Conference

Towards implementing European Public Sector Accounting Standards

29-30 May 2013

Room Alcide de Gasperi - Charlemagne
Rue de la Loi 170, 1040 Brussels

EUROPEAN COMMISSION
EUROSTAT

Directorate D Government Finance Statistics (GFS)
Unit D-4: GFS quality management and government accounting

Aim of the conference

This conference, hosted by Eurostat and Mr Algirdas Šemeta, Commissioner for Taxation, Customs, Statistics, Audit and Anti-fraud, will bring together high-level stakeholders and decision makers from public sector accounting, auditing and statistics to discuss the future development of harmonised government accounting standards in Europe.

The Commission considers that before deciding on the effective project to create and implement EPSAS in the Member States some further preparatory steps are necessary. Important questions need to be resolved, such as:

- deciding on a suitable governance structure,
- defining the EPSAS framework,
- specifying a first set of core EPSAS standards,
- planning the implementation.

The conference will therefore discuss and confirm the need for EPSAS and begin the discussion of important practical arrangements, by addressing issues such as finance, governance, possible synergies and the concerns of smaller government entities.

Background

The sovereign debt crisis has underlined the need for governments to clearly demonstrate their financial stability and the necessity of rigorous and transparent reporting of fiscal data.

Transparency, accountability and comparability of private business accounts have been bolstered by the adoption at EU level of harmonised accounting standards. The implementation of EU harmonised public sector accounting standards would similarly bolster, the quality, transparency, comparability and accountability of public entities in the EU. At present fiscal monitoring in the EU is based on statistical data using the macro accounting framework of national accounts (ESA 95).

However, recent experiences have shown that the quality of the upstream data sources (the accounts of public entities) for these statistics has to be strengthened. This need is at the core of the so-called "6 Pack" of legislation, and in particular Council Directive 2011/85/EU (the Budgetary Frameworks Directive). In this context, EU harmonised public sector accounting standards at micro level would also bolster the quality of the macro fiscal reporting under the Excessive Deficit Procedure.

The Budgetary Frameworks Directive sets out the rules on Member State budgetary frameworks necessary to ensure compliance with the Treaty obligation to avoid excessive government deficits. It requested the Commission to assess the suitability of the International Public Sector Accounting Standards (IPSAS) for the Member States. The European Commission has forwarded its assessment to the Council and European Parliament, based on information received through consultations with Commission services, international organisations, Member States' experts and other interested parties. It concludes that, even if IPSAS cannot be implemented in EU Member States as it stands currently, the IPSAS standards represent an indisputable reference for potential development of European Public Sector Accounting Standards (EPSAS), based on a strong EU governance system.

Provisional Conference Programme

Wednesday, 29 May 2013

13:30 – 14:30 **Registration**

14:30 – 15:40 **OPENING OF THE CONFERENCE**

Welcome: Walter Radermacher, EU Chief Statistician, Eurostat Director-General

Keynote address: Herman Van Rompuy, President of the European Council

Opening address: Algirdas Šemeta, Commissioner for Taxation, Customs, Statistics, Audit and Anti-fraud

Opening remarks: Walter Radermacher, EU Chief Statistician, Eurostat Director-General

15:40 - 16:00 Break

SESSION 1 **The political context – sovereign debt crisis, economic governance, transparency and trust in fiscal data**

16:00 - 17:15

Chair: Walter Radermacher, EU Chief Statistician, Eurostat Director-General

- Sharon Bowles, MEP, Chair, Committee on Economic and Monetary Affairs (ECON)
- Vítor Manuel da Silva Caldeira, President, European Court of Auditors (ECA)
- *The importance of high quality public sector accounting for the ECB*
  Aurel Schubert, Director General Statistics, European Central Bank (ECB)
- *Building trust and financial stability through transparency and accountability*
  Fayezul Choudhury, CEO, International Federation of Accountants (IFAC)
- *The European Union Supreme Audit Institutions' Perspective to the implementation of European Public Sector Accounting Standards – governance issues, benefits and challenges and the value of Supreme Audit Institutions' participation - Outcomes of the EU Supreme Audit Institution seminar on IPSAS and European Public Sector Accounting Standards (2013)*
  Dr. Tuomas Pöysti, Auditor General, Finland, and Jean-Raphaël Alventosa, Director of international relations, French Cour des Comptes

17:15 – 17:30 Questions

17:30 – 19:00 Close of session and reception

Thursday, 30 May 2013

SESSION 2 Fiscal transparency and public accounting

09:30 - 10:45

Chair: Lucio R. Pench, Director for Fiscal Policy, DG for Economic and Financial Affairs (DG ECFIN)

- *Fiscal Transparency in the Wake of the Crisis*
  Richard Hughes, Division Chief - Public Financial Management I, International Monetary Fund (IMF)

- Olivier Boutellis-Taft, CEO, Federation of European Accountants (FEE)

- *The need for harmonised, accruals-based European Public Sector Accounting Standards from a German perspective*
  Prof. Dr. Berit Adam, Berlin School of Economics and Law, Comparative International Governmental Accounting Research Network (CIGAR - Network)

- *Reflections on the costs and benefits of EPSAS*
  Dr. Danny S. L. Chow, Lecturer in Accounting at Durham Business School, Durham University, UK, Association of Chartered Certified Accountants (ACCA)

10:45 – 11:00 Questions

11:00 – 11:30 Break

SESSION 3 Suitability of IPSAS and national experiences of reforms

11:30 – 14:30

Chair: Manfred Kraff – Deputy-Director General, Accounting Officer of the Commission, DG for Budget (DG BUDG)

- *IPSAS - The international financial reporting standards for the public sector*
  Prof. Dr. Andreas Bergmann, Chair, International Public Sector Accounting Standards Board (IPSASB)

- *Public sector accounting reform in Lithuania: experience, lessons and challenges*
  Ingrida Muckutė, Director, Accounting Methodology Department, Ministry of Finance, Lithuania

- *Accrual Accounting and Budgeting: Why and How? Austrian Reform Experiences*
  Gerhard Steger, Director General, DG for Budget and Public Finances, Austrian Federal Ministry of Finance

12:30 - 14:00 Lunch break

- David Litvan, Accounting Officer, Deputy Director, DG of Public Finances - Ministry of Finance, France

- *Accrual accounting in the UK*
  Ian Carruthers, Policy and Technical Director, Chartered Institute of Public Finance and Accountancy (CIPFA) and Karen Sanderson, Deputy Director, Public Spending, Government Financial Reporting, HM Treasury, UK

14:30 – 15:00 Questions

15:00 – 15:30 Break

SESSION 4 Accounting standards, governance, the way forward

15:30 – 17:00

Chair: François Lequiller, Director, Government Finance Statistics, Eurostat

Round-table / Panel (including questions from the audience)

- Ugo Bassi, Director of the Capital and Companies Directorate of DG Internal Market and Services (DG MARKT)

- María Rosa Aldea Busquets, Director, Budget execution, DG for Budget (DG BUDG)

- Thomas Müller-Marqués Berger, Chair, Public Sector Committee, Fédération des Experts-comptables Européens (FEE)

- Michel Prada, Chairman the Public Sector Accounting Standard Council, France and Chairman of the OECD Public Sector Accrual Symposium

- Peter Welch, Director, Audit and audit supervision - Financial and compliance audit Directorate, European Court of Auditors (ECA)

17:00 Closing remarks: F. Lequiller, Director, Government Finance Statistics, Eurostat

Biographies

In order of appearance

A full set of speaker biographies will be posted on the conference website

http://epp.eurostat.ec.europa.eu/portal/page/portal/conferences/introduction/2013/epsas

Walter Radermacher

Mr Walter Radermacher was appointed Director General of Eurostat as of 1 August 2008. Walter Radermacher, previously the Head of the German Statistical Office (Destatis), has held a wide variety of posts during his thirty-year career there, notably in the fields of environmental and economic statistics. He has been President since December 2006, and was Vice-President between 2003 and 2006. During the 2007 German Presidency, he was chair of the Council's working group on statistics.

He has also chaired the UN Committee on Environmental–Economic Accounting.

Mr Radermacher holds degrees in business economics from the University of Münster and the RWTH Aachen University.

Herman Van Rompuy

Herman van Rompuy graduated from KU Leuven with a Bachelor’s in Philosophy, and later obtained a Master’s in Applied Economics. He began his political career in 1973 as National Vice-President of his party’s youth council. Between September 1993 and July 1999, he served as Belgium’s Deputy Prime Minister and Minister of Budget. In 2008, he was asked by King Albert II to form a new government, and was sworn in as Belgian Prime Minister. On November 19, 2009, Herman Van Rompuy was elected as the first full-time President of the European Council under the Treaty of Lisbon. His first mandate ran from December 1, 2009 to May 31, 2012. He was re-elected to serve a second term until November 30, 2014.

Algirdas Šemeta

Algirdas Šemeta (born 23 April 1962), originally from Lithuania, is the European Commissioner for taxation, customs, anti-fraud, budgetary discharge and audit since 2010. From 2009 to 2010, he was the European Commissioner responsible for Financial Programming and Budget.

