

Financial Reporting Advisory Board

Secretariat Paper

European Public Sector Accounting Standards

Issue:	Eurostat has launched a public consultation on the key principles for EPSAS governance and the EPSAS governance framework. This paper provides an overview of the consultation.
Impact on guidance:	N/A
IAS/IFRS adaptation?	N/A
Impact on WGA?	N/A
IPSAS compliant?	N/A
Interpretation for the public sector context?	N/A
Impact on budgetary regime?	N/A
Alignment with National Accounts	N/A
Impact on Estimates?	N/A
Recommendation:	Board members are asked to provide their views on the matters raised in the consultation so as to assist the relevant authorities when they are considering their responses to the consultation. It also asks Board members to consider whether they wish for the Board to provide their own formal response to the consultation.
Timing:	Consultation closes on 17 February 2014.

DETAIL

Background

1. At FRAB 116, HM Treasury provided an update to the Board on a report published by the European Commission assessing the suitability of using International Public Sector Accounting Standards (IPSAS) as the basis for a set of harmonised public sector

accounting standards for all Member States. It was highlighted that whilst the European Commission had concluded that IPSAS cannot easily be implemented in EU Member States as it currently stands, IPSAS represent a suitable reference framework for the future development of a set of European Public Sector Accounting Standards (EPSAS).

2. As a follow-up to the report, Eurostat organised a conference “Towards implementing European Public Sector Accounting Standards” in Brussels in May 2013, where the issue of governance for the future EPSAS was identified as a priority for follow-up after the conference. A first meeting of a Task Force of experts took place on 2 October 2013 to discuss initial proposals on possible future governance arrangement and on the underlying key principles. The FRAB Secretary provided a verbal update on the Task Force meeting at FRAB 118 and it was agreed that given the importance of this issue for both the relevant authorities and the FRAB itself that EPSAS be made a standing agenda item for the Board.
3. Eurostat has now launched a public consultation on the key principles for EPSAS governance and the EPSAS governance framework. This consultation is open until 17 February 2014. and in addition to citizens, contributions from national governments and national public authorities, especially ministries of finance, accounting standard setters, audit and supervisory authorities, statistical offices as well as private sector accounting bodies and associations and some known institutional stakeholders are being invited directly.
4. This paper provides a summary of the document provided alongside the consultation as well as the key questions asked in the consultation paper.¹. It asks Board members to provide their views on the matters raised in the consultation so as to assist the relevant authorities when they are considering their responses to the consultation. It also asks Board members to consider whether they wish for the Board to provide their own formal response to the consultation.

Key principles for EPSAS governance

5. Eurostat have proposed two sets of EPSAS governance principles for the future EPSAS Governance Framework. These are inspired by the governance principles of the Statistical Law, the European Statistics Code of Practice, and the consultation draft of IFAC’s International Framework on Good Governance in the Public Sector.
6. The first set of governance principles relate to the EPSAS governance structure and process and are summarised below:

Governance principle	Meaning assigned by Eurostat to principle
Professional independence	EPSAS must be developed in an independent manner free from undue influence
Impartiality	EPSAS must be developed in a neutral manner, with due consideration given to the views of users and stakeholders
Legitimacy	EPSAS must be developed in the EU public interest and in accordance with due process to be established under EU law

¹ The public consultation document and questionnaire are provided alongside this paper. These and additional background documents can also be found at:
http://epp.eurostat.ec.europa.eu/portal/page/portal/public_consultations/consultations/epsas

Transparency	EPSAS must be developed in an open manner
Competence and capacity	Member States government accounting authorities and national standard setters should be the backbone of EPSAS governance, and sufficient resource must be made available
Cost effectiveness	The intended outcomes of the standard setting process must be well defined and achieved. EPSAS must be developed in a manner that is in proportion to the importance of the results and benefits sought. The burden of preparation must be proportionate to the needs of users and not excessive for preparers.
Accountability	Procedures must be in place to plan and monitor the quality of the EPSAS setting process and to inform stakeholders and users about compliance with governance, legal and ethical standards.

7. The second set of principles relate to the EPSAS standards that are to be developed and endorsed by means of sound EPSAS governance

Standard Principle	Meaning assigned by Eurostat to principle
Reliability	EPSAS must address as faithfully, clearly, accurately and as consistently as possible the realities that they are designed to address.
Relevance	EPSAS are developed in the public interest of the EU and meet the information needs of their users
Coherence and comparability	EPSAS standards are internally consistent and developed and endorsed with due consideration to international and global comparability needs
Accessibility and clarity	EPSAS are presented in a clear and understandable manner and are available and accessible for free.

