

CIPFA's response to European Commission / EUROSTAT

Towards implementing European Public Sector Accounting Standards (EPSAS) for EU Member States – Public consultation on future EPSAS governance principles and structures

17 February 2014

CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. Our 14,000 members work throughout the public services, in national audit agencies, in major accountancy firms, and in other bodies where public money needs to be effectively and efficiently managed.

As the world's only professional accountancy body to specialise in public services, CIPFA's portfolio of qualifications are the foundation for a career in public finance. They include the benchmark professional qualification for public sector accountants as well as a postgraduate diploma for people already working in leadership positions. They are taught by our in-house CIPFA Education and Training Centre as well as other places of learning around the world.

We also champion high performance in public services, translating our experience and insight into clear advice and practical services. They include information and guidance, courses and conferences, property and asset management solutions, consultancy and interim people for a range of public sector clients.

Globally, CIPFA shows the way in public finance by standing up for sound public financial management and good governance. We work with donors, partner governments, accountancy bodies and the public sector around the world to advance public finance and support better public services.

Questionnaire

1. Please state the main motivation for your interest in this public consultation

Globally, CIPFA is the only professional accountancy body which specialises exclusively in the public services, and as such has a particular interest in promoting the improvement of public sector financial management and governance. In line with this we set out our thinking on the essential elements required for strong public financial management at all levels of the public sector in our publication Public Financial Management: a Whole System Approach (Attachment 1). We see adoption of International Public Sector Accounting Standards (IPSASs) as one of the key components of strong public financial management.

CIPFA is also calling for action to make high quality public financial management the norm in governments and public sector organisations throughout the world. In our prospectus Fixing The Foundations (Attachment 2), we called for a step change in public financial management. Building on this initiative, in November 2013 we launched PFM: Taking Responsibility (Attachment 3), promoting further collaboration between professional accountancy bodies to ensure governments around the world have the appropriate guidance and financial skills for reform, and to support their progress to sound budgetary and accounting systems.

CIPFA is also engaged with all aspects of the International Federation of Accountants (IFAC) standard setting activities, which range across auditing and assurance, education, ethics and public sector financial reporting. For the reasons explained above we have a special interest in, and make substantial contributions to, the work of the International Public Sector Accounting Standards Board (IPSASB). CIPFA also contributes to the work of the Professional Accountancy Organisation Development Committee (PAODC) which seeks to improve the capacity of the accountancy profession in countries where the role of the accountant is less well developed.

In the UK, uniquely for a professional accountancy organisation, CIPFA is the financial reporting standard setter for over 500 bodies in the local government sector. Together with the other 5 'Relevant Authorities' (HM Treasury for central government, the Department of Health for the NHS in England and the three devolved governments) we set the financial reporting framework for the UK public sector. The process is under the oversight of the Financial Reporting Advisory Board (FRAB). This provides an interesting case study in how 6 sector standards setters have worked together to apply international standards, within a formal oversight framework. This is particularly relevant, as the Ernst and Young review for Eurostat concluded that financial reporting across the UK public sector was 93% IPSAS compliant.

Key governance principles

2. 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? (Yes/No/Partly)

Yes

3. Please provide any comments or proposals on the principles.

The Public Consultation paper references the Consultation Draft of the International Good Practice Guidance (IGPG) on Good Governance in the Public Sector that CIPFA and IFAC have been developing jointly. The IGPG is currently being finalised, and we have included a comparison of the current draft of the principles in the main document against the proposed EPSAS Governance Principles as Attachment 4. This shows a high degree of alignment between the CIPFA/IFAC Good Governance Principles and those proposed for EPSAS. We therefore believe that the sets of principles described in the public consultation paper for the EPSAS governance structure and process as well as for the EPSAS standards are relevant.