With long experience in the public sector, Šemeta’s government experience dates back to 1997 when he was named Minister of Finance of Lithuania under Prime Minister Gediminas

Vagnorius, a post that he held until 1999 and that he retook between 2008 and 2009 under Prime Minister Andrius Kubilius.

Sharon Bowles

Sharon Bowles has been an MEP since May 2005 and became Chair of the Economic and Monetary Affairs Committee at the start of the new Parliamentary mandate in July 2009.

Born in Oxford, Sharon graduated from Reading University with an honours degree in Chemical Physics with Mathematics, specialising in quantum mechanics, spectroscopy and crystallography. She moved on to research on semiconductors at Oxford University using electron microscopy to study electrical and luminescent properties of laser materials.

In 1978 she commenced training to be a Chartered and European Patent Attorney, qualifying in 1981 and setting up her own practice the same year. Her husband Andrew Horton joined her to form the Bowles Horton partnership in 1986. Sharon worked in the practice until 2005 covering leading edge technology for both multinational companies and individual clients. Her main specialities were semiconductor fabrication and integrated circuits, telecommunications, computer architecture, oil extraction and wingsail design.

Sharon became active in politics in the mid 1980s. During the period from 1997 to 2005 she served on the Federal Executive (board) of the Liberal Democrats, its Finance and Administration Committee and chaired their International Relations Committee, was a Vice President of Liberal International, and became (and remains) Vice President of the ELDR aisbl (European Liberal Democrat and Reform party).

Sharon was a UK parliamentary candidate for the Liberal Democrats in 1992 and 1997, and also a European parliamentary candidate in 1994, 1999, 2004 and 2009. She entered the European Parliament in 2005, replacing Chris Huhne on his election to the UK parliament and took over his place on the ECON committee.

During the last Parliament she was the shadow rapporteur, inter alia, for the directives on Payment Services, Solvency II, Capital Requirements, Deposit Guarantees and Level 3 Committee funding, for reports on Hedge Funds and Private Equity and Transparency of Institutional Investors, as well as being rapporteur on tax fraud and for the setting up of the Statistical Governance Advisory Board. As a substitute on the legal Affairs Committee she covered Company Law and Intellectual Property and from time to time has intervened on the Industry and International Trade committees.

Re-elected in 2009, Sharon now Chairs the ECON committee and remains a substitute member of the Legal Affairs (JURI) committee.

Vítor Manuel da Silva Caldeira

Vítor Caldeira was born in Campo Maior, Portugal, in 1960.

Degree in law, Universidade Clássica, Lisbon, Portugal. Postgraduate degree in European Studies, European Institute of the Faculty of Law, Universidade Clássica, Lisbon, Portugal.

Assistant Professor at the Faculty of Law of Lisbon University from 1983 until 1984 and at the Higher Institute of the New Professions from 1996 to 1999.

He worked in the Inspectorate General of Finance at the Portuguese Ministry of Finance from 1984 until 2000 (IGF), as a Senior Inspector of Finance with effect from 1989 until 1995 and Deputy Inspector General of Finance from 1995 until February 2000.

Responsible with effect from 1995 for the coordination of European Community audits and the internal control system of the Portuguese state's financial administration, including the following tasks: Chairman of the Inter-Ministerial Committee for Coordination and Control of the financing system of the EAGGF-Guarantee section, member of the Group of Personal Representatives of the Ministers of Finance on sound and efficient financial management (SEM 2000) and Council ad hoc working groups on protection of the Communities' financial interests and the fight against fraud, and Member of the Portuguese delegation to the European Commission Advisory Committee for the Coordination of Fraud Prevention (COCOLAF).

OECD consultant in the framework of the SIGMA initiative (Support for Improvement in Governance and Management in Central and Eastern European Countries) with specific assignments at the Ministries of Finance of the Czech Republic (1997), Poland (1998) and Estonia (1999).

Member of the European Court of Auditors since March 2000 and, until the end of 2001, responsible for the audit of the EU's banking activities and the European Coal and Steel Community (ECSC), the European Schools, the decentralised bodies and the Euratom Supply Agency.

Responsible for the Court's Statement of Assurance (DAS) from January 2002 until 8 March 2006, and hence the Member rapporteur for the Court's Opinion No 2/2004 on the 'single audit' model and a proposal for a Community internal control framework.

Dean of the CEAD Group (Coordination, communication, evaluation, assurance, and development) and the Member responsible for ADAR (Audit Development and Reports) from 9

March 2006 until 15 January 2008. Mr Caldeira has also been a member of the Court's Administrative Committee.

Mr Caldeira has been the President of the European Court of Auditors since 16 January 2008 for a term of three years. His mandate was renewed on 12 January 2011 for a second term. As President of the Court, he is responsible for the supervision of the performance of the Court's work, relations with the institutions of the European Union, relations with Supreme Audit Institutions and international audit organisations, legal matters and internal audit.

Since 1 June 2010, following the reorganisation of the Court, Mr Caldeira is President of the Administrative Committee.

Member of the Joint Audit Committee of Europol from 2002 to 2004. Currently a Member of the Board of Trustees of the Academy of European Law in Trier.

Guest speaker at various conferences and seminars, with published articles on public finance, financial control and auditing.

Aurel Schubert

Director General Statistics of the European Central Bank and Chairman of the Statistics Committee of the European System of Central Banks. Chairman of the Contact Group on Data of the European Systemic Risk Board. Before he was for 25 year working at the Oesterreichische Nationalbank, 13 years as Director of Statistics. He is (and was) member of several Austrian and European statistical bodies. He is Honorary Professor for Economics of the University of Economics and Business in Vienna, Austria; Lecturer at several academic institutions. He holds a Ph.D. in Economics from the University of South Carolina (USA) and a Master's degree in Business Administration from the University of Economics and Business in Vienna.

Publications: The Credit-Anstalt Crisis of 1931 (Cambridge University Press), as well as over 50 articles on central banking, European monetary policy, statistics and monetary history.

Fayezul Choudhury

Fayezul Choudhury became Chief Executive Officer of the International Federation of Accountants (IFAC) in February 2013.

Mr. Choudhury was previously with the World Bank, where his last two assignments were as vice president, corporate finance and risk management; and controller and vice president, strategic planning and resource management. In this latter role he was the World Bank's spokesperson on global accounting and auditing issues. Mr. Choudhury started his career in 1974 with PriceWaterhouse in London, initially in public accounting and later management consulting.

During his career with PriceWaterhouse, he spent three years in Nigeria, developing the consulting practice in the region.

Mr. Choudhury has served on a number of high-level representative bodies. He was a member of the Public Interest Oversight Board (PIOB) from its formation in 2005 until 2010. Mr. Choudhury also chaired the Global Steering Committee of the International Forum for Accountability Development and was a member of the Standards Advisory Council of the International Accounting Standards Board. He served as a member of the Iraq Advisory and Monitoring Board established by the Security Council of the United Nations.

Mr. Choudhury has an MA (Hons) in Engineering Science and Economics from the University of Oxford. He is also a Fellow of the Institute of Chartered Accountants of England and Wales.

IFAC conducted a short Q&A with Fayez after his appointment as CEO, as did Public Finance International after he officially joined IFAC.

Dr Tuomas Pöysti

The National Audit Office is directed by the Auditor General, who is elected by Parliament for a term of six years. Dr Tuomas Pöysti was elected to serve as Auditor General from 2007 to 2012 and from 2013 to 2018.

Tuomas Pöysti, Doctor of Laws, served as Senior Officer, Legal Affairs at the Ministry of Finance in 1999-2000 and Ministerial Adviser at the Ministry of Finance in 2000-2004. He has held the position of Docent of Administrative Law at the University of Helsinki since 2001. He is presently on a leave of absence from the post of Government Controller General, in which he served in 2004-2006.

The Auditor General directs the office's activities, approves the audit plan and decides on the office's audit guidelines.

Jean-Raphaël Alventosa,

Jean-Raphaël Alventosa read philosophy and law before graduating from the national school of administration (Ecole Nationale d'Administration) in 1981 and went on to work for the Treasury.

During his time with the Treasury he worked on public accountability and tax policy, then as a private advisor to the minister of budget before joining the public expenditure team.

In 1988 he joined the department of Home affairs, first as a special advisor to the minister, then as a deputy director general in charge of the police.

He moved on to become Chief Financial Officer of the Ministry of Defense between 1992 and 1999.

He then became a member of the Cour des comptes in 1999. He did VFM audit on the Treasury team on financial reform and performance and most recently led the team responsible for the annual report presented to Parliament on the regularity of government expenditure. In 2012 he was appointed as Director of international relations, in charge of all international aspects (financial and VFM audit, regional groups, etc.). He is also responsible for the studies of public management in the National School of administration, President of the board of the agency of the ministry of justice in charge of the buildings, and an International expert.