The EPSAS governance framework

8. It is envisaged that EPSAS will take the form of binding legal acts ensuring the compulsory and consistent application of the standards. The legal basis for EPSAS will be established in a Framework Regulation anchored on the Treaty and with the status of Council and Parliament Regulation which would be envisaged to:
- Define the governance of EPSAS and establish the EPSAS Committee;
 - Define the due process of adoption for EPSAS standards (for example the use of Implementing or Delegating Acts);
 - Define the principles underlying EPSAS governance;
 - Set the core requirements of EPSAS; and
 - Confirm the reference to IPSAS as the starting point for the future EPSAS.

9. The proposed EPSAS governance structure is designed to ensure the direct participation of national standard-setters and government accounting authorities in the standard setting process. It will also ensure that EPSAS governance is subject to oversight by the Commission, the Council, the European Parliament and the European Court of Auditors. A figure from the consultation document highlighting the proposed governance structure is provided below. An explanation of the various bodies within it follows.

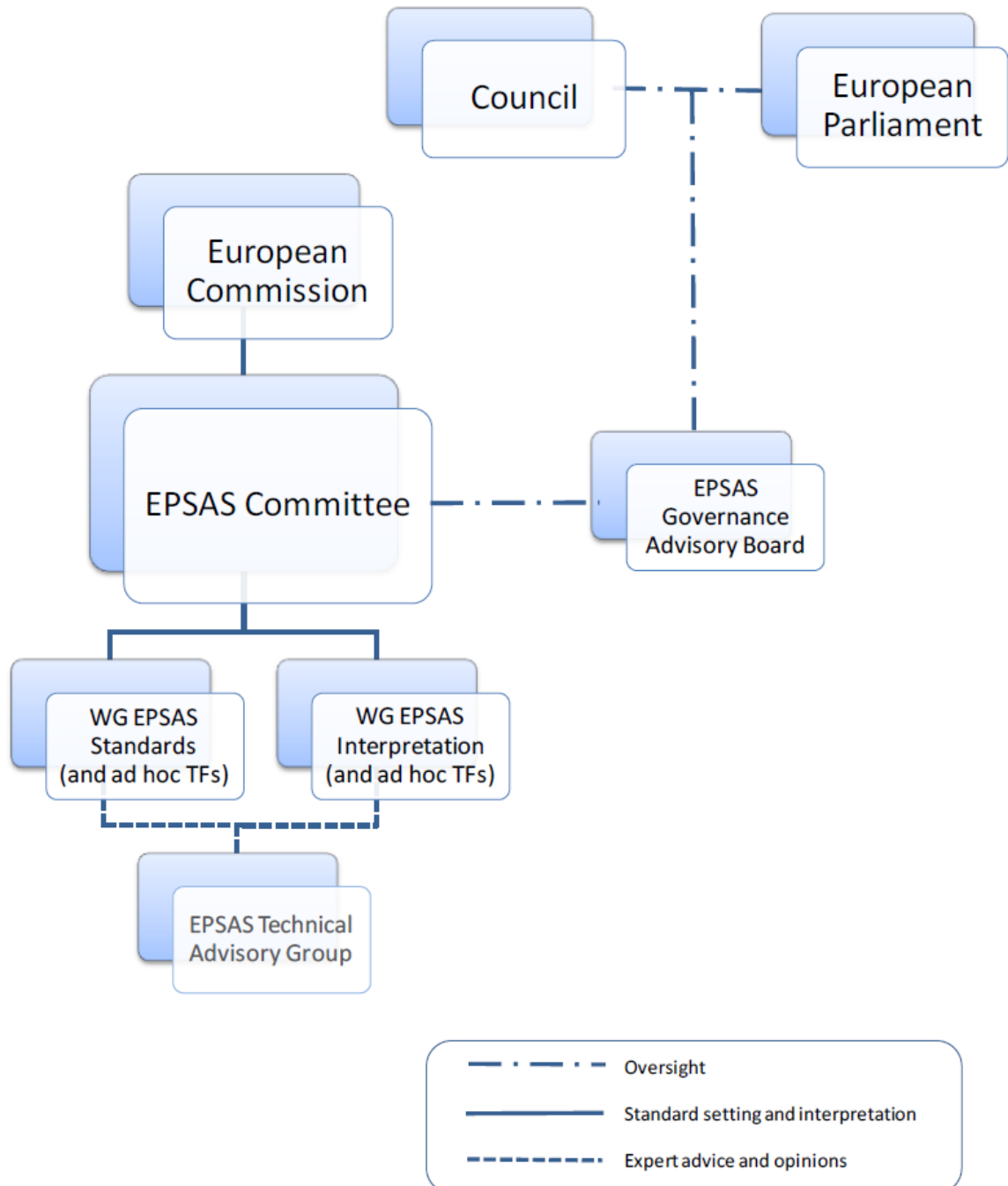


Figure: Illustration of the envisaged EPSAS governance structure to be established by the EPSAS Framework Regulation: source Eurostat consultation document

10. At the heart of the governance structure sits the **EPSAS Committee**. Chaired by the European Commission and composed of high-level representatives of the Member States public administrations and non-voting observers from the EPSAS Governance Advisory Board and other institutional stakeholders, the Committee would:
 - (i) put in place the work programme for the development of EPSAS;
 - (ii) approve the work programme of the Working Groups;
 - (iii) in the case of Implementing Acts be directly involved in the decision-making process.
11. Below the Committee will be **EPSAS Working Groups** that will support technical development and drafting work of standards and be able to resolve interpretation requests. These Working Groups will be chaired by the European Commission and comprise technical experts from public sector standard-setter and government accounting authorities.
12. In order to ensure broad stakeholder involvement two further optional elements have been proposed for the EPSAS governance structure. The first is the **EPSAS Governance Advisory Board** which would provide a wider stakeholder oversight of the EPSAS standard setting process. It would be entrusted with such tasks as providing advice to the EPSAS Committee on the work programme and reporting annually to the European Parliament and Council on EPSAS standard setting procedures. This body would be independently chaired and the members of the Board would also be independents, selected from public sector accounting standard setting experts.
13. The second is the **EPSAS Technical Advisory Group** within which a wide range of stakeholders (IPSASB, supreme audit institutions, accounting firms, users, etc) could participate and whose role would be to discuss and debate EPSAS standards and interpretations and provide advice to the EPSAS Working Groups.

