

# Financial Reporting Advisory Board Paper

## Secretariat Paper

### European Public Sector Accounting Standards – Update on recent developments

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| <b>Issue:</b>  | <p>At FRAB 119 the Board was updated by the FRAB Secretary on further developments related to Eurostat's European Public Sector Accounting Standards (EPSAS) project. At that time the first Governance Taskforce meeting had taken place and Eurostat had just released a public consultation on the proposed governance framework.</p> <p>Over the past four months there have been a number of further developments in the project that will be of interest to Board members. This paper updates the Board on those developments.</p> |
| <b>Impact on guidance:</b>                           | N/A at present   |
| <b>IAS/IFRS adaptation?</b>                          | N/A at present   |
| <b>Impact on WGA?</b>                                | N/A at present   |
| <b>IPSAS compliant?</b>                              | N/A at present   |
| <b>Interpretation for the public sector context?</b> | N/A at present   |
| <b>Impact on budgetary regime?</b>                   | N/A at present   |
| <b>Alignment with National Accounts</b>              | N/A at present   |
| <b>Impact on Estimates?</b>                          | N/A at present   |
| <b>Recommendation:</b>                               | That Board members note the further work that is being undertaken in relation to the EPSAS project and comment on the recent developments.   |
| <b>Timing:</b>                                       | N/A  |

## **DETAIL**

### **Background**

1. At FRAB 119 the Board was updated by the FRAB Secretary on further developments related to the Eurostat's European Public Sector Accounting Standards (EPSAS) project. At that time the first Governance Taskforce meeting had taken place and Eurostat had just released a public consultation on the proposed governance framework.
2. Over the past four months there have been a number of further developments in the project that will be of interest to Board members. These include a meeting of the Relevant Authorities on the subject of EPSAS, a Eurostat/PwC fact finding visit to the UK, an event held at the Fédération des Experts-comptables Européens (FEE) in Brussels on governance, the second Eurostat EPSAS Governance Taskforce meeting and the first Eurostat EPSAS Standards Taskforce meeting in Luxembourg, and a discussion on EPSAS at the OECD Public Sector Accruals Symposium in Paris. Two further events (the third Governance Taskforce meeting and a FEE event on standards) will take place in the period between when this paper is sent to Members and the Board meeting on 3 April so a further verbal update on these events will be provided at the meeting.
3. The FRAB Secretary recognises that responding to this project is taking a considerable amount of resource and time of officials working in a number of the Relevant Authorities and their work on such an important matter for the UK public finance management system and the Board is appreciated.

### **Relevant Authority meeting**

4. The Relevant Authorities met in January to discuss views on the EPSAS project and whether to provide a joint response to the Eurostat public consultation. In the end it was logistically not possible for a response to be coordinated in time to meet the deadline, but the discussion did point to an early common position that was developing amongst the Relevant Authorities.
5. While the Relevant Authorities clearly support the use of accrual accounting by public sector entities there was concern that Eurostat's goal of full harmonisation would mean that it would not be possible for the individual public sector context of each Member State to be taken properly into consideration. This could lead to a lowest common denominator set of standards that brings few of the expected benefits of accrual accounting, and would have a very detrimental effect on Member States like the United Kingdom who have already converted from cash to accrual accounting and who use accruals throughout the public finance management system and not just for financial reporting.
6. It was felt that Eurostat's central aim of improving macro-level statistical reporting by ensuring the application of accrual accounting standards at the micro-level could be met by other more proportionate approaches. This could include requiring Member States to introduce a recognised suite of internationally accepted accruals-based accounting standards (be that IPSAS or IFRS) throughout the general government sector by a set date with an understanding that the individual context of Member States will lead to a need for some local adaptation or interpretation.
7. Eurostat is aiming to release a Commission Communication this summer as a prelude to a Regulation. Once the Communication is released it will be necessary for the Relevant Authorities to meet again to determine a firm common position on the proposals.

## **FEE Public Sector Roundtable Governance Event**

8. A FEE Public Sector Roundtable event was held in Brussels in January to discuss EPSAS governance. A wide range of views were expressed with debate ranging from whether accrual accounting in the public sector was desirable at all to a lack of understanding as to why given that IPSAS already exists these standards could not simply be applied. Of key interest to Board Members is that the benefits for statistical reporting were less at the forefront of Eurostat's presentation on the need for EPSAS, with instead a number of wider public finance management benefits expressed. A summary of the event can be found at the following link:

[http://www.fee.be/images/publications/public\\_sector/Summary\\_PSC\\_roundtable\\_140122.pdf](http://www.fee.be/images/publications/public_sector/Summary_PSC_roundtable_140122.pdf)

## **Eurostat/PwC visit**

9. In early February HM Treasury hosted a two day fact-finding mission from a joint Eurostat/PricewaterhouseCoopers (PwC) study team. The aim of the visit was to assist PwC in developing a study on the costs and benefits of introducing accrual accounting that will form part of the evidence base for the Commission Communication. The study team sought to examine the size and complexity of the general government sector, experiences in public finance and accounting reform, the current accounting rules applied, and the organisation of accounting processes and the finance function. An extensive questionnaire on accounting policies and reform experiences was also completed by HM Treasury and CIPFA.

10. HM Treasury received considerable support and input from other Relevant Authorities and Board Members and the study team were very grateful for the input they received. The team were particularly impressed at the importance of accrual accounting to the wider public finance management system. The study will be provided to Board Members by the FRAB Secretary once it is released.

## **First Standards Taskforce meeting and Second Governance Taskforce meeting**

11. In mid-February back-to-back meetings were held in Luxembourg of the EPSAS Standards Taskforce and the EPSAS Governance Taskforce.

12. This was the first meeting of the EPSAS Standards Taskforce, and the agenda focussed on Member States perspectives and experiences of IPSAS, the scope for different arrangements for smaller and less risky entities, the possibility of a staged approach to EPSAS standard setting, and what should form the core of the EPSAS framework.

13. A number of taskforce participants noted that there was a need for a conceptual framework to underpin EPSAS, particularly if IPSAS was not going to form the basis of the standards. From a UK perspective, clarification was requested on what a staged approach would mean and whether those with a mature framework would be permitted to transition once the EPSAS suite of standards was complete. While most taskforce participants seemed to be content with IPSAS forming the basis of EPSAS or at least being noted as a reference, there was strong French opposition to this approach.

14. The second Governance Taskforce involved a presentation on the state of play of the IPSAS governance review and a lengthy discussion as to the legality of the Eurostat proposals and whether they were consistent with the principles of subsidiarity and proportionality. A number of delegates expressed the view that rather than a suite of standards Eurostat should instead develop some core principles and then allow Member States to develop and apply their own standards provided they were consistent with those principles.

### **OECD Public Sector Accruals Symposium**

15. There was also debate on EPSAS at the 14<sup>th</sup> Annual OECD Public Sector Accruals Symposium in Paris in early March. Eurostat presented an initial overview of results from the public consultation on governance, with the vast majority of responses having come from German local and regional governments registering opposition to the proposals. Delegates from EU Member States expressed support for accruals accounting (and indeed most also expressed support for accruals budgeting) but reiterated concerns that Eurostat's goals could be achieved in a more proportionate way.

### **Third Governance Taskforce meeting and FEE Public Sector Roundtable Standards Event**

16. These events are taking place on 27 March 2014 and 1 April 2014 respectively so a verbal update will be provided to the Board at the meeting.

### **Summary and recommendation**

17. That Board members note the further work that is being undertaken in relation to the EPSAS project and comment on the recent developments.

**FRAB Secretariat**  
**3 April 2014**