

Conference « Towards Implementing European Public Sector Accounting Standards »

29/30 May 2013, Charlemagne, Brussels

Session 4: Accounting Standards, Governance, the way forward

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

Thanks for the invitation. I should start by saying that I am going to be giving my own views here: these views should not be taken down and used in evidence against my employers, the European Court of Auditors.

One of those personal views is a conviction that wider use of accruals accounting would be a good thing. I am sure that this process, and this conference, has moved us in this direction.

I should say too that this conference has been a revelation. If I had been asked a year ago to list our stakeholders, frankly Eurostat would not have been on my first page. As a result of this conference I have realised that Eurostat is in fact a massive stakeholder. And I think this is good news for public sector auditors right across Europe.

Public sector auditors in Europe are used to finding technical, difficult-to-explain issues affecting the accounts. They are equally used to hearing the preparers of the accounts arguing that these issues are not material because political stakeholders pay little attention to them. As a result of this conference, auditors in Europe will be able to reply that politicians may not care about these technical issues, but Eurostat certainly does. So that is another reason for thanking you for organising this event.

But I also have some concerns. There have been times in this conference when I have had the impression that some participants only see public sector accounts as a component of statistical accounts. And that is not the way I see it. I don't think it is the way the Finnish and the French SAIs saw the situation in their interesting presentation yesterday. And I think this is a matter of concern.

One of the things auditors want to do is to speak the truth without fear or favour. If the news is bad they want to be able to give it. They do not want to see the uncomfortable truth massaged away by changes to the rules. That is why the whole structure of accounting standards, determined by experts, not by a committee of the preparers of accounts, means so much.

The system that Eurostat are putting forward, seems to be one where policymakers and preparers decide what the accounts will show. That raises real fears for the auditing profession. Auditors want to know that the accounts they are signing up to give a true and fair view. That is not just a matter of simply complying with an external framework – important though the external framework is. It is something that requires the exercise of professional judgement. Some of the contributions to the debate seem to reflect a vision of a system of law setting out fixed rules and allowing no derogation. This comes close to abolishing professionalism in the preparation of accounts in the public sector. I'm not at all sure that this is the direction in which we ought to be going.

Let me move towards the answers. I thought Richard Hughes speech this morning convinced me that the European System of Accounts does need to build in more elements from the accruals world – and should move away from measuring liabilities essentially on the basis of the Maastricht Treaty. His presentation showed why accruals accounts are of such interest to the compilers of macro-economic statistics.

I hope that the next stage involves consideration not just of Eurostat's preferred option, but of several options.

I very much hope that the endorsement system we already have for private sector accounts, which Ugo Bassi has ably explained will go forward as a key option also for the public sector.

It is my view that a system for European endorsement of IPSAS standards would be the easiest, the quickest, and quite possibly the best option available. Please pay very serious attention to this option.

I would also like the views expressed by Michel Prada to be considered further.

And then there are some very simple things that could be done now.

We could set up an expert group at European level which would pre-digest proposals due to go before the IPSAS Board - before they have been considered there. This would help to maximise European influence in that forum.

Such a body could also, perhaps propose text for some of the missing Standards, and even contribute to that illusive conceptual framework.

I'll end with one that I sense you are less willing to put forward, but which perhaps ought to be part of the debate. This is a scenario in which Member States are required to account on an accruals basis, but in which we leave it to them to choose which set of standards they use. They could comply with IPSAS; they could comply with IFRS; we could allow a good deal of scope for not complying but explaining divergences over a reasonable period.

And maybe Eurostat could also mobilise a coalition of the willing to create a new suite of standards. These wouldn't be EPSASs nor IPSASs. I'm going to baptise them PACIOLIs. PACIOLIs could stand for Public Accounting Concepts of International Origin for Local Implementation. Armed with PACIOLIs, Member States would, on a voluntary basis, be able to account in a good European way.

Thanks you.