However, we are concerned that the public consultation paper provides insufficient detail to show how the governance principles proposed will be implemented in practice. In particular, we do not believe that there are sufficient safeguards within the proposed EPSAS governance structure and processes to ensure that the EPSAS standard setting process will be:

- Professionally independent (either of political interference or ministry of finance vested interests);
- Impartial;
- Transparent; and
- Accountable.

We have elaborated on our concerns and proposed methods to address these in our answers to Questions 5 and 7 below.

Although it is not directly the subject of this consultation, the EPSAS development approach will be crucial to implementing the 'Cost Effectiveness' principle. Establishing a process to develop independent standards from scratch would be time consuming and extremely resource intensive. Instead CIPFA believes that providing additional funding and other resources to support the further development and implementation of IPSASs is a more efficient and cost-effective approach that would achieve the EU's goals and objectives.

The accrual IPSASs comprise the most globally accepted financial reporting standards developed specifically to address the needs of public sector entities. Although IPSAS are still developing, they currently represent the only reference in terms of public sector accounting, and have been developed following a due process which has involved many discussions with a wide range of experts / stakeholders.

Many of the transactions entered into by governments are the same as those entered into by private sector entities. To the extent appropriate for the public sector, IPSASs

therefore draw on the International Financial Reporting Standards (IFRSs) set for the private sector. Both IFRS and IPSAS are high quality sets of standards, and the IPSASB standard setting process maintains comparable treatments for transactions which have the same economic substance in both private and public sectors, while providing additional interpretation and guidance where necessary.

While the EU has specific data collection requirements (beyond those already covered by the European System of Accounts) and internal consistency and comparability of the standards across EU Member States is of utmost importance, international comparison is also an important objective. We believe that maximising alignment between EPSAS and IPSAS by using IPSAS as the start point, and only making the minimum changes necessary for EU requirements, using a clear and transparent process, would have a positive impact on Member States capacity to attract global investors and finance their debt. It would also mean that those Member States already adopting international standards would not have to dilute these.

Governance oversight

4. 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? (Yes, No)

Yes

- 4a. Do you consider that the oversight role of the EPSAS Governance Advisory Board as outlined in the consultation paper would be appropriate for EPSAS? (Yes, No, Partly)

Partly

5. Please provide any comments or proposals on the oversight.

CIPFA understands the constraint imposed by the intention that EPSAS will take the form of binding legal acts, that following the normal institutional organisation within the EU, the EPSAS governance would be subject to oversight by the Commission itself, as well as by the Council, the European Parliament and the European Court of Auditors. However, it is concerned that the EPSAS standard-setting process is almost exclusively in the hands of government and Eurostat officials. One of the criticisms impacting the acceptance of IPSAS in the EU is related to the lack of a suitable independent oversight structure. In this context we do not believe that the proposals fully implement the governance principles of professional independence and impartiality proposed for the governance framework.

Our concerns can be shown by comparing the proposed remit of the proposed EPSAS Governance Advisory Board (GAB) with those of the IFAC Public Interest Oversight Board which oversees the activities of IFAC's three Standard Setting Boards other than IPSASB:

	EPSAS GAB	IFAC PIOB
Appointment of Chair and Members	European Parliament and the Council after consulting the Commission	Independent Monitoring Group
Scope of oversight	EPSAS Committee work	Due process of Standard Setting Boards
Work programme input	Provides advice to the EPSAS Committee on the work programme	Oversight of the strategies and work programs of the standard-setting boards and helps to ensure that their work is focused on the needs of users of accountancy services.
Consideration of due process	Provides advice on appropriate measures to facilitate the implementation of the key principles and due process	Oversight of standard-setting due process to ensure that international standards are set in a transparent manner with sufficient attention to stakeholder input, which in turn helps to ensure that they are appropriate and credible.
Role in adoption	Provides advice on how to communicate the standards to users and preparers	Oversight of the Compliance Advisory Panel and communication with IFAC leadership help to ensure that appropriate steps are being taken to encourage and monitor the progress of the adoption and support for implementation of international standards, as well as themselves monitoring adoption.
Accountability for activities / reporting	Provides an annual report to the European Parliament and the Council on EPSAS standard setting procedure as regards the implementation of the key principles and process.	Reports publicly annually with regular updates in between. Activities overseen by independent Monitoring Group.
Role in appointment processes	None	Oversight of the nominations process helps to ensure that the persons involved collectively bring sufficient technical competence and breadth of perspectives to develop appropriate standards and ensure compliance with IFAC membership obligations
Secretariat	European Commission secretariat	Separate secretariat independent of Standard Setting Boards.