Richard Hughes

Richard Hughes is the head of the Public Financial Management Division of the IMF's Fiscal Affairs Department. Since joining the Fund in 2008, his work has focused on structural fiscal reform in crisis-hit countries including Iceland, Ireland, Greece, and Portugal. He was has also the principal author of the recently published IMF policy paper Fiscal Transparency, Accountability, and Risk. Before joining the IMF, he was a Deputy Director in the Public Spending Directorate of HM Treasury where he led the UK Government's 2007 Comprehensive Spending Review.

Prof. Dr. Berit Adam

Dr. Berit Adam is a full Professor for Public Management, especially Financial Management in the Public Sector, at the Berlin School of Economics and Law since 2008. Her main areas of expertise include all aspects concerning budgeting, accounting and auditing on an accruals base in Germany as well as International Public Sector Accounting Standards. Since her doctoral thesis on the applicability of IPSASs with special regard to Germany in 2003 she worked as a consultant for German local authorities in projects concerning the change from cash to accrual accounting. In 2004/2005, she worked on a report on the transition of cash accounting to international standards (IPSAS) for the management agency of the NATO Airborne Early Warning & Control Programme (NAPMA) in collaboration with Deloitte and Touche Netherlands. She also wrote a report for the KGSt (an association for local authority management) in 2006 and 2007 on auditing accrual based financial statements of local authorities.

More information can be found on:

http://www.hwr-berlin.de/en/service/contacts/staff/details/berit-adam/

Dr Danny S. L. Chow

Dr Danny Chow is an academic researcher and teacher based at Durham University in the Northeast of England. His main areas of research are in public sector accounting and the interface between accounting and organizations. His current research is on the evolution of public sector accounting standards within the EU and UK and he has published a number of papers on the subject. He has published an ACCA-funded research report (no.101) on developments in UK Whole of Government Accounts, and also on the topic of IPSAS adoption within the EU. He is also interested in the role of accounting information systems in changing public sector organizations – in particular, on understanding the tensions between costing and caring in English children's services. Danny also teaches accounting across all university levels (undergraduate, taught post-graduate including MBA, and doctoral supervision) in the UK and Singapore, and has held academic visiting positions at The University of Sydney in Australia, University of Zaragoza in Spain, and Hong Kong Polytechnic University.

Manfred Kraff

Deputy Director-General of DG Budget and Accounting Officer of the Commission, European Commission, Brussels.

Manfred Kraff was born in Saarburg (Germany) in 1959. He graduated in "Public Administration" and "Economic Sciences" and completed his PhD in Economics at the University of Freiburg. His professional career started in 1981 as an official of the German administration. From 1983 to 1988 Dr Kraff was an official of the European Commission and worked in particular as an Assistant to the Director of the Directorate "Employment" in DG "Employment, Industrial Relations and Social Affairs". He began to work in 1988 at the European Court of Auditors initially as an Assistant and later as a Principal Administrator in a variety of domains. From 1990 to 1994 he held the position of the second Attaché in the Cabinet of Prof. Friedmann, German Member of the European Court of Auditors. In 2003 he was nominated Head of the Division "Coordination of the Statement of Assurance (DAS)", and in 2008 he took over the position as Director of the Directorate "Audit and Audit Supervision - Financial and Compliance audit". Since 2012 Dr. Kraff has come back to the European Commission as Deputy Director-General of DG Budget and as Accounting Officer of the Commission. In addition, from 2007 to 2012, he was a member of the sub-committee on Compliance Audit of the International Organisation of Supreme Audit Institutions and, since 2013, an observer in the International Public Sector Accounting Standards Board (IPSASB). Besides his professional career Dr. Kraff has been a lecturer at the University of Trier and author of several publications in the domains of public finance and audit.

Prof. Dr. Andreas Bergmann

Andreas Bergmann joined the International Public Sector Accounting Standards Board as a public member in 2006. He became chair in 2010.

Prof. Dr. Bergmann is a professor and director, public sector, at the Zurich University of Applied Sciences, School of Management and Law. In addition, he is advisor to public financial management reforms in Central Asia, Latin America, South East Asia, and various international organizations. From 2003 to 2009, he was the scientific advisor for the public sector accounting reforms at the federal and state level in Switzerland. He was also a member and later chair of the advisory committee for GFSM2001/ESVG95 implementation in Switzerland. In 1999, he joined Zurich University of Applied Sciences as a Senior Lecturer and became a full professor in 2002.

Prof. Dr. Bergmann started his career as a business consultant before joining the Ministry of Education of the State of Zurich as a project manager for NPM Reforms/Head of Controlling. In 2010, Prof. Dr. Bergmann was a visiting professor at Victoria University in Wellington, New Zealand.

He holds a diploma from Lancaster University, and a master's degree and a Ph.D. from St. Gallen University.

Ingrida Muckutė

Ingrida Muckutė is the Director of the Accounting Methodology Department of the Ministry of Finance of the Republic of Lithuania since July 2004. She has gained her experience as a Senior Consultant in Andersen and later in Ernst&Young as a member of audit and related services teams. Later on she continued her professional activities as a Financial Controller in j.s.c. Konica Minolta Baltia. In the Ministry of Finance she has initiated the public sector accounting reform, has been involved in its implementation through all its stages: from the concept paper and the Public Sector Accountability Law to training programs for public sector accountants. Until 2012 she chaired the National Public Sector Accounting and Financial Reporting Standards Committee. She also has experience as a lecturer on public sector accounting and financial reporting standards.

Gerhard Steger

Gerhard Steger, born in 1957 in Wiener Neustadt, is since Octobre 1997 the Director General for Budget and Public Finances of the Austrian Federal Ministry of Finance. He is chief executive for planning, execution and controlling of the Austrian federal budget, financial equalization and financial relations with the Austrian regions and communities as well as EU budget affairs. He has an advisory function for the political level in budgetary questions and the supervision of about 110 employees. Gerhard Steger is also the chief executive for design and implementation of an extensive federal budget reform entering into force as from 2009 and 2013, including a medium-term expenditure framework, performance budgeting and a new accounting and budgeting system on accrual basis.

Member of the supervisory board in several companies and institutions (for instance chairman of the Austrian Federal Financing Agency); teaches political science at Austrian Universities; He has numerous publications on the relations between churches and politics in Austria, agricultural policy, EU affairs, and budgetary policy and reform. Selection of recent publications:

- Budget reform in Austria: From traditional to modern budgeting (Presupuesto y Gasto Publico 69/2012);

- Redirecting public finance towards a sustainable path (OECD Journal on Budgeting 2012/2);

- Gerhard Steger (Hrsg.): Öffentliche Haushalte in Österreich, 3. Auflage, Wien 2010 [Gerhard Steger (Ed.): Public Finances in Austria, 3rd edition, Vienna 2010];

He did frequent presentations on budget policy and budget reform (such as Seoul July 2009, Doha November 2009, Bangkok February 2010, Washington and Mexico City Mai 2010, Dubai November 2010, Dar es Salaam June 2011, Kigali July 2011, Seoul, Rome and Berlin November 2011, New York February/March 2012, Chicago, September 2012, Brussels November 2012, Lisbon January 2013).

Since June 2009, Gerhard Steger is Chairman of the OECD Working Party of Senior Budget Officials (SBO).

From 1991-1997 he was Austrian Federal Ministry of Finance’s Head of Unit for Agriculture, previously staff member of the Unit for Economic Affairs as well as of the Unit for Agricultural Policy. And from 1980-1983 was cabinet member of the Minister of Finance as well as the Minister of Health.

Gerhard Steger teaches political science at the University of Vienna; In 1988 got his postdoctoral thesis in political science at the University of Innsbruck; In 1976-1980 studied political science and communication science at the University of Vienna, graduation as Dr. phil.

Ian Carruthers

Ian is a member of the International Public Sector Accounting Standards Board (IPSASB), and is leading the Board’s work on Long Term Fiscal Sustainability and alignment between IPSASs and Government Finance Statistics. After joining HM Treasury from PricewaterhouseCoopers in

1999, he played a key role in the UK Government's transition from cash to accrual budgeting and reporting, in particular leading the Whole of Government Accounts programme. Ian joined CIPFA in 2006. As well as setting accounting standards for local government in the UK and overseeing the professional conduct of its members, CIPFA promotes and supports improvements in public financial management and governance across the public services both nationally and globally. Ian's role encompasses all these aspects of the Institute's activities, and he has led its work on the role of the public services CFO and implementation of IFRS, as well as the joint public sector governance project with IFAC.

Karen Sanderson

Karen joined the Treasury in September 2008 and is the Deputy Director for Government Financial Reporting. She is responsible for financial reporting policy in central government, the production of Consolidated Financial Statements for the UK public sector (Whole of Government Accounts), the production of Estimates for Parliamentary approval, PESA (public expenditure statistical analyses), advice on the classification of expenditure and the provision of financial expertise support to Treasury spending teams.

Her career spans both the private and public sectors, where she has carried out mainly operational finance roles. Karen is a Chartered Certified Accountant.