Key questions asked in the consultation paper

14. The consultation paper asks respondents to provide comments on the following:

Key governance principles

- Do you consider that the sets of principles described for the EPSAS governance structure and process as well as for the EPSAS standards are relevant?

Governance oversight

- Following the normal institutional organisation within the EU, the EPSAS governance would be subject to oversight by the Commission itself, and by the Council, the European Parliament and the European Court of Auditors. Do you consider that any further oversight function should be established?
- Do you consider that the oversight role of the EPSAS Governance Advisory Board as outlined in the consultation paper would be appropriate for EPSAS?

Stakeholder involvement

- Taking into account that stakeholders' views could be collected by open consultations during the standard setting process, do you consider that an organised, formal representation of EPSAS stakeholders should be established?
- Do you consider that the role of the EPSAS Technical Advisory Group as outlined in the consultation paper would be appropriate for EPSAS?
- If you think that both the EPSAS Governance Advisory Board and the EPSAS Technical Advisory Group would be appropriate for EPSAS, could their role and tasks be fulfilled by a single advisory group?

Interpretation of the standards

- Do you consider that an interpretation function should be foreseen for EPSAS?
- Do you consider that this interpretation function should be kept separate from the standard setting function?

General

- Do you have any additional comments concerning the proposed EPSAS governance structure?

15. It is anticipated that a number of the relevant authorities will be asked to respond directly to the questionnaire, and a meeting of the relevant authorities is being scheduled for January to discuss EPSAS along with other relevant authority business.

Responding to the consultation

16. The Board is an independent body fulfilling the statutory role as the "group of persons who appear to the Treasury to be appropriate to advise on financial reporting principles and standards" for government as required by the Government Resources and Accounts Act 2000. The Board is an independent element in the process of setting accounting standards for government, and exists to promote the highest possible standards in financial reporting by government.

17. Given the Board's statutory role and the importance of this issue for the relevant authorities, Board members are asked to provide (i) views on the sets of principles described for the EPSAS governance structure and process as well as for the EPSAS standards and (ii) views on the proposed governance structure. This will help inform relevant authority responses to the consultation and discussion at the scheduled relevant authority meeting.

18. The Secretary also asks Board members to consider whether they wish for the Board to provide their own formal response to the consultation.

FRAB Secretary

13 December 2013