This comparison shows that there are important gaps in the proposed EPSAS oversight arrangements that need to be addressed in order to ensure the principles of professional independence and impartiality are assured by the composition and operation of the oversight function. We therefore believe the following changes need to be made:

- Independent appointment of GAB Chair and Members (see Annex E to Attachment 5 for the UK FRAB nomination processes);
- Scope of oversight being extended to cover all elements of the EPSAS process, not just the activities of the EPSAS Committee;
- Oversight of the way in which the work programme is set, instead of advising on its content;
- Oversight of the appointment of EPSAS Committee Chair and members in terms of relevance of experience and degree of professional competence in accrual financial reporting;
- Having its own independent secretariat rather than relying on the Commission.

There are also no proposals in the public consultation paper on how important elements of the due process for EPSAS development will work:

- **Criteria for IPSAS interpretation or adaptation:** In the UK we start from IFRS and we have a clearly documented process (based on the IPSASB process) for assessing whether to interpret or adapt a standard for the public sector context – see Annex C to Attachment 5 which sets out the agreed process for developing financial reporting guidance for the UK public sector. The same approach would be critical for EPSAS if IPSAS are to be used as the starting point. The reasons for any interpretations or adaptations should be publicly reported in the same way that the FRAB provides a detailed report to the UK Parliament and the devolved governments each year. The reasons why such departures from IPSAS were approved would need to be fully and clearly explained.
- **Relationship between different levels in EPSAS process:** There needs to be further clarity about how the groups will work and on what basis an EPSAS Working Group and/or the EPSAS Committee could override the views of a task force or working group respectively. The decision process would therefore need to be clearly documented and reported.
- **Addressing differences between financial reporting standards and ESA:** Where these could not be reconciled because of differences in the objectives and approaches between financial and statistical reporting, the differences should probably be addressed through dual data collection rather than departing from either framework to align with the other.

Stakeholder involvement

6. 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? (Yes, No)

Yes

- 6a. Do you consider that the role of the EPSAS Technical Advisory Group as outlined in the consultation paper would be appropriate for EPSAS? (Yes, No, Partly)

No

7. Please provide any comments or proposals on stakeholder involvement.

The EPSAS Committee will be the key body in the EPSAS standard-setting process. It will be exclusively composed of high-level representatives of the Member States public administration, and will debate the proposals submitted by the European Commission. It is then proposed that EPSAS Working Groups and EPSAS Task Forces which will support the work of the EPSAS Committee will be nominated by the Member States. These are therefore likely to comprise experts from government accounting authorities and standard-setters, but no details of indicative sizes have been provided, nor how an overall balance in the membership will be achieved.

Under the public consultation paper proposals, other accounting experts (such as experienced preparers, auditors, academics, etc.) would only have a very minor influence through their participation in the EPSAS Technical Advisory Group, and the nomination of observers / rapporteurs for EPSAS Working Groups and EPSAS Task Forces.

Experience in other financial reporting standard setting processes both nationally and internationally has shown that the full participation on an equal basis throughout the process by these groups is critical to the quality, relevance and practicality of the eventual outputs. While the EPSAS technical Advisory Group does aim to provide some input from these other non-Ministry of Finance stakeholder groups, from the description given it is hard to see it being effective in practice as it would not be able to directly influence the debates in the other fora.

