

## Drivers of change for the public sector:

*Bringing governments closer to citizens and businesses in a digital age through Ethics and trust*

26 September 2017

### REPORT



On 26 September 2017, ACCA (the Association of Chartered Certified Accountants) organised, under the auspices of the Estonian Presidency of the Council of the EU, a conference called ***Bringing governments closer to citizens and businesses in a digital age through Ethics and trust***. It was hosted by ECA Member Lazaros S. Lazarou at the European Court of Auditors in Luxembourg.

**Klaus-Heiner Lehne**, President of the European Court of Auditors, gave a welcoming speech. **The first Panel session called Digital transformation challenges & opportunities**, moderated by **Maggie McGhee**, Director of Professional Insights at ACCA was comprised of **Arturo Rivera**, who talked about OECD's work on Digital Government and Data-Driven Public Sector; **Anders Gjoen**, from the eGovernment and Trust unit at , DG CONNECT, European Commission; **Sandra Särav**, Counsellor for Digital Affairs in the Estonian Ministry of Economic Affairs and Communications and **Alessandro Bonara** , Head of Division, Statistical Applications and Tools Division Directorate General Statistics at the European Central Bank.

**The second Panel session on (Re)building trust: Ethics, Integrity and Accountability of Public Sector**, moderated by ACCA member **Radoslav Sinkovic**, Head of Internal Audit, Fusion for Energy, The European Joint Undertaking for ITER and the Development of Fusion Energy, gathered **Thomas Müller-Marqués Berger**, IPSASB CAG Chair, Chair of the Public Sector Group/ Accountancy Europe & EY partner, **Alexandre Makaronidis**, head of the EPSAS task force in DG EUROSTAT at the European Commission , **Philippe Peuch-Lestrade**, from the IIRC and **Peter C. Lorson**, Dean of the Faculty of Economic and Social Sciences, at the University of Rostock, who presented the DiEPSAm Project.

**Brian Mc Enery**, ACCA's President, delivered concluding remarks.

## Main highlights:

**Klaus-Heiner Lehne**, President of the European Court of Auditors

- The European Court of Auditors is projecting itself into the future, looking at trends which might impact the audited topics and how the audits are planned and carried out. Today's situation is paradoxical: citizens have so much information at their disposal but at the same time the scepticism has never been so high and trust so low. Therefore, auditors and accountants have a strong role to play.

**Lazaros S. Lazarou**, Dean of Chamber V " Financing and Administering the Union", European Court of Auditors

- The theme of the conference could not be more relevant, because when it comes to the public sector and finance, the buzz words of the moment are evolution and change. The scale and pace of change are accelerating as never before. Having the foresight to anticipate how the changes will affect a country will help its government to prepare most effectively for the future landscape.
- There are several factors driving change for the public sector: some will affect the level and type of public services needed in the future. Others will influence the level of funds available for public spending. The need to sustain rising populations and fuel economic growth must be balanced against the planet's finite resources. Other factors will change the very nature of public services, such as digital technologies.
- The public sector is as complex as it is diverse, and it is not the same in any two countries. What is considered to be part of the public sector often varies from one country to another.
- Understanding which drivers will impact change is an important prerequisite to ensure the public sector is best prepared for it. And to perform their roles well, public sector finance professionals need to be able to navigate the present, and prepare for the future to ensure that the best value is obtained from public funds. Public services need to be effective now and sustainable in the long term.
- To help leaders in the public sector and finance professionals prepare for an uncertain tomorrow, ACCA undertook a [global study](#) to explore which emerging drivers of change could have the biggest impact and to highlight the skills that will be required over the period to 2026.
- Like ACCA, the European Court of Auditors and its members believe it is important that finance professionals in the public sector gather together to discuss issues and to understand where the profession is heading. Finance professionals in the public sector need to ensure that they are aware of the factors that are driving changes in the sector and have the skills to be able to rise to the challenges and/or maximise how they use opportunities. They will need to be alert to macro issues and be able to consider these when giving finance advice. We need to understand the big picture and see where we fit in. We also need to ask questions, and learn from each other.
- Public services are changing through increased collaboration with the private sector and digital advances. These create an opportunity for rethinking existing public service models but the associated risks must be managed. For example, there is the threat of breaches of cyber security and the risk that public services will not meet the appropriate standards.
- Finance professionals in the public sector have a unique opportunity to serve the communities in which they live and make a tangible difference to people's lives through better infrastructure, and public services. Arguably, there are not many other areas that provide the diversity of challenge and fulfilment found in the public sector.



