



Our ref: ICAEW Rep 70/12

European Commission - Eurostat
Directorate D: Government Finance Statistics
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By email: ESTAT-IPSASconsultation@ec.europa.eu

Dear Sir or Madam

Assessment of the suitability of the International Public Sector Accounting Standards for the Member States – Public consultation

ICAEW is pleased to respond to your request for comments on *Assessment of the suitability of the International Public Sector Accounting Standards for the Member States – Public consultation*.

The response to the consultation was developed through consultation with our members including our Financial Reporting Faculty Committee and our Public Sector Audit Committee.

Please do not hesitate to contact me or my colleague Jonatan Thompson (Jonatan.thompson@icaew.com; +32 (0)2 235 06 16) should you wish to discuss any of the points raised in the attached response.

Yours sincerely

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ICAEW REPRESENTATION

Assessment of the suitability of the International Public Sector Accounting Standards for the Member States

Memorandum of comment submitted in May 2012 by ICAEW, in response to the European Commission's consultation paper *Assessment of the suitability of the International Public Sector Accounting Standards for the Member States* published on 17 February 2012.

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INTRODUCTION

1. ICAEW welcomes the opportunity to comment on the consultation paper *Assessment of the suitability of the International Public Sector Accounting Standards for the Member States* published by the European Commission in February 2012, a copy of which is available from [this link](#).

WHO WE ARE

1. ICAEW is a world-leading professional accountancy body. We operate under a Royal Charter, working in the public interest. ICAEW's regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the UK Financial Reporting Council. We provide leadership and practical support to over 138,000 member chartered accountants in more than 160 countries, working with governments, regulators and industry in order to ensure that the highest standards are maintained.
2. ICAEW members operate across a wide range of areas in business, practice and the public sector. They provide financial expertise and guidance based on the highest professional, technical and ethical standards. They are trained to provide clarity and apply rigour, and so help create long-term sustainable economic value.
3. ICAEW's Financial Reporting Faculty is recognised internationally as a leading authority on financial reporting. It is responsible for formulating ICAEW policy on financial reporting issues, and makes submissions to standard setters and other external bodies. It provides an extensive range of services to its members, providing practical assistance in dealing with common financial reporting problems.
4. The ICAEW Europe Region is headquartered in Brussels and brings a pan-European perspective to ICAEW's work through regular interaction with professional bodies, firms, oversight authorities and market participants across Europe. It also engages with approximately 5,000 members in EU member states outside the UK. ICAEW is listed in the Commission's Interest Representative Register (ID number: 7719382720-34).

MAJOR POINTS

Limited capacity in EU member states

5. ICAEW supports the improvement of accounting in EU member states in order to enhance accountability, transparency, governance and ethics in the public sector. In the end this should involve moving to a set of high-quality, sophisticated accounting standards such as IFRS or IPSASs. However, the difficulty of achieving this should not be underestimated and an evolutionary approach is therefore required. The experience in the UK has been that, even with strong political will and support, the process to move to much more robust accruals accounting, then on to a high-quality set of standards based on IFRS has been a long and challenging process. The end result is worth it in terms of the substantial benefits that arise, particularly in relation to transparency and improved financial management, but the challenges are considerable and must be factored into decisions on which standards to follow and the timetable for moving to those standards.
6. The first step in this process should perhaps be for all member states that have not already done so to move from cash accounting to a base line accruals accounting system (which

would obviously need to be defined), which would ultimately lead, in due course, to compliance with a set of high quality, internationally recognised financial reporting standards. Just moving from cash to accruals accounting requires new systems and capabilities which will take time to establish on the basis of the limited existing capacity in many member states. For example many governments employ relatively few accountants, focusing instead on economic metrics. In many countries attempting to move too quickly to IPSAS, or indeed any set of standards pitched at this level of sophistication, would be hugely difficult, which is likely to undermine the political will required to complete the process as much disruption will be experienced, but with little evident immediate benefit.

