NOEL CAMILLERI

Noel Camilleri was appointed Accountant General in June 2002. Noel started his career in the Public Service in 1990 after pursuing his studies at the University of Malta where he graduated in Business Management. Over the years he worked in different sections of the Treasury including the Cash Office, Accounting Operations and Administration occupying various positions.

In 1997 he was awarded a scholarship to read for an MBA at the University of Bath (UK). On obtaining his postgraduate degree Noel returned to the Treasury where he spearheaded the implementation of a Corporate Accounting System across Government Departments.

Following his appointment, Noel set the pace for the restructuring of the Department which included greater focus on the core Treasury functions, capacity building and the hiving off of non-related activities. This was aimed at transforming the organisation into one that distinguished itself in Public Sector Accounting, Financial Reporting and Debt Management.

In June 2013, Noel Camilleri was appointed full member on the European Investment Bank's Board of Directors.

FEATURE

THE ADOPTION AND IMPLEMENTATION OF INTERNATIONALLY RECOGNISED PUBLIC ACCOUNTING STANDARDS IN MALTA

THE CONTEXT

Over the past few years the financial crisis brought to the fore the need for more fiscal discipline in safeguarding the economic and monetary union. Events of inappropriate financial reporting by Member States demonstrated that the system for fiscal statistics did not sufficiently mitigate the risk of sub-standard quality data notified to the European Commission. This called for the strengthening of the economic governance structure for the euro area and the European Union as a whole.

On 29 September 2010 the Commission approved a package of legislative proposals, the 'European economic governance package' (the 'six pack'). This legislation was adopted by the European Parliament and the Council on 16 November 2011.

More rigorous scrutiny on the fiscal situation of European Member States together with better tools to measure and forecast their fiscal situation, were the focus of the Council Directive (2011/85) on Requirements for Budgetary frameworks of Member States. (one of the elements of the 6-pack legislation).

This Directive recognised the crucial role in EU budgetary surveillance of complete and reliable fiscal data, comparable across Member States and set out the rules on Member State budgetary frameworks that were necessary to ensure compliance with the obligations under Article 126 of the Treaty. 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'. It acknowledged the essential incoherence between public sector accounts, which very often only recorded cash flows and ESA95 accruals data on which the EU budgetary surveillance was based. This essentially meant that cash data had to be converted into accruals through estimations and balance sheet information gathered from a variety of different sources. It gave rise to statistical discrepancies between the deficit derived from non-financial accounts and that compiled using financial accounts.

The European Commission therefore promoted a system of harmonised accruals-based accounting standards, consistent with the ESA, for all entities of the government sector aimed at improving transparency, accountability and the comparability of financial reporting. Within this context, Article 16(3) of Directive 2011/85/EU required an assessment of the suitability of IPSAS[1] for the Member States.

RATIONALE BEHIND HARMONISATION

The benefits of having harmonised Accounting Standards are various. For example, the compilation of macroeconomic statistics on government would be considerably improved if all government entities used a common set of Accounting Standards. This would allow for the use of common bridge tables to compile the entity accounts into ESA accounts, thus greatly facilitating the statistical verification processes by National Statistics Institutions (NSIs) and also the European commission (Eurostat).

As stated above, fiscal transparency is necessary for macroeconomic stability and for surveillance and policy advice. Harmonised standards for public sector accounting would enhance transparency, comparability and cost efficiency. At the macro level, the financial crisis underlined the importance of timely and reliable financial and fiscal data, and exposed the consequences of insufficiently complete and comparable financial reporting in the public sector.

The adoption of an integrated accounting and reporting framework based on harmonised Accounting Standards, with adaptations to ESA 95 concepts, would make it possible to derive the debt and deficit data directly from accounting systems that are subject to control and audit. This could undoubtedly reduce the time taken to report the deficit and debt.

Harmonised accruals-based public-sector accounting would provide a firmer basis for understanding the economic position and performance of governments and government entities at all levels. Whilst the macro level is already accruals based in view of the ESA and EDP (Excessive Deficit Procedure) reporting by Member States, harmonised accruals accounting at micro level would indeed support the macro numbers.

Finally, harmonised public-sector accounting is likely to facilitate any future fiscal and budgetary integration in the EU since decisions taken at a national level would be easier to assess at EU level.

IPSAS & EPSAS – RECENT DEVELOPMENTS

Based on the Directive 2011/85 which required an assessment of the suitability of IPSAS for Member States, 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 that was released on 6 March 2013 – Towards implementing harmonised public sector accounting standards in Member States COM(2013) 114.