François Lequiller

François Lequiller is Director for Government Finance Statistics in Eurostat, a directorate of 55 staff entirely devoted to public finance data. He has made the bulk of his career in the French Statistical Institute INSEE, essentially as a head of price statistics and of national accounts. He has a wide international experience, having been responsible for national accounts in the IMF and in the OECD. He has published in 2006 an OECD textbook on national accounts "Understanding National Accounts". As one of the leaders of the revision of the world wide "System of National Accounts", he co-chaired with the IMF a task force specially devoted to the convergence between national accounts and public sector accounting standards.

María Rosa Aldea Busquets

Rosa Aldea Busquets is the Director for Budget Execution of the European Commission, working in DG BUDGET. Her responsibilities cover treasury, accounting, financial reporting, budget execution and recovery of monies due to the Commission.

She holds a Degree in Economics and Business Administration from the University of Barcelona and a Masters in European Economy from the "Institut d'études européens" ULB, Brussels. Rosa joined the European Commission in 1992 after having worked in the private sector and she held several positions in DG BUDG including Head of the Accounting Unit and Head of the Treasury Unit prior to her current post.

Rosa has been a key actor in the work done to modernise the European Commission's accounting systems, which are now IPSAS-based, where she has been directly involved in all facets of this initiative. This project was part of the Commission's global effort to modernise the management of EU finances. One key achievement of her work in DG Budget has been contributing to the reception of a clean bill of health (unqualified opinion) for the EU accounts. In addition, she has been for many years an observer on the IPSAS Board, representing the accounting department of the European Commission.

Thomas Müller-Marqués Berger

Thomas Müller-Marqués Berger, born in 1967, graduated as a Diplom-Kaufmann at the University of Mannheim in 1993, before he passed the tax advisor exam in 1997 and the exam for the German certified public accountant in 1999. He started working in 1993 and since 2003 as partner at Ernst & Young. In 2004 he became director of the Ernst & Young Center of Competence for Governmental Accounting in Germany. Since 2009, he is the Global Head of International Public Sector Accounting and since 2012 Assurance Leader Government and Public Sector for EMEIA (Europe, Middle East, India and Africa) within Ernst & Young. He is member of various working committees of the Institute of Chartered Accountants in Germany (IDW), e.g. the working committee ÖFA (Öffentliche Verwaltung und Unternehmen, public administration and companies). Since 2003 he has been a member and since 2012 the Chairman of the Public Sector Committee of FEE (European Federation of Chartered Accountants). He became a member of the IFAC IPSAS Board in January 2009 for which he was nominated by the Institute of Chartered Accountants in Germany (IDW) and the Chamber of Chartered Accountants (Wirtschaftsprüferkammer).

About Eurostat

Eurostat's mission: to be the leading provider of high quality statistics on Europe.

Eurostat is the statistical office of the European Union situated in Luxembourg. Its task is to provide the European Union with statistics at European level that enable comparisons between countries and regions.

This is a key task. Democratic societies do not function properly without a solid basis of reliable and objective statistics. On one hand, decision-makers at EU level, in Member States, in local government and in business need statistics to make those decisions. On the other hand, the public and media need statistics for an accurate picture of contemporary society and to evaluate the performance of politicians and others. Of course, national statistics are still important for national purposes in Member States whereas EU statistics are essential for decisions and evaluation at European level.

Statistics can answer many questions. Is society heading in the direction promised by politicians? Is unemployment up or down? Are there more CO2 emissions compared to ten years ago? How many women go to work? How is your country's economy performing compared to other EU Member States?

International statistics are a way of getting to know your neighbours in Member States and countries outside the EU. They are an important, objective and down-to-earth way of measuring how we all live.

Changing role of Eurostat

Eurostat was established in 1953 to meet the requirements of the Coal and Steel Community. Over the years its task has broadened and when the European Community was founded in 1958 it became a Directorate-General (DG) of the European Commission. Eurostat's key role is to supply statistics to other DGs and supply the Commission and other European Institutions with data so they can define, implement and analyse Community policies.

The result: Eurostat offers a whole range of important and interesting data that governments, businesses, the education sector, journalists and the public can use for their work and daily life.

With the development of Community policies, Eurostat's role has changed. Today, collecting data for EMU and developing statistical systems in candidate countries for EU membership are more important than ten years ago.

What we do

Comparing apples with apples

Eurostat's main role is to process and publish comparable statistical information at European level. We try to arrive at a common statistical 'language' that embraces concepts, methods, structures and technical standards.

Eurostat does not collect data. This is done in Member States by their statistical authorities. They verify and analyse national data and send them to Eurostat. Eurostat's role is to consolidate the data and ensure they are comparable, using harmonized methodology. Eurostat is actually the only provider of statistics at European level and the data we issue are harmonized as far as possible.

One example: for an accurate picture of EU unemployment it is important that unemployed people in Finland or Portugal are counted or measured in the same way as in Ireland or Germany. So Eurostat works with Member States to define common methodology on unemployment or asks Member States to include appropriate questions when gathering national data. These EU data are then sent to Eurostat so we can publish EU-wide unemployment data, which can then be used to compare unemployment rates between countries.

With the birth of the euro there is a need to measure the development of Economic and Monetary Union (EMU). The euro is the single currency for EMU and is compared with other currencies such as the dollar and yen. This has fuelled the harmonization of methodology between Member States. Just as there is one inflation rate and one GDP rate for the USA, Eurostat now publishes economic indicators for the whole euro-zone.

The bottom line is we try to provide you with data that are comparable because apples have to be compared with apples not with pears…

EUROPEAN
COMMISSION

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COM(2013) 114 final

REPORT FROM THE COMMISSION TO THE COUNCIL AND THE EUROPEAN PARLIAMENT

Towards implementing harmonised public sector accounting standards in Member States

The suitability of IPSAS for the Member States
{SWD(2013) 57 final}

REPORT FROM THE COMMISSION TO THE COUNCIL AND THE EUROPEAN PARLIAMENT

Towards implementing harmonised public sector accounting standards in Member States

The suitability of IPSAS for the Member States

1. LEGAL BACKGROUND AND CONTEXT

This report fulfils the Commission's obligation, under Article 16(3) of Council Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the Member States[1], to assess the suitability of the International Public Sector Accounting Standards (IPSAS) for the Member States by 31 December 2012. It is based on information received through consultation with Commission services, international organisations such as the IMF, expert practitioners and other interested parties within the Member States and beyond, as well as the IPSAS Board, the standard-setter for these standards.

[1] OJ L 306, 23.11.2011, p. 41.

The sovereign debt crisis has underlined the need for governments to clearly demonstrate their financial stability and for more rigorous and more transparent reporting of fiscal data. Council Directive 2011/85/EU (the Budgetary Frameworks Directive) recognises the crucial role in EU budgetary surveillance of complete and reliable fiscal data, comparable across Member States. It therefore sets out the rules on Member State budgetary frameworks that are necessary to ensure compliance with the obligation under Article 126 of the Treaty on the Functioning of the European Union (TFEU) to avoid excessive government deficits. On the one hand, fiscal discipline plays an essential role in safeguarding Economic and Monetary Union, and on the other hand, financial stability is based on trust. This report discusses one of the tools for building this trust and for better measuring and forecasting the fiscal situation: harmonised public sector accruals-based accounting standards.

Article 3 of Directive 2011/85/EU requires Member States to 'have in place public accounting systems comprehensively and consistently covering all sub-sectors of general government and containing the information needed to generate accrual data with a view to preparing data based on the ESA 95 standard'[2]. It thereby acknowledges the essential incoherence between public sector accounts, which only record cash flows, and the fact that EU budgetary surveillance is based on ESA 95 accruals data. This means that cash data have to be converted into accruals through approximations and adjustments involving macro-based estimates. Moreover, where accruals accounts do not exist at the micro level, financial transactions and balance sheets have to be derived from a variety of different sources, leading to a 'statistical discrepancy' between the deficit compiled via non-financial accounts and that compiled via financial accounts.

The lack of coherence between primary public-sector accounts and ESA 95 accruals data is also acknowledged in the Commission communication of 15 April 2011 to the European Parliament and the Council *Towards robust quality management for European Statistics*[3]. This communication draws attention to the high dependence of the quality of European-level statistical information on the appropriateness of the entire production process. Eurostat therefore promotes a system of harmonised accruals-based accounting standards, consistent with the ESA, for all entities of the government sector.

IPSAS is currently the only internationally recognised set of public-sector accounting standards. It is founded on the international financial reporting standards (IFRS) widely applied by the private sector and at this point consists of a set of 32 accruals accounting standards, plus one cash-based standard.

It is in this light that Article 16(3) of Directive 2011/85/EU requires an assessment of the suitability of IPSAS for the Member States.

2. INTRODUCTION

Government activity accounts for a major part of gross domestic product (GDP) in all EU economies, and government assets and liabilities are substantial in all EU countries. It is therefore important that they are effectively managed and that governments are accountable for this management to their citizens, their representatives, investors and other stakeholders.

[2] Council Regulation (EC) No 2223/96 of 25 June 1996 on the European system of national and regional accounts in the Community, OJ L 310, 30.11.1996, p. 1.

[3] COM(2011) 211 final.

