

Policy Statement

Standing for trust and integrity

March 2010



The Accountancy Profession's Contribution to the Debate on the Crisis (VII)

Accountants in the public sector and the financial crisis

FEE (Fédération des Experts-comptables Européens - Federation of European Accountants) wishes to contribute its views and experience to the debate on the crisis, the ways to mitigate its effects and to speed-up recovery. This paper presents the views of FEE on issues that may require specific attention in the 2009 year-end reporting without thereby being comprehensive. Five other papers have been issued between December 2008 and January 2010, one presenting background information and analysis on the crisis (I), a second paper on the matters of specific relevance for statutory auditors during the financial crisis (and the 2008 year-end closing) (II), a third paper containing views of specific relevance to Small and Medium-sized Entities (SMEs) (III), a fourth paper on dynamic provisioning (IV), a fifth paper on the financial crisis and sustainability (V) and a sixth on key issues for management and auditors for the 2009 year-end financial reporting (VI).

About FEE

FEE represents 43 professional institutes of accountants and auditors from 32 European countries, including all 27 EU Member States. In representing the profession, FEE recognises the public interest. FEE has a combined membership of more than 500.000 professional accountants working in different capacities in public practice, small and larger firms, business, public sector and education, who all contribute to a more efficient, transparent, and sustainable European economy. Based on the practical experience gained in this daily involvement in all aspects of the economy and the set of values underpinning the profession's practice, FEE believes it has a contribution to make in this public policy debate.

The crisis of the last year had an impact across all Member States and the measures that Governments have taken have resulted in different types of support and in accounting implications which have not been seen before in the public sector. This statement sets out the general impacts and the role accountants in the public sector have had to play.

Most Governments of Member States have had to take serious measures in response to the current economic downturn. Accountants in the public sector faced challenges in accounts for these measures and their role may have been affected subsequently.

Different Member States have been impacted in various ways and to various extents. In general, there have been impacts on three parts of the economy:

- On financial institutions, through a lack of liquidity;
- On private industries, notably car and construction industries, with a lack of available credit reducing trade in these areas; and

- On private individuals, with the lack of liquidity affecting credit and the impact on industry affecting jobs.

FEE believes that accountants in the public sector have responsibility to ensure that the financial effects of the measures to address the crisis are accounted for and reported on transparently so as to inform stakeholders and the public and also to allow the financial implications of the crisis to be assessed.

Accountants in the public sector have responsibility:

- As preparer to ensure that the financial measures entered into by national governments and other public sector bodies are correctly brought to account and disclosed in the accounts;
- To ensure that the financial effects of those measures are transparent to a reader of those accounts; or
- As public sector auditor to audit those accounts and report to the relevant authorities.

Member States took different actions: some took over banks, some provided guarantees and some provided support to various industries for example the car industry.

In general the measures taken by Member States bring a level of complexity to the national accounts as a range of financial instruments is in place. The key issues are how these instruments should be brought to account, and whether the resulting accounts can help people to understand the 'true and fair' impact of those measures on the individual countries. The various measures and accounting questions have included the following:

- Valuation of investments at market value;
- Newly created entities and whether they are public or private for example where they may be private but backed by public guarantees;
- Accounting treatment generally where private institutions have been taken into public ownership or where government have taken significant shareholdings in private financial institutions.

Recent developments have shown the importance of transparency and comparability of governments accounts and reporting. FEE calls for a broad discussion on the need for common public sector reporting standards in Europe and consideration of the role International Public Sector Standards (IPSAS) could play in this respect.

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The work of accountants in the public sector may also be affected in other ways, for example:

- The accountant may be asked to give more financial advice to the government, on for example debt and cash management, estate management, investment policy and investment appraisal;
- The accountant may be called upon in the future to evaluate the effectiveness of the measures taken and in particular the effect on debt and deficit;
- A general increase in the complexity of the financial and the control environment;
- There may be an increased emphasis on economists in government financial institutions; and
- Accountants will need to be aware of increased political sensitivity and ministerial involvement in financial matters.

Going concern may also become an issue, but this is not currently a widespread issue as governments generally guarantee the financial situation of public sector bodies (point made by various countries).

FEE reinforces the message that accountants in the public sector have responsibility to ensure that the financial effects of the measures to address the

crisis are accounted for and reported on transparently so as to inform stakeholders and the public and also to allow the financial implications of the crisis to be assessed.

Federation European of Accountants
Fédération des Experts comptables Européens

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FEE is a Regional Organisation of IFAC, the International Federation of Accountants