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 harmonised public sector accounts". The report proposed the establishment of a set of European Public Sector Accounting Standards (EPSAS).

As a follow-up to the report, Commissioner Algirdas Šemeta hosted a conference on EPSAS in May 2013, at which President Van Rompuy delivered the key note address. The conference brought together high-level stakeholders from public sector accounting, auditing and statistics to discuss the future development of harmonised Government Accounting Standards in Europe.

President Van Rompuy stressed that "inaccurate accounting contributes to ill-founded policy decisions, insufficient consolidation efforts when deficits and debts are underestimated, and eventually to a total collapse of confidence leading to refinancing problems. This unfortunately is what we experienced in Europe. Europe has had its day of reckoning for inaccurate reporting of government accounts, and we have learnt the lesson. Harmonising public sector accounts, moving towards harmonised public sector accounting standards in European Member States: no doubt this is easier said than done. Today my message is: we need harmonised public sector accounts in Europe. I have no doubt that you will contribute to defining best public sector accounting standards for Europe looking forward."

On his part, Commissioner Šemeta emphasised that EPSAS "needs a realistic and detailed road map, setting out the medium-term plan for implementation of EPSAS across the Member States. And this should be done as soon as possible via a Commission Communication to the European Council and the Parliament. With their political support the envisaged public sector accounting reform can have a greater impetus."

During the conference, Eurostat recommended a strong EU governance structure, independent from the International Public Sector Accounting Standards Board (IPSASB), which would be inspired by the EU legislative process and in the form of a core body with representation from all Member States and two expert working groups on Standard Setting and Interpretation of Accounting Standards.

Within this context the conference concluded that follow-up work should focus on a Commission Communication on EPSAS. Such Communication would pave the way for a Framework Regulation by end-2014 or early 2015. The Communication would be prepared by several initiatives concerning key aspects of the project.

One of the first initiatives to be undertaken was the launch of a Task Force on EPSAS governance to assist the Commission to identify key elements for EPSAS governance and develop a model for the EPSAS governance structure.

In autumn of last year, Eurostat also launched a public consultation with a view to inviting stakeholders to express their views on the governance of EPSAS.

The outcome of these initiatives would feed into the Commission Communication on EPSAS and the Framework Regulation.

THE EPSAS PROJECT

EPSAS is an ambitious, medium to long-term project. Although a proper project plan is still being discussed between the European Commission (Eurostat) and Member States, the work programme for the development and implementation of EPSAS is likely to include three main stages.

The objective of the first stage is for the Commission to adopt a Communication which will presumably present the case for and announce the support of the Commission for EPSAS. The Communication will of course lay out the reasons behind the development of EPSAS i.e. for the purposes of micro financial reporting, as well as the needs of macro financial and fiscal monitoring and for the coordination of public entities in the EU.

The project is already into this first stage. As stated in the main text, the task force devoted to the future governance has already met in October with another meeting planned in February 2014.

Preparations are also underway for the commissioning of a study to gather further information on the potential costs of the move to harmonised accrual accounting for a sample of Member States. A study to research the main potential difficulties that Member States have with some IPSASs is also being considered.

Eurostat is already dealing with the following technical issues namely:

i) the definition of the main characteristics of a sub-set of simplified standards for small units;

ii) the definition of the core principles of EPSAS; and

iii) the separation of standards into 'groups' according to the implementation effort required.

The objectives of the second stage can be grouped into two:

i) putting in place the necessary EPSAS governance structures and standard setting procedures; and

ii) preparing the work programme for the actual adoption and implementation of EPSASs.

These objectives will be reached via a number of planned initiatives:

a) preparation and adoption of a Framework Regulation, the design and setting-up of the necessary governance structures and standard setting procedures for EPSAS;

b) on its part as the European Commission's Statistical Authority, Eurostat would need to put in place the necessary mechanisms to monitor the actual observance of future EPSAS and compliance by Member States; and

c) Eurostat would seek to ensure the broadest possible consensus on core accounting principles for public sector accounting and on the EPSAS standards proper.

The third and last stage would involve the adoption of the necessary legislative acts to implement EPSASs. This stage is of course based on the work undertaken in the previous two stages especially in so far as governance and standard setting structures are concerned.

The endorsement of the first EPSASs and the implementation measures by Member States' Accounting Bodies will trigger the launch of the interpretation process of EPSASs within the established structures.