## **Panel on Digital transformation challenges & opportunities**

**Maggie McGhee**, Director of Professional Insights, ACCA

- Advances in science and technology lie at the heart of many of the developments that will shape the public sector landscape over the next decade. They offer the potential for disruptive innovation in every aspect of human life, society and work.
- Take Big Data for example. Governments are usually the largest repositories of data. So there is a huge opportunity to use this to develop insight and ensure public services are efficiently and effectively delivered
- One of the areas where the public sector around globally is experimenting with data is the creation of Smart Cities. The idea behind this is to use technology and data to create a dynamic interconnected system of public services within the city that is more efficient and resilient. The opportunities are endless.
- But there are also risks associated with governments holding so much data. It means that governments have the most to lose from a breach of their systems. The open connected world brings with it the risks of a lawless state where rogue entities can electronically disrupt or undermine government systems and processes.
- Those who run public services inevitably have to factor in these risks and proceed with due caution when considering adoption of new technologies. Cost effectiveness is also an important factor, as it is impossible to create a system that offers full protection from cyber-attacks. Therefore it is vital to understand, or to develop a view about, what is an acceptable loss, or to put it another way what is an acceptable price to pay to guarantee a given level of protection from cyber risks. Importantly, the costs of maintaining that level of protection, once the system has been set up, must be factored in.
- ACCA recently carried out global surveys of attitudes to ethics among 10,000 professional accountants and of those of over 500 senior ('C-suite') managers. More than 8 in 10 of these accountants around the world were of the view that strong ethical principles and behaviour will become even more important in the evolving digital age.
- In order to lend specificity to the analysis of ethics in a digital environment, ethical aspects were covered across six digital themes: cybersecurity; platform-based business models; big data and analytics; cryptocurrencies and distributed ledgers; automation, artificial intelligence and machine learning; and procurement of technology. In the context of these digital themes, the IESBA fundamental principle which emerged most frequently as being at risk of compromise was professional competence and due care. This may be a reflection of the extent to which work situations in a digital age can present new information with ethical aspects that have not been seen before.

- Looking ahead, it seems likely that risks of ethical compromises go way beyond issues of honest and straightforward professional and business relationships. For instance, it is difficult to apply ethical judgement to the use of distributed ledgers without a sufficient understanding of what they are.

#### Arturo Rivera, OECD's work on Digital Government and Data-Driven Public Sector

- [OECD's Recommendation on Digital Government Strategies](#) provides the OECD underlying policy analytical framework guiding the work of the OECD on digital government, open data and data-driven public sector. It was approved by the OECD Council in 2014.
- The recommendation (an OECD legal instrument) is a set of 12 principles aiming to help and guide OECD countries and partners towards the digital transformation of their public sector. Today, a total of 45 countries (35 OECD + 10 non-members) are implementing efforts to apply the principles of the recommendation.
- The recommendation helps governments to shift from e-government towards a digital government. While efforts on e-government across different OECD countries date back as far as the 80's, countries are now struggling to adapt and capitalise on the benefits that are brought by digital evolution and the challenges created from the digitalisation of the economy and society.
- E-government models had – and still have - a strong approach of adopting ICTs within the public sector, mainly to improve organisational efficiency (e.g. through on-line one-stop shops), sometimes not taking into consideration citizens' real needs, and without reforming organisational arrangements in order to enable a better environment to fully capitalise on ICTs.
- Eventually there was a growing push towards designing *citizen-centred* public services but user and citizen *engagement* was absent.
- In addition, the rapid expansion of new digital technologies (e.g. cloud-based services, streaming services, social media, the app market) and business models in the last decade (Facebook, Twitter were only launched 13/11 years ago) has led to the digitalisation businesses models and citizens' way of life. The explosion and ubiquitousness of data (open or not) is a direct result of this. Not in vane technologies and skills related to machine-learning or coding have gained track in parallel to digitisation.
- Evolving from an e-government to a digital government aims precisely to capitalise on all these opportunities by transforming the way governments and public sectors work so they can better respond to citizens.
- One of the challenges is to change the mindset that digitalisation or digital transformation is only a matter of the private sector and innovative civic tech. A digitalised society requires and demands a digital government.
- OECD helps government to implement the principles of the OECD recommendation in order to enable digital transformation around specific areas of work, including:
  - **Governance:** Ensuring the availability of the right institutional, policy, legal and regulatory framework – and clear leadership – to support the implementation of digital government policies.
  - **Openness and engagement:** It is no longer about citizen-centred but citizen- and data-driven service delivery. Consulting and using digital technologies to get regular input from citizens on their real needs is key to better serve and respond.
  - **Data-driven public sector.**
  - **Skills:** Institutions are human and competencies and skills are needed to fully capitalise on the value of digital technologies.