Development and governance of IPSAS

7. As a consequence of the above, given it would be some time before it was necessary to move to a full set of high quality, internationally accepted standards, the decision on whether to use IPSASs does not need to be taken immediately. ICAEW is of the view that IPSASs have not yet been developed to a level which justifies that they replace existing accruals standards such as those used in the UK, which are based directly on IFRS.
8. As with other international standards, continued cooperation with the intended users will be required to address the remaining gaps and maintain IPSAS and we acknowledge that the IPSASB is working hard to address this issue. Additionally, and importantly, the governance of IPSASB will also need to evolve to enable it to demonstrate both independence and accountability and thus to ensure the standards can be adopted into EU law. The arguments that have taken place regarding the governance of the IASB clearly indicate the importance of this issue and without such reform IPSASs are unlikely to become widely accepted.

RESPONSES TO SPECIFIC QUESTIONS

The specific matters for comment requested in the public consultation are provided below.

Please state the main motivations for your interest in this public consultation?

9. Please see 'Introduction' and 'Who we are' sections.

Do you consider that International Public Sector Accounting Standards (IPSASs) are suitable for implementation in the EU Member States? (Yes/No/Partly)

10. Partly.

Please explain the main reasons for your answer, and provide any available supporting information for your answer. If you answered "partly" or "no", do you consider that accruals accounting standards would nevertheless be suitable for implementation in the EU Member States?

11. ICAEW supports the introduction of basic accruals accounting based on existing and accepted accruals accounting standards in EU member states as a first step. Moving directly to IPSAS would not be feasible or necessary to achieve the goals of providing better input to feed into ESAs at this stage. However, the ultimate goal should be for member states to move to a full accruals accounting system based on fully developed, sophisticated internationally accepted accounting standards. These should be based on a set of existing and recognised accruals accounting standards. IPSAS may be a suitable range of standards for this purpose

What do you consider would be the main advantages, opportunities and benefits from any future implementation of IPSAS in EU Member States?

12. The introduction of accruals accounting standards would enhance the quality of information for decision-making in member states currently operating on a cash basis. The private sector is ahead of the public sector in developing high quality accounting standards and it would seem sensible for the public sector to make use of private sector experience, and specifically using accountants that have the experience of applying the standards. It would also help to enhance transparency to citizens and accountability to tax-payers, markets and service-users.

What do you consider would be the main obstacles and disadvantages concerning any future implementation of IPSAS in EU Member States?

13. Accruals accounting requires new systems and capabilities which will take time to establish on the basis of the limited existing capacity in many member states. For example many governments employ relatively few accountants, focusing instead on economic metrics. In many countries, attempting to move too quickly to IPSAS, or indeed any set of standards pitched at this level of sophistication, would be hugely difficult, which is likely to undermine the political will required to complete the process as much disruption will be experienced, but with little evident immediate benefit.
14. Since there is no direct link between IPSAS and the production of ESAs, some of the results reported through IPSAS may not have a significant audience to justify their production. There is a risk of producing too much information which can in fact make it harder to for users to locate relevant information. However, the increased rigour of IPSAS standards may perhaps influence the development of the ESA rules to the benefit of the latter.

If you have any observations concerning the connections or links between possible future IPSAS implementation and financial reporting for the Excessive Deficit Procedure, please provide them here.

We do not wish to make any observations on the link between accruals accounting and financial reporting for the Excessive Deficit Procedure.

Please give any views or comments concerning the process and timetable for any future implementation of IPSAS in EU Member States.

15. In order to introduce IPSAS it would first be necessary to assess the current gaps and how long it will take to produce a complete suite of IPSAS. IPSASB is working hard to address this issue and the EU may wish to look to the likely timetable and what as a minimum IPSASB would need to do for the standards to be acceptable. IOSCO took a similar approach when encouraging the development of IFRS for capital markets, setting out what the minimum improvements had to be for IOSCO to give its blessing.
16. As mentioned above, it would be necessary to follow a step-by-step process to ensure the presence of adequate systems and capabilities in member states. ICAEW is of the view that a more feasible approach could be to introduce basic accruals accounting, based on existing and accepted accruals accounting standards, as a first step before introducing a set of international standards, which would be IPSAS.

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