In essence, once the Framework Regulation is in place the EPSAS programme will have evolved into a process of standard setting, interpretation and monitoring the EPSASs.
(Source: European Commission; Eurostat)

ACCRUAL ACCOUNTING IN THE MALTESE PUBLIC SERVICE

Malta's initial steps towards the adoption and implementation of accrual accounting started in 1999, when the Ministry of Finance issued its first circular on Government accrual accounting. In this circular, the Ministry underlined the importance of accrual accounting within the context of 'more meaningful financial information that will lead to a better understanding of the overall financial health of the Government, thereby providing the basis for constructive long-term financial projections and planning.'

Gradually, Ministries and Departments were required to provide accrual-based information to the Treasury. Between 2001 and 2004 the following circulars were issued introducing new accounting concepts and procedures:

- MF 10/2001 on Procedures for the Control of Debtors and Creditors;
- MF 8/2002 on Procedures for the Management of Cash;
- TR 3/2003 on Procedures for the Management of Prepayments, Accruals and Capital commitments; and
- TR 6/2004 on Stock Control Procedures.

This allowed the cash accounting reports to be supplemented by additional accrual-based information.

Concurrently, the first set of Accounting Standards for the Maltese Public Sector (MGASs) was developed. Unfortunately, although these were based on internationally recognised standards prevailing at the time, MGASs never acquired a legal basis and hence they were not fully adopted.

Malta's accession to the EU (2004) and the Euro zone (2008) brought about a drastic increase in financial reporting obligations.

With the aim of enhancing the quality of data produced at Ministry / Department level, the Accrual Accounting Working Group (AAWG) was established in 2008. The AAWG is chaired by the Treasury and meets with Line Ministries / Departments to discuss the data submissions made to Treasury and advise on possible ways in which the data quality could be enhanced.

THE ROAD TO IPSAS ADOPTION AND IMPLEMENTATION

The IPSAS project in the Maltese Public Service started in 2012 following the establishment of an Accounting Standards Technical and Advisory Committee[2] composed of members from the Ministry of Finance, Treasury Department, Internal Audit and Investigations Directorate, MITA, National Statistics Office and the National Audit Office (as observers).

An IPSAS seminar was organised by the Financial Policy and Management Directorate (Ministry of Finance) in June 2012.

The objectives of this seminar were to:

- offer a basic understanding of accrual-based IPSAS requirements, including accounting policies and disclosures;
- familiarise participants with the IPSAS recognition and measurement rules for assets, liabilities, revenues and expenses;
- detail the requirements for presentation of IPSAS financial statements and related disclosures;
- underline the importance of planning when transitioning from the cash basis to the accrual basis of accounting;
- identify transitional provisions in IPSAS standards; and
- explain the sources of IPSAS guidance that are available.

Whilst the seminar gave a very good introduction to IPSAS, it also identified the first steps that needed to be taken by the Maltese Authorities for the adoption and implementation of IPSAS.

2013 saw the Maltese Authorities engage the UK-based Chartered Institute of Public Finance And Accountancy (CIPFA[3]) to provide a 'gap analysis' for the transition to accrual accounting based on the application of IPSAS, in the form of a report determining:

- extent of accountability / accounting framework changes required;
- extent of data flow changes necessary;
- extent of systems changes required;
- high level training needs analysis;
- component projects (data, systems, people);
- available stakeholder readiness and resources to support the programme; and
- outline project phasing with indicative timetable.

The study itself was preceded by two initial workshops during which CIPFA experts presented an overview of IPSAS based accrual accounting. They also underlined the practical issues that were likely to be encountered by the Government of Malta.

The workshops paved the way for the data gathering phase during which around 90 officials were interviewed by the CIPFA team assisted by Treasury staff.

CIPFA presented their final report in November 2013. The main conclusions were grouped under five different headings namely, Accounting, Systems, Processes, People and Programme Management. The report also contained appendices setting out in detail for each of the main transaction areas the significant gaps and necessary system, process and people changes required in order to implement the relevant IPSAS.

The following are only but a few of the main findings:

ACCOUNTING

- The current modified accrual accounting system (cash accounting supplemented by accrual templates) does not meet IPSAS requirements, and appropriate full accrual accounting policies need to be developed and implemented. The current accrual template process is also unreliable, as it is too dependent on the people completing the returns.
- If full accrual accounting based on international standards is to be introduced alongside the CFMS (Corporate Finance Management Solution) implementation, then the initial decisions on accounting policies and disclosures will need to be made by the end of 2015.
- Given the uncertainties and potential delays involved in the EPSAS project, the initial system build may need to be based on IPSAS requirements as a proxy for the eventual EPSAS requirements.
- Budgeting on a cash basis and reporting on a full accrual basis will give rise to complexity, and raise questions about which figures people are accountable for. The full potential benefits of the move to accrual reporting can only be realised if the budget framework moves to a full accrual basis in the medium to longer-term.