In the UK, the FRAB provides independence and accountability for the public sector financial reporting standard setting process, in particular through its membership which comprises 4 categories:

- Independents
- Financial statement preparers and users
- Auditors
- Relevant Authorities

The FRAB has an independent Chair and 2 other technical expert independent members as well as an academic and a representative of the national statistics office. There are formal nomination / appointment processes for all these categories of members. The

balance between the various different perspectives is very important to the debate, and the FRAB regularly requests the Relevant Authorities to further develop or even rethink their proposals. It is therefore a concern that this open debate is unlikely to be achieved in the EPSAS Committee or the other groups unless there is some form of coordinated nomination process.

While we accept that the normal approaches to institutional organisation within the EU are likely to preclude this sort of approach for the EPSAS Committee itself, we believe that the sort of approach adopted for the composition of the FRAB, and indeed IPSASB and IASB, should be adopted for the EPSAS Working Group. Its formal establishment as an independent standard setting body, making recommendations for adoption via Eurostat to the EPSAS Committee would ensure the professional and political independence, and impartiality that will be important if Member States are to transfer their public sector financial reporting standard setting responsibilities to the European Commission. Such an approach appears possible within the guidelines for such groups. These would appear to allow appointments to be made via a formal nomination process, which would ensure that all members have the necessary skills and experience, and that there is an appropriate balance between professional groups, and between local and central government.

In order to provide legitimacy and accountability, there needs to be a clearly defined EPSAS development and consultation process, designed to elicit input from all the key stakeholder groups at each of the relevant stages of the development process. There should also be clearly specified processes for analysing and addressing responses. Defining both of these would then allow outline standards development timelines to be developed which are currently missing from the public consultation process.

8. 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? (Yes, No)

No

- 8a. Please provide any comments or proposals on a single advisory group.

As outlined in our response to Question 5, CIPFA recommends that the EPSAS GAB should be established as an independent oversight group. While it would ensure that the specified due processes for EPSAS development had been adhered to, it should have no direct input to these in the way proposed for the EPSAS TAG.

In our response to Question 7, we have also clarified that we do not see the EPSAS TAG as an adequate way of involving key stakeholder groups such as experienced preparers, auditors, academics etc in the EPSAS development process. Instead we have proposed that the EPSAS Working Group be formally established as an independent standard setting body, making recommendations for adoption via Eurostat to the EPSAS Committee in order to achieve the necessary professional and political independence, and impartiality.

The establishment of a single advisory group covering the role and tasks of both the EPSAS Governance Advisory Board and the EPSAS Technical Advisory Group is totally incompatible with our proposals, and would seriously compromise even the more limited functions proposed for these groups.

Interpretation of the standards

9. Do you consider that an interpretation function should be foreseen for EPSAS? (Yes, No)

Yes

- 9a. Do you consider that this interpretation function should be kept separate from the standard setting function? (Yes, No)

No

10. Please provide any comments or proposals on the interpretation?

If EPSAS are implemented across general government in all Member States, the range in body sizes, types, activities and accountability mechanisms, will almost inevitably give rise to a need to provide interpretations of EPSAS requirements.

CIPFA believes there would be a serious risk of differences in emphasis and approach between the EPSAS and their 'interpretations' if an interpretation function separate from the standard setting function was established. This would be both inefficient, and could lead to confusion among EPSAS users.

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

In the UK public sector, although most reporting treatments are common to all sectors, there are some specific differences in the ways that the regulatory frameworks work (e.g comparing a government department, with a local authority, and a 'trading' body). These are then reflected in specific derogations in terms of either the way in which the Government Financial Reporting Manual (the FReM) is applied or the format for its financial reports. These legitimate sector / regulatory differences would remain after the introduction of EPSAS, so completely uniform EPSAS application for all bodies is unlikely ever to be appropriate or achievable. There should therefore be some consideration as to how these situations could be addressed both in the EPSAS standards development process, and afterwards at Member State level.