Government finance statistics provide information on the accounts of the different sub-sectors of general government so that policy makers and other stakeholders are able to analyse the financial position and performance of government and the long-term sustainability of public finances. The main sources of these statistics are the accounting records and reports of the various government entities, supplemented with financial information. Reliable government financial accounts are essential for the preparation of national accounts and of course for fiscal planning, coordination and supervision.

Two of the most important indicators of fiscal sustainability are debt and deficit, which are used within the EU for monitoring compliance with the terms of the Stability and Growth Pact. Article 126 TFEU and Protocol No 12 on the Excessive Deficit Procedure (EDP), annexed to the Treaties, specify that the ratio of planned or actual government deficit to GDP shall in principle not exceed 3 % and the ratio of government debt to GDP shall in principle not exceed 60 %. The Commission closely monitors these constraints on national fiscal policy in order to ensure the efficient functioning of Economic and Monetary Union. When a Member State fails to keep within the limits and this situation is considered to be more than just exceptional and temporary, an EDP could be launched. After the Commission has expressed an opinion, the Council then decides, on a proposal by the Commission, whether an excessive deficit exists and, if so, address the Member State with recommendations and a timetable for corrective action.

3. WHY HARMONISED ACCRUALS-BASED PUBLIC-SECTOR ACCOUNTING STANDARDS ARE NEEDED

Accruals accounting is the only generally accepted information system that provides a complete and reliable picture of the financial and economic position and performance of a government, by capturing in full the assets and liabilities as well as revenue and expenses of an entity, over the period covered by the accounts and at the moment they are closed. Accruals accounting entails the recording of entries, not when cash payments are made, but when economic value is created, transformed or extinguished, or when claims and obligations arise, are transformed or extinguished. Cash accounting records transactions when the amount is received or paid. Accruals accounting is economically sounder than cash accounting, which is why the current accounting framework for fiscal monitoring in the EU, the ESA 95, is accruals based. Moreover, the use of accruals accounting in the public sector is necessary to avoid some of the window-dressing that is allowed by cash accounting, where a payment can be brought forward or postponed so as to be recorded in the period that the government chooses. However, accruals accounting is not meant to abolish or replace cash accounting, in particular where the latter is used for the purposes of budgeting and budget control. In fact, accruals accounting should be seen as complementary, rather than as an alternative, to pure ‘cash accounting’. In providing the full picture of the economic and financial position and performance of the entities, it puts cash accounting in its overall context.

There would be distinct benefits for public-sector management and governance in adopting a single set of accruals-based accounting standards at all levels of government throughout the EU. Accruals micro accounting in the public sector is expected to improve the effectiveness and efficiency of public administration and to facilitate the securing of liquidity that is a necessary condition for maintaining a functioning public service. As with any other economic activity, the management and control of public sector effectiveness and efficiency hinges on that of its economic and financial position and its performance. Double-entry accruals accounting is the only generally accepted system that provides the necessary information in a reliable and timely manner. Furthermore, harmonised accruals-based government accounting improves transparency, accountability and the comparability of financial reporting in the public sector, and may serve to improve the efficiency and effectiveness of public audit.

3.1. Current situation with regard to accruals accounting in EU Member States

The majority of Member States have already implemented accruals accounting according to national standards across the government sector, or are in the process of doing so. Eleven have mixed systems, in that they have implemented different accounting practices at different levels of government[4]. The accounting framework and accounting systems of the European Commission and the other EU institutions and bodies are accruals based and inspired by IPSAS. This is also the case for several other international organisations.

While there is, therefore, a growing (but not unanimous) acknowledgment of the need for accruals accounting for government within the EU and its Member States, a harmonised approach is currently lacking.

3.2. Macro-accounting framework

The ESA provides the macro-level statistical accounting framework for the government and non-government sectors in the EU and is accruals based. ESA-based government debt and deficit data for EDP purposes are the result of consolidating the individual accounts of general government entities in the Member States and are defined by EU legislation.

In the context of EU fiscal surveillance and the EDP, the Commission, in accordance with Article 126 TFEU, has the task of regularly assessing the quality both of actual data reported by Member States and of the underlying government sector accounts compiled according to the ESA. Recent developments, in particular incidences of inappropriate financial reporting by some Member States, have demonstrated that the system for fiscal statistics has not sufficiently mitigated the risk of substandard quality data being notified to Eurostat. Furthermore, the impact of the economic and financial crisis has highlighted the need to strengthen the economic governance structure for the euro area and the European Union as a whole. The Commission responded on 29 September 2010 by adopting a package of legislative proposals, the 'European economic governance package' (referred to as the 'six-pack'), which was adopted by the European Parliament and the Council on 16 November 2011[5]. This seeks to extend and improve the surveillance of fiscal policies, macroeconomic policies and structural reforms to remedy the shortcomings found in existing legislation. New enforcement mechanisms are planned in the event of non-compliance by Member States. It is clear that these mechanisms must rely on high quality statistical information, produced on the basis of robust and harmonised accounting standards adapted to the European public sector.

The existence and quality of comparable and coherent upstream accruals data (i.e. the primary accounting data for government entities) at micro-accounting level are preconditions for the high quality of debt and deficit data at accruals-based macro-accounting level. Micro public-sector accounting in the Member States has many variants, making comparisons difficult both within and between Member States. The current approach of reconciling non-harmonised micro-level public-sector accounting data for EDP purposes is reaching its limits.

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4 'Overview and comparison of public accounting and auditing in the 27 Member States'

5 Regulation (EU) No 1173/2011 of the European Parliament and of the Council of 16 November 2011 on the effective enforcement of budgetary surveillance in the euro area, OJ L 306, p. 1; Regulation (EU) No 1174/2011 of the European Parliament and of the Council of 16 November 2011 on enforcement measures to correct excessive macroeconomic imbalances in the euro area, OJ L 306, p. 8; Regulation (EU) No 1175/2011 of the European Parliament and of the Council of 16 November 2011 amending Council Regulation (EC) No 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies, OJ L 306, p. 12; Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances, OJ L 306, p. 25; Council Regulation (EU) No 1177/2011 of 8 November 2011 amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure, OJ L 306, p. 33; Council Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the Member States, OJ L 306, p. 41.

Harmonised micro-accounting systems for all public-sector entities (i.e. general government) in all EU Member States, combined with internal control and external audit, seems the only effective way forward to compile accruals-based debt and deficit data of the highest quality standards in accordance with existing legal requirements. This is also one of the key ideas behind Directive 2011/85/EU.

3.3. Need for harmonisation

For the compilation of macroeconomic statistics on government and with reference to Article 338 TFEU, the requisite statistical data would be considerably improved if all government entities used harmonised accounting standards. This would allow for the use of common bridge tables to compile the entity accounts into ESA accounts, thus greatly facilitating the statistical verification processes.

Fiscal transparency is necessary for macroeconomic stability and for surveillance and policy advice. Harmonised standards for public sector accounting would enhance transparency, comparability and cost efficiency, and provide the basis for improved governance in the public sector. At the macro level, the financial crisis underlines the importance of timely and reliable financial and fiscal data, and evidences the consequences of insufficiently complete and comparable financial reporting in the public sector.

In the longer term, one might envisage a move towards a refinement of the main EDP indicators by deriving macro public accounting (deficit/debt) results based on the much more direct consolidation of consistent and exhaustive micro accounts. The adoption of an integrated accounting and reporting framework with some adaptations to ESA 95 concepts would make it possible to derive the debt and deficit data directly from those systems. They could be based on genuine and harmonised public-sector accounting data, which had been subject to control and audit, be it directly on the key indicators or indirectly through the financial statements. This could also help reduce the time taken to report the deficit and debt.

Governments have a public interest obligation to market participants — owners of government debt securities and potential investors — to provide timely, reliable and comparable information on their financial performance and position, in the same way that listed companies have obligations to equity market participants. Also, there is a need to ensure a minimum level of international comparability, especially as government securities compete against each other in a global financial market, which calls for a system based on general public-sector standards accepted worldwide. With reference to Article 114 TFEU, harmonised accruals accounting would provide greater transparency for the proper functioning of the internal market in financial services, without which there is a danger that owners of government securities would be entering into transactions without a proper understanding of the level of associated risk. This in turn could create a contagion risk, which can be a significant impediment to financial stability.

What is true for private-sector accounting standards, which are harmonised within the EU for listed companies, is also true for government entities. Harmonised accruals-based public-sector accounting would provide a firmer basis for understanding the economic position and performance of governments and government entities at all levels. The superiority of the accruals principle, whether for macro or micro fiscal monitoring, is indisputable. The macro level is already accruals based; harmonised accruals accounting is also essential at micro level.

At the entity level, there would be benefits in terms of transparency and accountability, and for the quality of decision-making because the information available would reflect all relevant costs and benefits in a comparable manner. Moreover, the prospect of further fiscal and budgetary integration in the EU highlights the need for harmonised public-sector accounting standards in order that budgetary decisions at national level can be assessed at EU level. For the sake of accountability and transparency, government entities should report in a complete and comparable manner on their use of public resources and their performance.

