Ladies and Gentlemen,

In January of this year I wrote an article for the MIA's periodical, "The Accountant", where I gave an insight on what was going on in the Maltese Public Sector, with regards to the introduction of Accrual Accounting and the adoption and implementation of internationally recognized Accounting Standards. I also gave a snapshot of European context within which this was being done.

Although I do not wish to repeat what was discussed in the article, on the other hand I cannot avoid mentioning the events that led to the developments that we are experiencing today in the areas of Public finance and accounting.

The Sovereign Debt Crisis underlined the need for governments to demonstrate their financial stability and for more rigorous and more transparent reporting of fiscal data. **Council Directive (2011/85) on Requirements for Budgetary frameworks of Member States** recognized the crucial role in EU budgetary surveillance of complete and reliable fiscal data, comparable across Member States.

Specifically, Article 3 of the Directive required Member States to *'have in place public accounting systems comprehensively and consistently covering all sub-sectors of general government and containing the information needed to* *generate accrual data with a view to preparing data based on the ESA95 (European System of National and Regional Accounts) standard'*.

Article 16(3) of this Directive (2011/85/EU) also required an assessment of the suitability of IPSAS[1] for the Member States.

Based on this, Eurostat carried out a public consultation between February and May 2012 resulting in a report from the Commission to the Council and the European Parliament – **Towards implementing harmonised public sector accounting standards in Member States COM(2013) 114** *(released on 6 March 2013).*

The overall conclusion of the report was twofold. On the one hand, it stated that IPSAS *"in their current state, cannot easily be implemented in EU Member States"* and on the other hand *"the IPSAS standards represent an indisputable reference for potential EU harmonized public sector accounts"*. The report proposed the establishment of a set of European Public Sector Accounting Standards (EPSAS).

In the report, the European Commission called for strong EU governance in the development of EPSAS. It also called for strong links with the IPSAS Board.

[1] *IPSAS is currently the only internationally recognised set of public sector accounting standards.*

Despite acknowledging that "EPSAS may need to differ in some cases from IPSAS" on the other hand the Commission stressed that "it would be important not to create unnecessary divergence" between the two. In fact, within the context of the development of EPSAS, the Commission suggested the classification of IPSASs into three categories:

- Standards that might be implemented with minor or no adaptation;
- Standards that need adaptation, or for which a selective approach would be needed; and
- Standards that are seen as needing to be amended for implementation.

As a first step, the Commission suggested the drafting of "an agreed core of basic European Public Sector Accounting Principles" – EPSAP "with a view to incorporating them in a proposal for a Framework Regulation".

Following the publication of the report, Eurostat organized a conference in May 2013 in Brussels. The conference brought together high level stakeholders and decision makers from public sector accounting, auditing and statistics.

The conference concluded that follow-up work would focus on a Commission Communication on EPSAS that would also pave the way for the Framework

Regulation that I have just mentioned. Towards this end, Eurostat decided to launch a Task Force on EPSAS governance to assist Eurostat to:

- Identify the key issues for EPSAS governance;
- Discuss how to balance those issues, and thereby
- Assist Eurostat to develop a model for the EPSAS governance structure.

The work of the Task Force would feed into the Communication on EPSAS and the planned Framework Regulation that would follow. I must here stress however, that the <u>Task Force is not a decision making body but a reflection group with participation from all Member States</u>.

By way of update, to-date the Task Force has met three times in October 2013, March 2014 and June 2014 with the next meeting scheduled in a couple of weeks time.

In autumn of last year, (right after the first meeting of the Task Force) Eurostat launched a public consultation concerning the main elements of the EPSAS governance structure in order to ensure that all stakeholders could express their views accordingly.

EPSAS Governance Framework

In terms of the EPSAS governance Framework, Member States together with the European Commission are looking at various options. Any framework requires the establishment of various Boards and/or Committees. EPSAS will of course require a Governing Body comprised of high level representatives from Member States which would oversee the development of the standards (EPSAS Regulatory Committee). It would also provide opinions on issues relating to EPSAS that would require endorsement by the European Commission.

The development of the EPSASs themselves will necessitate an EPSAS Standards Working Group with technical experts from public sector standard setters and accounting authorities. Like, IFRIC (IFRS Interpretations Committee), EPSAS will also have an interpretation working group that will deal with and resolve interpretation requests.

An independent governance advisory body will ensure the accountability, professional independence, transparency and legitimacy of the EPSAS Regulatory Committee. It will be entrusted with the EPSAS specific oversight tasks.

Finally, the European Commission is also proposing an EPSAS Advisory Group made up of a range of stakeholders and experts from accountancy and audit professions, statisticians and academia who would provide advice as necessary.

A phased approach to EPSAS

Any approach to the implementation of EPSAS would need to take into account the very different stages of development of Government Accounting that exist across the 28 member States. Over the past 2 years I have witnessed how difficult and intricate it becomes to reach a consensus on the way forward. Early this year, various options were discussed on the approach to be adopted. I will now briefly mention them as the selected approach will surely have a bearing on how the Framework Regulation will look like.