12. Here you can upload any files that you consider important to share with us in the context of this public consultation.

- 1 <http://www.cipfa.org/-/media/Files/Publications/Reports/PFM%20WSA%20vol1%20FINAL.PDF>
- 2 http://www.cipfa.org/-/media/Files/Publications/Reports/international_prospectus_Nov_web.pdf
- 3 <http://www.cipfa.org/-/media/Files/Publications/Reports/PFM%20Taking%20Responsibility%20%20FINAL.pdf>

4 Comparison of EPSAS Governance Principles and CIPFA/IFAC Good Governance in the Public Sector

Proposed EPSAS Governance Principle	Relevant CIPFA/IFAC principle
EPSAS governance structure and process	
Professional independence - EPSAS must be developed in an independent manner, free from undue influence, particularly as regards the definitions, methods, techniques, and procedures.	The fundamental function of good governance in the public sector is to ensure that entities achieve their intended outcomes whilst acting in the public interest at all times.
Legitimacy - EPSAS must be developed in the public interest of the EU, and conducts its tasks in accordance with the due processes to be established under EU law. It also means that EPSAS must be developed, and endorsed in an open, systematic, unbiased manner and use the highest professional standards.	A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law
Impartiality - EPSAS must be developed in a neutral manner, and that the views of all users and other stakeholders be given due consideration.	B. Ensuring openness and comprehensive stakeholder engagement
Transparency - EPSAS must be developed in an open manner where policies, procedures and practices followed are publicly available to users and other stakeholders.	G. Implementing good practices in transparency, reporting, and audit, to deliver effective accountability
Accountability - procedures are in place to plan and monitor the quality of the EPSAS setting process and informing stakeholders and users about compliance with the set of governance standards as well as with relevant legal requirements and the highest professional and ethical standards.	
Competence and capacity - Member States government accounting authorities and national standard setters should be the backbone of EPSAS governance, and the resources available to the standard setting process both in terms of staff and budget are commensurate with EPSAS needs.	E. Developing the capacity of the entity, including the capability of its leadership and the individuals within it
Cost effectiveness - the intended outcomes of the standard setting process are well defined and achieved. Resources are used economically, efficiently and effectively.	C. Defining outcomes in terms of sustainable economic, social, and environmental benefits. D. Determining the interventions necessary to optimize the achievement of the intended outcomes.

Proposed EPSAS Governance Principle	Relevant CIPFA/IFAC principle
EPSAS standards development and endorsement principles	
<p>Reliability - EPSAS must address as faithfully, clearly, accurately and consistently as possible the realities that they are designed to address. It implies that the highest professional standards are used for the selection of definitions, methods, techniques, and procedures.</p>	<p>A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law</p>
<p>Relevance - EPSAS are developed in the public interest of the EU, and that they meet the information needs of their users, by involving a wide range of users and stakeholders, such as national standard setters, IPSASB, preparers, statisticians, courts of audit, public and private experts and academics.</p>	<p>B. Ensuring openness and comprehensive stakeholder engagement</p>
<p>Coherence and comparability - EPSAS standards are internally consistent and that consistency between standards and over time is ensured. EPSAS are developed and endorsed with due consideration to international and global comparability needs, and differences with other international standards are explained.</p>	<p>F. Managing risks and performance through robust internal control and strong public financial management</p>
<p>Accessibility and clarity - EPSAS standards are presented in a clear and understandable manner, released in a suitable and convenient form, available and accessible for free and on an impartial basis to all EU citizens and stakeholders; including supporting information, explanation and guidance. EPSAS should be made available in the official languages of the European Union.</p>	<p>G. Implementing good practices in transparency, reporting, and audit, to deliver effective accountability</p>

5 Annexes B, C and E from 16th Report of the FRAB

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/200817/FRAB_sixteenth_report_2012-13.pdf