3.4. Future EU governance of budgetary policies

The Van Rompuy/Barroso/Juncker/Draghi report *Towards a Genuine Economic and Monetary Union* stresses the need for integrated budgetary and economic policy frameworks and for example states that:

'*Sound national budgetary policies are the EMU's cornerstone*

The near term priority is to complete and implement the new steps for stronger economic governance. In the past few years, significant improvements to the rules-based framework for fiscal policies in the EMU have been enacted ('Six-Pack') or agreed (Treaty on Stability, Coordination and Governance), with greater focus on prevention of budgetary imbalances, on debt developments, on better enforcement mechanisms, and on national ownership of EU rules. The other elements related to strengthening fiscal governance in the euro area ('Two-Pack'), which are still in the legislative process, should be finalised urgently and be implemented thoroughly. This new governance framework will provide for ample ex ante coordination of annual budgets of euro area Member States and enhance the surveillance of those experiencing financial difficulties. '.

Many of the principle objectives advocated at the Council Directive 2011/85/EU, such as the greater transparency and accountability of the public sector, as well as more reliable, timely and more comparable fiscal statistics necessitate a common, harmonised and detailed accounting and reporting tool.

This report is fully supportive of the Communication from the Commission *A blueprint for a deep and genuine economic and monetary union — Launching a European Debate*[6].

3.5. Potential costs of harmonisation

Against the potential benefits must be set the costs of implementing a harmonised accruals-based government accounting standard in the EU Member States. The information made available by countries which have moved to accruals accounting allows us to estimate only in very broad terms what the costs for the Member States might be, although they are likely to be significant. Costs are strongly influenced by the scale and pace of accruals implementation, the size and complexity of the government sector, and the completeness and reliability of existing systems. In addition, experience suggests that Member States might find it appropriate to modernise their public financial management systems when implementing the new accounting standards.

As an order of magnitude, and based on the experience of those countries for which cost data are available, the possible cost for a medium-sized EU country of moving from a cash-based accounting system to an accruals-based accounting system, for central government but no other layers of government, could be up to EUR 50 million. This amount would include, for example, the expense of putting in place the new standards and the associated central IT accounting tools, but not the costs associated with a complete reform of the system of financial reporting. For larger Member States and, for example, those with systems of autonomous regional government or more complex government systems, and those which have not made progress on accruals accounting, the costs could be much higher, especially if the transition to a harmonised accruals system is combined with wider reforms of accounting and financial reporting practices. For example, the cost of the accruals and budgeting reforms in France over the last decade was put at EUR 1 500 million. For a smaller Member State with national systems of accruals accounting

[6] COM(2012) 777 final.

already in place, the costs might be less than EUR 50 million. All of the cost estimates collected fall within the range of 0.02-0.1% of GDP. In addition, the implementation of harmonised accruals accounting for the Member States would also require significant investment in terms of leadership, expertise and resources for the European Commission.

It should also be borne in mind that, despite the fact that accruals accounting is a more elaborate system than pure cash accounting, the multitude of different accounting standards, charts of accounts, booking processes and IT systems, as well as auditing standards and practices that often co-exist, even within one sub-sector of general government in a single Member State, suggests that harmonisation will bring about a reduction in bureaucracy and costs which in the medium to longer term would far outweigh the expected investment. Furthermore, the real and significant expected financial costs can be weighed against the potential benefits, not least those of better governance, accountability, better public sector management and the transparency needed for the proper functioning of markets, thus probably reducing the yields required by owners of government securities (although this is not measurable).

4. INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS (IPSAS)

As noted above, IPSAS is currently the only internationally recognised set of public sector accounting standards. It stems from the idea that modern public sector management, in line with the principles of economy, effectiveness and efficiency, depends on management information systems that provide timely, accurate and reliable information on the financial and economic position and performance of a government, as would be the case with any other type of economic entity.

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.

This report is accompanied by a Staff Working Document which summarises the IPSAS system and Member States' current arrangements for public sector accounting[7]. In addition, Eurostat carried out a public consultation between February and May 2012 to collect views on the suitability of IPSAS and a summary of the replies received is also available[8].

Taking into account the views that Member State authorities and others put forward in the public consultation, the overall conclusion is twofold. On the one hand, it seems clear that IPSAS cannot easily be implemented in EU Member States as it stands currently. On the other hand, the IPSAS standards represent an indisputable reference for potential EU harmonised public sector accounts. On the one hand, the following concerns will need to be addressed:

- Currently, the IPSAS standards do not describe sufficiently precisely the accounting practices to be followed, taking into account that some of them offer the possibility of choosing between alternative accounting treatments, which would limit harmonisation in practice;

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7 Commission Staff Working Document accompanying the document *Report from the Commission to the Council and the European Parliament: Towards implementing harmonised public sector accounting standards in Member States.*

8 Public consultation — Assessment of the suitability of the International Public Sector Accounting Standards for the Member States: Summary of responses.

- At its current state of development, the suite of standards is not complete in terms of coverage or its practical applicability to some important types of government flows, such as taxes and social benefits, and does not take sufficient account of the specific needs, characteristics and interests of public-sector reporting. A major issue is the capacity of IPSAS to resolve the problem of consolidating accounts on the basis of the definition used for general government, which is now a core concept of fiscal monitoring in the EU;

- At present, IPSAS can also be regarded as insufficiently stable, since it is expected that some standards will need to be updated once work is completed on the current project of completing the IPSAS conceptual framework, expected in 2014; and

- At present, the governance of IPSAS suffers from insufficient participation from EU public-sector accounting authorities. During 2012, the governance framework of IPSAS was being reviewed to address issues of concern to stakeholders. Any reform should ensure that the independence of the standard-setting process is strengthened, while public-sector-specific needs are effectively addressed. In addition, the IPSAS Board currently seems to have insufficient resources to ensure that it can meet with the necessary speed and flexibility the demand for new standards and guidance on emerging issues in the evolving fiscal climate, particularly in the wake of the crisis.

On the other hand, most stakeholders agree that IPSAS would be suitable as a reference framework for the future development of a set of European Public Sector Accounting Standards, referred to below as 'EPSAS'.

5. How to move towards harmonised European public sector accounting standards (EPSAS)

The final decision as to whether to move to EPSAS requires further important steps to be taken which do not fall within the scope of this report and hence cannot be anticipated here. However, the following sections illustrate how EPSAS could be implemented if the effective decision was taken.

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. The EU-wide implementation of EPSAS would dramatically reduce the complexity of methods and compilation processes used to transform these data onto a quasi-harmonised basis and minimise risk as regards the reliability of the data notified by Member States and published by Eurostat.

It can be envisaged that the first step would be to establish EU governance for this project with the objective of clarifying the conceptual framework and the aim of common EU public sector accounting. EPSAS could initially be based on the adoption of a set of key IPSAS principles. EPSAS could also use IPSAS standards that were commonly agreed by Member States. EPSAS should, however, not regard IPSAS as a constraint for the development of its own standards.

However, it should be noted that drawing up a set of harmonised European public sector accounting standards would not in itself guarantee timely and high quality public accounting data. Additional conditions would have to be met, including:

- Strong political support and joint ownership of the project;

- Public administrations capable of running a more complex accounting system in each individual public entity;
- Integrated IT systems for budget, payment, contract management, double-entry book-keeping, invoice management and statistical reporting;
- Timely reporting (e.g. monthly) of all economic events in the integrated accounting system of the public entities;
- Availability of resources, human and modern IT; and
- Effective internal control and external financial audit of public accounting.

For all Member States, but in particular those that currently use only cash accounting, the implementation of EPSAS accruals accounting would be a major reform. Some of the issues that would arise are:

- Conceptual and technical accounting issues;
- Staff and consultant expertise, training skills;
- Communicating with and educating managers and decision-makers;
- Liaison with, and training of, auditors;
- Adjustment or modernisation of IT systems; and
- Adapting the existing national regulatory frameworks.

If the principle of EPSAS were adopted, the Commission could envisage providing assistance in some of these areas, for instance by playing a role in organising the sharing of training and expertise, assisting Member State governments on conceptual and technical matters, or coordinating and sharing the planning of Member States' public accounting reforms.

If a Member State had significant and evident gaps, weaknesses and inconsistencies in its public financial management information systems, it would be appropriate to consider these in plans to implement EPSAS and this would have to be reflected in the implementation timetable.

5.1. EPSAS structures

The development and adoption of the EPSAS standards would call for strong EU governance. The system to develop and govern EPSAS would define the agenda for the development of each standard and there would need to be clear endorsement procedures. The EPSAS governance structure would need to encompass the necessary tasks as regards legislation, standard setting, and provision of technical and accounting advice.

The establishment of the EPSAS governance structure would be guided by, but not follow exactly, the model used by the Commission in establishing the governance of IFRS in the EU context, because of the specificity of the public sector and the focus on intra-EU comparability. It should seek to use, where possible, the experience and expertise of national public-sector accounting governance structures in the Member States.