- **Enable collaboration and knowledge exchange: OECD Working Party of Digital Government Senior Official (E-leaders) and OECD Expert Group Meeting on Open Government Data.**
- A part of this work are country-specific reviews. For example, just a few weeks ago the review of Norway was published with a focus on digital transformation in the public sector. Other reviews covered open government data policies in countries like Mexico and Poland.
- When it comes to the main challenge and risks in regard to governments implementing digital government policies, the OECD sees an issue with the approach. There is a need to address the evolution towards digital government with a holistic approach tackling issues, for instance, related to legal, institutional and policy governance, the strategic use of data governance, and the development of skills. The digital transformation of the public sector goes beyond the mere adoption of digital technologies. However, often government take a mere technical approach to this issue.
- There is a risk of creating digital exclusion instead of inclusion: we need to acknowledge that not everyone in society is able to use digital services. It is important to create skills for all of the citizens so they can benefit from technology-related initiatives, and follow a digital by design approach for public service delivery ensuring multi-channel accessibility.
- There are also other risks related to privacy and data protection.
- One of the OECD key coordination fora in regard to digital government is the **OECD Working Party of Digital Government Senior Official (E-leaders)**. Recently (September, 2017), OECD delegates participating in the Working Party agreed on creating a new group in focused on discussing blockchain and artificial intelligence. While technologies such as blockchain are still maturing and there are examples of the use of blockchain within the public sector in countries like Estonia, the objective of the Working Party is to help all countries to move together towards the strategic use of these technologies in the near future.

#### **Anders Gjoen**, eGovernment and Trust, DG CNCT European Commission

- Discussed what the European Commission is doing to advance the digital transformation of governments. It is important to note that the Commission has only limited tools and powers in respect to making national member states' governments digital. This is a question of subsidiarity; it is up to the member states to decide which policies to implement. The goal of the Commission is to have an ongoing conversation with the member states and address issues relevant to the functioning of the Internal Market.
- The eGovernment Action Plan, that was adopted last year, is a coordinated European level instrument. It promotes the use of certain principles to which actions under the eGovernment Action Plan should adhere to, such as 'digital-by-default', 'once-only', 'cross-border by default', openness, trust and interoperability. The eGovernment Action Plan also includes a number of concrete EU level actions aimed at modernising public administrations in the EU.
- This is a highly collaborative instrument where the European Commission works together with the member states /
- As part of the eGovernment Action plan, specific legal instruments to promote trust exist at EU level. The eIDAS Regulation: ensures that people and businesses can use their own national electronic identification schemes (eIDs) to access public services in other EU countries where eIDs are available; creates an European internal market for electronic Trust Services (eTS) - namely electronic signatures, electronic seals, time stamp, electronic delivery service and website authentication - by ensuring that they will

work across borders and have the same legal status as traditional paper based processes.

- The **Once-Only Principle** in the eGovernment action plan is about facilitating the delivery of online services by reusing user data already known to the public administration – citizens and businesses should not need to provide their data to public services more than once.
- Another important initiative is the [Single Digital Gateway](#) proposal. This initiative aims to regulate the once-only principle for the first time. The objective of the proposal is to make information in the member states available through a search portal.
- [Connecting Europe Facility](#) programme is a key EU funding instrument to promote growth, jobs and competitiveness through targeted infrastructure investment at European level.
- The European Commission is monitoring how the member states are implementing the eGovernment action plan. On 6 October, a [Ministerial eGovernment conference](#) will be organised in Tallinn.
- The Commission has also made a [proposal](#) to strengthen the cyber security capacities. The proposal suggests, among other things, setting up a European Cybersecurity Agency based on the ENISA framework..
- Developing a European data protection framework is very important. The legal framework for that in the EU has been renewed in the form of regulation. It sets the same obligation for all member states onwith regards to the protection of personal data in the EU.