SYSTEMS

- The CFMS coverage and implementation timetable will both be crucial to the timetable for the introduction of full accrual accounting. Its implementation therefore needs to be led by Treasury.

- Using CFMS across government will bring efficiency and operational benefits. Ministries / Departments should not be allowed to retain their existing accounting systems because this would create practical problems and also be an overhead from managing the interfaces.

PROCESSES

- All financial processes will need to be reviewed in the run up to introducing full accrual accounting based on International Standards. The opportunity should be taken to address control weaknesses as part of this process.
- Process changes will need to be made by the start of 2017 if full accrual accounting is to be implemented at the same date as CFMS. They could be phased over a longer period but this might increase the risk of accounts qualifications.

PEOPLE

- Few staff within Government have any accountancy qualifications, and the finance function in some Ministries / Departments is already stretched.
- The availability of sufficient qualified and appropriately experienced Accountants at all levels is critical to all government accrual implementations. In order to maximise quality and cost-effectiveness as well as creating a strong professional network, recruitment and training should be approached on a coordinated basis.
- Much of the information comes from non-finance staff (project managers, procurement managers etc.) - awareness training, finance for non-finance staff courses will be needed for a large number of people.

PROGRAMME MANAGEMENT

- Legislation currently requires the Government of Malta's accounts to be prepared on a cash basis; new legislation will be required to permit full accrual accounts to be prepared and published based on International Standards.
- The cross-government accrual programme should be led by Treasury, supported by an appropriate high-level steering group.
- There must be a full-time central project team, which will need a variety of accountancy and other non-financial skills.
- A project timeline of 6 years is within the medium 4-6 year reform period recommended by IPSASB.
- A communications strategy will be vital to the success of the programme as communication across Government can be weak.
- Although the move to full accrual accounting based on International Standards will require significant investment, the costs will be outweighed in the longer term by the strengthening of public financial management in Malta.

(Source: CIPFA Report – Transition to Accrual Accounting: Scoping Study – 26 November 2013)

IPSAS PROJECT: THE WAY FORWARD

Following the CIPFA report, action was immediately taken by the Ministry for Finance to establish proper project management structures that will enable it to undertake the very onerous tasks ahead. It will endeavour to create proper conditions in the public sector to ensure that the introduction of IPSAS based accrual accounting would not only be technically successful, but also improve the quality of financial management and increase the independence and transparency of the financial reporting process.

It is the intention of the Treasury to hold meetings to update accounting officers on the findings, conclusions and recommendations of the CIPFA report and the implementation plans. It would indeed be pointless to try to implement IPSAS unless there was a wide consultation process and acceptance of the importance and the need for sound Accounting Standards. The project team will have to rope in all possible stakeholders who can possibly contribute towards the successful implementation of IPSAS. This includes the involvement of the National Audit Office from the very outset.

Throughout the whole project cycle, there will be a concerted effort towards enhancing the skills of all those involved or affected by IPSAS adoption. The CIPFA report exposed serious capacity issues. Therefore it is planned to assess the impact of the changes on the competencies required in relevant positions and to develop a strategy which will include training and upgrading of skills.

The procurement and implementation of the new CFMS will be critical to a successful shift to full accrual accounting. The purchase of the system should provide the standard accounting functionality necessary to implement IPSAS-based accounts. It is planned to maximise its coverage as much as possible whilst adopting a common chart of accounts and standardising processes accordingly.

Although work on the review of Financial Management legislation started a few years back, this will now be stepped up. An exercise to revisit all financial policies will be undertaken. Such amended policies will be accompanied by accounting procedures manuals.

The Government's timetable to implement accrual accounting and IPSAS is indeed very challenging but achievable. Over the few past years there has been a significant drive towards embracing an accrual-based culture. Of course further commitment of officials and politicians to such a reform will continue to create the right environment and conditions in hope that this would lead to the smooth and successful transition to IPSAS-based accrual accounting.

[1] IPSAS is currently the only internationally recognised set of public sector accounting standards. | [2] The committee was eventually renamed IPSAS committee following a policy decision to opt for internationally recognised standards, specifically IPSAS | [3] CIPFA is the only professional accountancy body exclusively dedicated to public finance in the world.