Nevertheless, EPSAS would need to establish and maintain close links to the IPSAS Board in order to inform its agenda and decision-making and because EPSAS standards may need to differ in some cases from IPSAS standards. It would be important not to create unnecessary divergence between EPSAS and IPSAS, and between EPSAS and IFRS, given that government-controlled entities may already be required to report on an IFRS basis or according to national commercial accounting standards.

EPSAS should also be developed with a view to minimising differences with the ESA, in order to give the perspective, ultimately, of complete integrated systems applicable at micro and macro levels.

5.2. Adoption of EPSAS

The development, endorsement and implementation of EPSAS would have to be a gradual process, which would take place over a period of time. Implementation would be in steps over the medium term, focusing at first on the accounting issues where harmonisation is most important, such as revenue and expenditure (taxes and social benefits, liabilities and financial assets) and at a later stage considering non-financial assets, etc.

The way forward should be selective and take particular account of the perspective of small and medium-sized entities and the aspect of materiality. The strategy would need to define priorities, set key deadlines and thus put forward a concrete road map. In order to take forward the EPSAS project, the Commission, in cooperation with the Member States, would draft an agreed core of basic European Public Sector Accounting Principles with a view to incorporating them in a proposal for a Framework Regulation. The Framework Regulation should also lay down the system of governance for EPSAS and the procedure for developing specific EPSAS standards.

In order to ensure suitable implementation at national level, the detailed contents of each standard would be elaborated with the assistance of the Member States so as to take account of the following requirements:

- Accruals-based accounting;
- Double entry book-keeping;
- Internationally harmonised financial reporting; and
- Taking into account the consistency with ESA principles.

5.3. What could be a first set of EPSASs?

The first element could be a proposal for a Framework Regulation requiring the application of the accruals principle.

The EPSAS standard-setting body could then classify the 32 accruals IPSAS standards into three categories:

- Standards that might be implemented with minor or no adaptation;
- Standards that need adaptation, or for which a selective approach would be needed; and
- Standards that are seen as needing to be amended for implementation.

Member States would be invited to put in place an implementation plan for all sub-sectors of general government. For example, the core set of EPSAS should be applicable to all public entities and, taking into account materiality, should cover the major part of government-sector expenditure in the Member States.

6. A way forward

The Commission considers that, before deciding on the actual project of creating EPSAS and implementing it in the Member States, some further preparatory steps are necessary. There remain several important questions concerning issues outside the scope of this report, such as establishing the EPSAS framework and specifying a first set of core EPSAS standards, as well as the planning of the implementation. The Commission would need moreover to describe the necessary milestones for the future project, and take into account impact assessment considerations. A decision can be made only on the basis of an ex-ante review of pros and cons, and likely costs and benefits.

Once such a decision has been taken: based on the experience of countries which have implemented accruals-based public-sector accounting systems over recent years, the process of implementation would be sequential. It should be determined by carefully considering the starting position of each Member State as regards, for example, the state of development of the existing national accounting standards and the availability of balance sheet data. In some Member States, it might be appropriate to begin implementation at national level and move on to regional and local levels later. It is also to be expected that the extent of implementation for smaller entities would be limited, or at least that the more important entities would be prioritised, taking into account their materiality.

The process could take place in three stages:

(1) A preparatory stage to gather more information and points of view, and to develop a roadmap. This stage would begin in 2013 and would involve further consultations, a high-level conference and the preparation of further more detailed proposals;

(2) A stage to develop and put in place the practical arrangements, addressing issues such as finance, governance, possible synergies and the concerns of smaller government entities. This stage should culminate in the publication of a proposal for a Framework Regulation. The Framework Regulation would require the application of the accruals principle and set out plans to develop further specific accounting standards over time; and

(3) The implementation stage: the process of implementation should be gradual, and allow more time where a Member State’s existing accounting standards differ greatly from EPSAS, although it could be envisaged that implementation should be achieved in all Member States in the medium term.

The proposed strategy consists of a balanced approach that builds on existing achievements and ensures that the European Statistical System can operate independently but still work closely with its main data providers and institutional users. It is also important to underline that EPSAS should not lead to further bureaucratic requirements, increased administrative burdens on respondents or delays in statistical production.

The Commission will further develop the strategy outlined in this report, taking into account resource constraints, in line with its responsibilities under the Treaties.

Given the different issues at stake, it is important to make swift progress while consulting key stakeholders, including where legislative initiatives are needed. The next steps, to be started in 2013, will take into account impact considerations and include a road map setting out in more detail the steps to be taken, including legislative initiatives, to achieve harmonised public-sector accounting standards across the Union.

Participants list

As of 21 May 2013

Name	Organisation
Rudi ACX	National Bank of Belgium
Berit ADAM	Berlin School of Economics and Law
Caroline AGGESTAM	Copenhagen Business School
Nina ALATALO	National Audit Office of Finland
Rosa ALDEA BUSQUETS	European Commission
Georgeta ALECU	Ministry of Public Finance, Romania
Jean-Raphaël ALVENTOSA	Cour des Comptes, France
Vikte ANDRIJAUSKAITE	ACCA
Ludovic ARBELET	Editions Législatives, France
Juan Maria ARTEAGOITIA	European Commission
Gintautas BAGOTYRIUS	Ministry of Finance, Lithuania
Ian BALL	International Federation of Accountants (IFAC)
Michal BAREJA	Ministry of Finance, Poland
Lidia BAROS	Ministry of Public Finance, Romania
Ugo BASSI	European Commission
Griton BAUDOUIN	KPMG
Raymond BAUSCH	General Finance Inspection, Luxembourg
Nathalie BERGER	European Commission
Andreas BERGMANN	IPSAS Board
Frantisek BERNADIC	Statistical Office, Slovakia
Yuri BIONDI	Cnrs - ESCP Europe
Jóhann BJÖRGVINSSON	Ministry of Finance, Iceland
Hilde BLOMME	Federation of European Accountants (FEE)
Jon BLONDAL	OECD
Cécile BONINO	ACCA
Susanne BÖTTICHER-MEYNERS	Local parliament / orgawerk IT-consultant, Germany
Olivier BOUTELLIS-TAFT	Federation of European Accountants (FEE)
Michel BOUVIER	FONDAFIP
Sharon BOWLES	European Parliament
Elena Carmen BRAGADIREANU	Court of Accounts, Romania
Harald BRANDSÅS	Norwegian Institute of Public Accountants
Iouri BROUHNS	PricewaterhouseCoopers
Luc BUFFEL	Federal Public Service Finance, Belgium
Vida BUMELYTE	Ernst & Young
Andreas BURTH	Johannes Kepler University, Austria / University of Hamburg, Germany
Olaf BUSKE	KPMG
Gerda BUYSSE	Court of Audit, Belgium
Marie-Pierre CALMEL	CNOCP – Ministry of Finance, France
Noel CAMILLERI	Ministry of Finance, Malta
John CAPPER	European Group of International Accounting Networks and Associations
Thomas CARLIER	Deloitte
Jan CARLSSON	European Commission
Ian CARRUTHERS	CIPFA
Luca CERRI	KPMG
Cécile CHADUTEAU-MONPLAISIR	French permanent representation to the EU
Jae-jung CHEON	Bank of Korea
Franck CHEVALIER	Ernst & Young

Fayezul CHOUDHURY	International Federation of Accountants (IFAC)
Danny CHOW	Durham University, UK
Johan CHRISTIAENS	Ghent University, Belgium
Vasileios CHRYSAFIDIS	ProDessus
Laura CIARLONE	NATO
Dace CIKMACA	Ernst & Young
Stefan CIOBANU	European Commission
Christian CLEMENS	VDN BASE Romania
Carla COLAGEO	CONFINDUSTRIA Delegation to the European Union
Fabienne COLIGNON	CNOCP – Ministry of Finance, France
Isabelle COLLIGNON-JOFFRE	CNOCP – Ministry of Finance, France
Anne-Françoise COMPÈRE	Court of Audit, Belgium
Emilie CRETE	Banque de France
Michel CRETIN	European Court of Auditors
Vítor Manuel DA SILVA CALDEIRA	European Court of Auditors
Giovanna DABBICCO	ISTAT, Italy
Guillermo DAVILA MURO	European Commission
Anton DE GREEF	PricewaterhouseCoopers
Dirk DEBEUF	Court of Audit, Belgium
Bogdan DEBICKI	KPMG
Martin DEES	Ministry of Finance, Netherlands
Corinne DEGOUYS	Ernst & Young
Claudia DEODATI	PIOB
Alexander DILL	Basel Institute of Commons and Economics, Switzerland
Derek DUNPHY	European Commission
Jean-Philippe DUVAL	PricewaterhouseCoopers
Can Memduh ERDEM	Prime Ministry Undersecratariat of Treasury, Turkey
Viola EULNER	Institut de Wirtschafsprüfer, Germany
Helen FEETENBY	NATO
Jan FINKEN	Federal Ministry of Finance, Germany
Katrin FISCHER	Saxony Liaison Office Brussels
João Carlos FONSECA	Statistics Portugal
Christelle FONTBONNE-PRONIEWSKI	European Commission
Henri FORTIN	World Bank
Christoph FRANK	Joint Representation of Hamburg and Schleswig-Holstein to the EU
Sara FRANQUI	Flemish Ministry of Finance and Budgeting, Belgium
Steve FREER	CIPFA
Martin FUCHS	Statistics Austria
Mark GALEA	National Statistics Office, Malta
Norbert GÁSPÁR	European Commission
Alecu GEORGETA	Ministry of Public Finance, Romania
Chrystalla GEORGHADJI	Audit Office, Cyprus
George GEORGIOU	Statistical Service of Cyprus
Raymond GHYSELS	Université Libre de Bruxelles
Richard GOLDING	Management Consultant
Lodewijk GOUBERT	Federal Public Service Budget and Management Control, Belgium
Dominique GUIDE	Court of Audit, Belgium
Daiga GULBE	Ministry of Finance, Latvia
Karl GUTBERG	Ministry of Finance, Sweden
Jérôme HAAS	Autorité des Normes Comptables, France
Marios HADJIDAMIANOU	The Treasury, Cyprus
Philipp HÄFNER	Court of Auditors of Hamburg, Germany
Erik HAMMER	Ministry of Finance, Denmark