**Sandra Särav**, Counsellor for Digital Affairs in the Estonian Ministry of Economic Affairs and Communications.

- Today, almost all public services in Estonia are digitalised and accessed through secure digital identities that are provided to every citizen and resident. The technology behind this digital infrastructure is incredibly impressive. The Public Key Infrastructure (PKI) and eID system is based on advanced encryption technology and includes 2-factor authentication. Data is decentralised, yet never duplicated and always shared securely thanks to the X-Road.
- **The x-road**, Estonian data exchange layer, adopted on 2001, not to be implemented in, e.g. Finland, saves 820 working years per year. X-road is the invisible yet crucial environment that allows the nation’s various e-service databases, both in the public and private sector, to link up and operate in harmony.
- The Estonian system is based on “trust”. While the national database can be accessed by the authorities, the citizen has to be notified when their records are observed.
- 99% of all public services are online and altogether 1789 e-services are available (2017 data); 99.6% of banking transactions are done electronically; In 2017, 96,3% of people declared their income electronically. One of the most widely used e-solutions belongs to the health care field - 99% of drug prescriptions are issued digitally.
- **Operating on the once-only principle.** The system is built around the online ID card, introduced in 2002, in which its citizens’ information – from healthcare records to tax filings to educational qualifications to real estate documents – is stored in a seamlessly integrated national database.
- **Blockchain** technology is used as one layer in securing the information against unauthorised changes. The centre of registrations and information systems (RIK) already uses blockchain technology in the National Gazette, Register of Wills, Digital Court File,

Land Register and Business Register. The purpose of these government e-services (registers) is to guarantee the integrity of information and the legal rights of ownership.

- The technology helps to ensure that the parties to a case (court case files) can only have access to the information they are entitled to, and later to validate who saw what information and when.
- Registering a functioning business takes less than 20 minutes and declaring taxes in the e-tax office, is usually even quicker. Direct savings can be expressed in working hours. For example, government decisions today are made in about 30 minutes instead of five hours, (10x more effective); e-government and especially digital signatures save people an average of five working days a year
- **E-voting or I-voting** has been practiced in Estonia since 2005, for 8 times – now every third person e-votes. Estonia was the first nation in history to offer internet voting in a nationwide election in 2005. Completely unrelated to the costly electronic voting systems with their problematic machinery used in some countries, the Estonian open-source voting solution is simple and secure. In the last election in Estonia (in 2015), every third Estonian e-voted.
- **E-Residency** – Estonia is the first country in the world to open its e-services to foreign nationals, by issuing the secure, state-backed digital identities. Most likely Estonia is also the only country in the world with a governmental start-up. The programme was launched in public beta mode in 2015 so that improvements could be made based on the experience of real e-residents around the world. In the first two years, more than 20,000 people have applied from 138 countries. Together, they have established more than 1,600 new companies and run more than 3,000 companies in total. A significant proportion of those who have already signed up also have plans to open a company in future. Further improvements to the programme have the potential to grow the number of e-residents exponentially.
- Estonia has proposed that we should see data as fifth freedom. We want to see data move across borders. Estonia has also tested self-driving cars and has announced that it will propose legislation in artificial intelligence.
- The **Data Embassy** is an extension of the Estonian government in the cloud, which means the state owns server resources outside its territorial boundaries. This is an innovative concept for handling state information, as states usually store their information within their physical boundaries. Those resources are under Estonian state control and must be capable not only of providing data backups, but also of operating the most critical services.
- This new approach makes it possible for the Estonian state to continue operating under conditions where its local data centres have been stopped or disturbed due to a natural disaster, large-scale cyber-attack, power failure or other crisis situation.
- The first data embassy will be set up with Luxembourg by the end of 2017 / at the beginning of 2018. The first data embassy will be based in a high-security data centre in Betzdorf, a commune in eastern Luxembourg. The Luxembourg site will store the copies of the most critical and confidential data.
- After a national cyber-attack, Estonia has adopted a national cyber-security strategy which has since been renewed. Many countries have used Estonia's example in their practise. However, national measures are not enough – EU-wide action is necessary.
- We have to admit that Europe is quite multi-speed when it comes to digital. In order to increase digital inclusion, it is important to raise awareness, make services available and easy to use. Citizens need to see the benefit of using these services.

**Alessandro Bonara**, Head of Division, Statistical Applications and Tools Division Directorate General Statistics, European Central Bank

- The digital age has posed new challenges and opportunities to the ECB when it comes to fulfil its mandate. In the ECB, transformation is required in a few fields, but not necessarily in terms of having newer technology or more automated processes, instead we observe the need to better measure the reality in which we operate. As Mr Draghi mentioned “*policy-making and, indeed, decision-making are only as good as the information on which they are based*”.
- In order to ensure sound decision-making and build trust among the citizens of the Euro Area on in its action, the ECB adopts what we call “evidence-based policies”. This applies to all the main core fields within this institution: monetary policy, macro-prudential stability and supervision. Much of the *evidence* that is looked for in the domain revolves around data: structured information originating in the financial and banking sector. Data is however a generic word and the nature of the information changed alongside with the developments in the digitalisation space.