1. The approach outlined in the report regarding the suitability of IPSAS i.e. taking IPSASs that require minor or no adaptation; those that require extensive amendments and others for which new standards would need to be developed.
2. Developing first a conceptual framework for EPSAS within which EPSAS standards could be developed;
3. Developing a minimum set of fundamental or core principles for EPSAS within which EPSAS could be developed;

4. Developing a complete set of EPSAS without necessarily describing the conceptual framework and only after all EPSAS are developed, would one start implementation; and
5. Developing standards first where these would deliver most benefits in terms of improvement in the quality of both financial reporting and comparability.

It is very evident that we are moving towards an agreement on a core of basic European Public Sector Accounting Principles which will be incorporated in the Framework legislation establishing EPSAS. In other words, those entities or Central Governments which do not have accrual based financial statements would start to build their Balance Sheets and Income Statements consistent with EPSAP. Of course, those which are already producing accrual based financial statements would not perhaps change anything. This does not mean that work on the EPSAS would be delayed. On the contrary, standard setting would start immediately focusing on accounting issues where harmonization is most important (taxes, social benefits, pensions). Other less complex EPSASs (presumably based on IPSASs) would follow. When these are completed, all public sector entities would be required to adopt and implement EPSASs. The European Commission is looking at 2020 to be the year when the first harmonized EPSAS based financial statements will be produced by all Member States. (However, I must add that this does not include consolidation).

Developments on the EPSAS project are taking place at a very fast pace. On 30th September of this year, Eurostat released a study conducted by PWC on behalf of the Commission on the benefits and main cost drivers for EPSAS implementation. The study will of course feed into the forthcoming Commission Communication.

This brings me to my final part of this presentation: the domestic scenario.

A snapshot of the Maltese General Government Sector shows that while Central Government's accounts are predominantly cash-based, Extra Budgetary Units and Local Councils are both on accruals and using IFRSs. In other words, there is still a lot to be done at Central Government level.

In my article published on the winter edition of "The Accountant", I gave a detailed account of the initiatives undertaken by the public sector in connection with the introduction of accrual accounting. My intention today is to give you a brief update on where we stand.

Essentially there are three major activities taking place as we speak namely, the adjudication process of the CFMS (Corporate Financial Management Solution) tender; training of staff on accrual accounting principles; and the Malta

Government IPSAS implementation project. This does not imply that other important areas, such as the drafting of legislation are being neglected. However, resources are stretched and we can ill-afford to undertake further parallel activities for the time being.

Since this talk revolved around accounting standards I will now focus on the Malta Government IPSAS implementation project.

As you may already know, this project saw its inception in 2012 but gained considerable momentum in early 2013 when the Treasury commissioned CIPFA (the Chartered Institute of Public Finance and Accountancy) to provide a "gap analysis" for the transition to accrual accounting based on the application of IPSAS. By October of the same year, we had a preliminary report whilst the final version was presented to the Minister for Finance in November. Since the report emphasized the need for a dedicated team with "appropriate financial and non-financial skills" in the first quarter of this year, a Project Board and a Project Team were established. This gave the project a proper governance structure.

The first task was to develop an IPSAS implementation plan based on the indicative timetable presented by CIPFA in their report. The project implementation plan was finalized and approved by the Project Board in July of this year.

The document includes the strategic approach to implementation, the key success factors and possible risks along with major milestones spread over a period of five years. It also recommends the order in which IPSASs should be analysed. Of course, due consideration is also given to the developments that are likely to take place in the European context within the planned project period.

The work involved in this project is onerous. Each IPSAS needs to be analysed and its impact on the Government's processes, procedures and reporting assessed and documented (reference is being made to the GAP analysis by CIPFA and also past work conducted on MGASs). The same is done for legislation and current regulations. In order to facilitate and streamline implementation in the future, certain options available under particular IPSASs are removed. Guidelines for each IPSAS (as adopted by the Maltese Government) are compiled. Consultation with various stakeholders (including the MIA) on each IPSAS (as adopted by the Maltese Government) will follow.

I am pleased to state that work is moving on swiftly. Since July, the Project Team has tackled 4 IPSASs (17, 21, 26 and 13) and these are currently in different stages of their assessment, design and development.

Conclusion

To conclude,

These are indeed challenging times. In the Maltese public Sector, sustaining the present momentum as well as the commitment of officials and politicians to the change programme ahead of us remains a vital ongoing task. At the same time we need to keep abreast of developments taking place in Europe, and should be sufficiently flexible in our approach so as to minimize the strains to our resources.

Moving towards harmonized European Public Accounts based on EPSAS is easier said than done (quoting President Van Rompuy). The forthcoming Commission Communication to the European Council and Parliament should gather the necessary political support and give an impetus to the public sector accounting reforms in Europe. This will also kick start the process for the eventual Framework Regulation and the setting up of the EPSAS governance structures by the end of next year.

I thank you for your attention.