Ingemar HÄRNESKOG	Swedish National Financial Management Authority
Keith HAYES	European Commission
Marja HEIKKINEN-JARNOLA	Ministry of Transport and Communications, Finland
Jens HEILING	Ernst & Young
Mark HENDRIX	Netherlands Court of Audit
Dennis HILGERS	Johannes Kepler University, Austria
Mette HJORT-MADSEN	Danish National Audit Office
Albert HRABAK	Ministry of Finance and Economy, Serbia
Ulrike HUEMER	Vienna, Austria
Beernaert HUGHES	Degroof Corporate Finance
Richard HUGHES	International Monetary Fund (IMF)
Niko IJÄS	Ministry of Finance, Finland
Pier Paolo ITALIA	Ministry of Economy and Finance, Italy
Peter IVÁNEK	Ministry of Finance, Slovak Republic
Valentina IVANIŠ	Ministry of Finance and Economy, Serbia
Roberto JANNELLI	KPMG
Bjørn JENSEN	Danish National Audit Office
Pascal JONJIC	EMCDDA
Gert JÖNSSON	Swedish National Audit Office
Hinrich JÜRGES	European Commission
Denise JUVENAL	Prefeitura da Cidade do Rio de Janeiro
Soukeyna KANE	World Bank
Emmanuel KHAN	Court of Audit, Belgium
Marjana KLINAR	Statistical Office of the Republic of Slovenia
Thomas KNÖRZER	Federal Ministry of Finance, Germany
Martin KOEHLER	European Commission
Wim KOOIJ	Ministry of Infrastructure and Environment, Netherlands
Jacek KOSCIELNIAK	Supreme Audit Office, Poland
Manfred KRAFF	European Commission
Danièle LAJOUMARD	Ministry of Economy and Finance, France
Stephanie LEDOUX	Ministry of Finance, France
Marie-Pierre LENAIN	PricewaterhouseCoopers
François LEQUILLER	European Commission
François LIBEAU	Hendyplan S.A., Luxembourg
David LITVAN	Ministry of Finance, France
Svetlana LJUBIČIĆ	Ministry of Finance and Economy, Serbia
Enrique LOBERA-ARGÜELLES	European Commission
Graham LOCK	European Commission
Edwina LOVE	Department of Public Expenditure and Reform, Ireland
Hilary LOWER	National Audit Office, UK
Igors LUDBORŽS	European Court of Auditors
Alexandre MAKARONIDIS	European Commission
Carine MALFROID	European Commission
Nick MANN	Public Finance International
Martin MANUZI	ICAEW
Carlos MARINHEIRO	Portuguese Public Finance Council
Paul MASON	CIPFA
Ieva MATUKAITIENĖ	Ministry of Finance, Lithuania
Philippe MAUROY	Federal Public Service Economy, Belgium
Gunta MEDNE	The Treasury, Latvia
Bart MENSCHAERT	Federal Public Service Budget and Management Control, Belgium
Klaus MEYNERS	SAP, Germany
Martine MOSSAY-PIRROTTE	European Commission

Samia MSADEK	World Bank
Ingrida MUCKUTĖ	Ministry of Finance, Lithuania
Thomas MÜLLER-MARQUÉS BERGER	Ernst & Young
Nicolas MUNSCH	European Commission
Paul NEELISSEN	Netherlands Court of Audit
Monica NELSON EDBERG	Statistics Sweden
Susana NOVOA	PIOB
Wojciech NOWAK	Accountants Association in Poland,University of Lodz
Jukka NUMMIKOSKI	Ministry of Finance, Finland
Anne-Marie ÖGREN	Swedish National Financial Management Authority
Peter OLGYAI	Government Agency for Financial Management, Norway
Maria OLSSON	Swedish National Financial Management Authority
Lela PATARAIA	Ministry of Finance, Georgia
Lucio PENCH	European Commission
Maria Luisa PÉREZ	KPMG
Agne PETERSSON	Ministry of Finance, Sweden
Heidi PFANNSTIEL	PricewaterhouseCoopers
Petra PFISTERER	Arbeitsgemeinschaft für wirtschaftliche Verwaltung, Germany
Primo PLESKOVIČ	Ministry of Finance, Slovenia
Jean-Pierre PONCELET	European Commission
Tuomas PÖYSTI	National Audit Office of Finland
Michel PRADA	CNOCP – Ministry of Finance, France
Walter RADERMACHER	European Commission
Anja RANSCHT-OSTWALD	Court of Auditors of Hesse, Germany
Christophe RAPPE	Inspection des finances, Belgium
Pedro RIBEIRO	ISCAD - High Institute of Scienses of Administration
Gillian ROCHE	Central Statistics Office, Ireland
Anabela Nabais RODRIGUES	European Commission
Luboš ROKOS	Supreme Audit Office, Chech Republic
Jean-Louis ROUVET	PricewaterhouseCoopers
Iris SALITERER	Alpen-Adria University Klagenfurt
Mercedes SANCHEZ VARELA	KPMG
Ian SANDERSON	NATO
Karen SANDERSON	HM Treasury, UK
Kristine SCHAMP	Court of Audit, Belgium
Bernhard SCHATZ	Ministry of Finance, Austria
Florian SCHILLING	German Association of Cities
Dagmar Juliana SCHNEIDER	Bundesrechnungshof, Germany
Aurel SCHUBERT	European Central Bank
Patrick SCHUERMAN	Ministry of Finance, Netherlands
Patrice SCHUMESCH	PricewaterhouseCoopers
Stephan SCHUSTER	SAP, Germany
Algirdas ŠEMETA	European Commission
Sumita SHAH	ICAEW
Elena SHIBKOVA	PricewaterhouseCoopers
Julia SIEGISMUND	Landesvertretung Rheinland-Pfalz, Germany
David SOPPELSA	Statec, Luxembourg
Torstein SØRBOTTEN	Ministry of Finance, Norway
Amílcar SOUSA	Portuguese Public Finance Council
Agnieszka STACHNIAK	Ministry of Finance, Poland
John STANFORD	IPSAS Board
Gerhard STEGER	Ministry of Finance, Austria
Ilonda STEPANOVA	Ministry of Finance, Latvia

Andrea STERTZ	KGST, Cologne
Colin STEWART	European Commission
Michal SVOBODA	Ministry of Finance, Czech Republic
Andrzej SZPAK	Ministry of Finance, Poland
Stéphanie TALBOT	Autorité des Normes Comptables, France
Deon TANZER	Statistics Netherlands
Osman TEKER	Ministry of Finance, Turkey
Erich THEWANGER	KPMG
Ville-Veikko TIMBERG	European Parliament
Martin TÖLLE	KPMG
Marie TREJBALOVÁ	Czech Statistical Office
Christos TSATSIS	Université Libre de Bruxelles
Jessica TURNER	HM Treasury, UK
Vincent VAN CALOEN	Ernst & Young
Herman VAN ROUMPUY	European Council
Frans VAN SCHAIK	Deloitte
Evelien VANALME	Federal Public Service Finance, Belgium
Bernard VANDE CASTEELE	Court of Audit, Belgium
István VARJAS	European Commission
Vesna VAŠIČEK	University of Zagreb, Croatia
Hans VERHEGGEN	PricewaterhouseCoopers
John VERRINDER	European Commission
Luc VEYSSIERE	Ernst & Young
Pal Martin VINGHOG	Statistics Norway
Dragomir VIOREL	VDN BASE Romania
Jerome VOISIN	Court of Audit, Belgium
Soudaina WALA	European Research Council Executive Agency
Gillian WALDBAUER	Institut der Wirtschaftspruefer, Germany
Leigh-Ellen WALSH	PricewaterhouseCoopers
Sandra WALTER-KLIMKEIT	Ministry of Finance, Austria
Sheldon WARTON-WOODS	Hendyplan S.A., Luxembourg
Peter WELCH	European Court of Auditors
James WHITWORTH	European Commission
Carmela ZAMMIT	European Commission
Daiva ŽIBUTIENĖ	Ministry of Finance, Lithuania