufficiently heard by Eurostat.

Moreover, good governance is only a means to an end; the structuring of the governance will ultimately depend on what the decision-makers will want to make out of EPSAS.

Finally, many confirmed the view that a full accrual accounting system should be put in place; however for a few, the superiority of such a system would need to be further demonstrated.

DG Eurostat's proposal for the EPSAS governance model

There seems to be a strong political will from the Member States for the creation of EPSAS. The common aim should be to enhance fiscal transparency amongst the Member States. Implementing common, coherent accounting standards, and high quality financial reporting contributing to better transparency, would help to increasing financial stability by providing a more complete and comparable view of the financial position and performance of national governments – improving international acceptance and legitimacy. Relevant stakeholders, such as preparers, users, including investors, the accountancy and audit profession, statisticians and academia, should contribute to the technical aspects of EPSAS in the frame of the technical advisory group.

Discussions on the most suitable governance model

→ Panelists noted the existing shortcomings in the IPSASB governance.

In setting European standards, the European Commission must be mindful of ensuring a proper governance model, and making sure that relevant stakeholders are well represented. However, it was also observed that resources may be better invested in reinforcing the governance of the IPSASB rather than setting up another comparable structure.

→ Outcome is more important than the process

The governance model proposed by Eurostat seems to have a strong base of technical experts in public sector accounting. However, there is a risk that technocrats dominate the standard-setting process, since there may be a tendency to steer toward optimal standards; higher-level public policy objectives, resource constraints and trade-offs/opportunity costs also have to be taken into account. The issue of international comparability is crucial, and EPSAS, when designed, must be aligned with this objective. To this extent, EPSAS must be as close as possible to IPSAS and therefore to IFRS. It was outlined that deviations should be objectively explained and justified.

→ **Broadest range of experts must be able to give their technical knowledge**

Clarity on EPSAS governance's due process is paramount. The members nominated in the technical advisory group must have the necessary technical knowledge, and come from a broad diversity of backgrounds, in order to represent the largest source of input. The technical advisory group, which would be composed of practitioners, could formulate recommendations to the EPSAS Committee.

→ **Steering away from undue influence is crucial**

The development of harmonised public sector accrual accounting is necessary for fiscal consolidation and good public sector management. There was debate as to whether IPSAS should or should not be seen as an indisputable starting point; in any instance it is a very useful one. The governance structures presented are seen as adequate insofar as they are in line with the existing institutional functioning of the European Union. Professionals and users should be actively involved in the working groups. Some questioned whether it was appropriate for the European Commission to be chairing all the bodies pertaining to EPSAS. Moreover, the concept of independence in the standard-setting process was quite relative; the governance process should steer away from undue influence. Panelists agreed that independence from undue influence stems from a solid governance structure that allows input from all stakeholders but keep each of them at arms' length.

→ **EU Treaties set the frame**

The European Commission works closely with the IPSASB, which will be useful when addressing the comparability of EPSAS. Many participants feel that the governance proposal seemed too much "top-down", and concerns are raised on the integrity and independence of the standard-setting process. Relevant stakeholders will be included in the standard-setting process, and Eurostat works within its prerogatives granted by the Treaties. EPSAS is not about statistics, but developing a robust financial reporting and public sector management tool.

Conclusion

Olivier Boutellis-Taft, FEE's CEO, thanked panelists for the quality of the debate, and participants for the challenging questions they asked and concluded the debate. The topic is particularly important not only for today's public finance but also for the sake of future generations. He explained that the debate is not about accounting or sovereignty, but rather a tool to achieve greater transparency on the use of taxpayers' money, stewardship and accountability of governments, as well as robust public services and sustainable public finances. Having proper public sector accounting is in the line of the public interest, to which FEE is greatly committed.

Whilst some may be reluctant to change, Olivier Boutellis-Taft stressed that Europe no longer had the luxury to remain immobile. Actions must be taken, in order for the EU to regain its credibility and efficiency.

It has been noted that Member States seem not in favour of using IPSAS in Europe, and have wished to craft European standards. However, this may seem surprising to some, at a time when these States are facing severe financial and budgetary constraints. It was also highlighted that for private sector financial reporting standards, the EU opted for IFRS thus outsourcing standards setting which prevented both endless discord amongst member

states on accounting, a matter on which they fail to agree as evidenced by the recent debate on the accounting directive, and political tinkering.

When developing and implementing EPSAS, European and national authorities must ensure that these standards are as faithful as possible to IFRS, and are shaped with the largest participation of relevant stakeholders.

FEE will follow very closely the development of EPSAS, as well as the strategies put into place to obtain a political agreement on the implementation of these standards. Whilst a swift reform is wished for, it must not be done hastily and exclude the relevant stakeholders.

Olivier Boutellis-Taft invited speakers and participants to the next roundtable which will be held on [1 April 2014 in Brussels, dedicated to the standard-setting approach.](#)