For example, traditionally the work of the statisticians centered on the provision of aggregated data that showed trends on macroeconomic developments. Balance of Payments or National Accounts are examples. The so-called “tail events” are not really captured by the aggregated data and cannot be inspected by looking at trends from the macro side.

The Financial crisis revealed that the type of data made available traditionally was insufficient to understand the dependencies and interactions between entities that characterise our world today. Unconventional monetary policy measures to fight the crisis have required also the use of detailed data by country, sector, sub-sector and financial instruments. Also the G20 Data Gaps Initiative calls for work in that field. The G20 Finance ministers and CB governors in 2009 called on the IMF and FSB to identify major financial and economic information gaps that needed to be addressed.

- As a consequence, more data is required with more granular information
- Furthermore, today the world is more and more interconnected, and the ECB is no exception. Institutions do not live within national borders and a more global approach is required to measure the reality. The work that the ECB does needs to take into consideration this dimension as otherwise the data provided in not going to be sufficiently correct.
- Increasing complexity and granularity of data come with higher reporting costs for market participants, inefficiency in managing, mapping and maintaining it and possible risks of errors that can result in inappropriate decision-making.
- Central in this context is the contribution to standardisation initiatives on identifiers. The ECB is focussing on making the UPI, UTI and LEI global identifiers with large adoption. Following this line we are leading with the OFR and BoE a forum to discuss and form global standards for granular data. The forum brings together policy makers, international organisations and financial industry practitioners from around the world with the aim to collaborate and support the cause for common standards and identifiers. Standardised definitions will make it easier to perform cross-country analyses and improve on data quality. Aligned identifiers, like the LEI or the UTI, will make it easier to link different datasets and provide new and better data analysis.
- A third dimension of novelty is the attempt to rationalise the reporting requirements for the Euro Area. This is the European Reporting Framework. The vision is of an integrated and harmonised cross-county reporting scheme for banks, covering most reporting requirements of ECB and also of the EBA. It should contain best practice for collecting banks’ data for different purposes, avoiding duplication cross various reports.



- Current monetary, supervisory and other reporting standards require data which are collected in several reports. As a result, reporting banks and recipients are faced with a large number of reports with different publication or submission frequencies and different levels of aggregation. This can lead to duplication and overlaps. The idea is to collect all of the data required for different statistical purposes (the first step) and for banking supervision (the second step) using an integrated and harmonised cross-country approach. In future, reporting requirements should be organised in the form of a single comprehensive and harmonised “primary reporting framework”: the “European Reporting Framework” (ERF) or “output layer” for regular data transmissions from reporting agents to national central banks (NCBs) or national competent (supervisory) authorities (NCAs). This framework should reduce redundancy and the reporting burden for both recipients and reporting institutions. Given the number of issues to be agreed upon, this can only be achieved through a step-by-step approach.
- It is also important for the ECB to demonstrate that it can use the data it has to the maximum extent and this calls for “data integration”. Integration is about being able to manage the different areas of statistical and supervision information as parts of a single system. Integrating the reports for statistical and supervisory functions will generate large benefits, not only for the data compilers but also for the reporting entities. If institutions like the ECB manage to advance on data integration, the data compilers will see a reduction in the reporting burden as the same data would need to be reported only once.
- To achieve integration we need first of all a harmonisation of concepts. The ECB is working in creating and operationalising the so-called “Banking Integrated Reporting Dictionary” (BIRD). Every time a statistical or supervisory regulatory framework is updated or a new one comes into existence, banks are left to their own devices to interpret it, extract the data from their internal systems and transform it such that they arrive to a final figure asked for in a regulation. It is not always straightforward to identify which source data to use and how to process it to produce the number required. BIRD has been designed to alleviate the reporting burden for the banks. Its contents contain a precise description of the data which should be extracted from the banks’ internal IT systems to derive reports demanded by authorities. In addition to this, BIRD clearly defines transformation rules to be applied to the data extracted from the banks’ internal IT systems in order to produce a specific final regulatory figure.
- If BIRD helps the “input layer”, i.e. the reporting agents, something needs to be done also on the “output” side to achieve integration. The equivalent to BIRD needs to exist inside the ECB to ensure our analysts are able to link datasets coming from various sources. The classical example is around securities. Data is received from two different sources, one source contains information on who is issuing which securities and the other informs on who is holding which securities. Because the data is “noisy” and contains different concepts which cannot be always reconciled, asking questions like “what is the exposure of bank A to Bank B” is not straight forward. In brief the ECB is building a “translation service” (a dictionary) to ensure compatibility of concepts used in different collection so the linking of datasets can actually produce meaningful results.
- The ECB is monitoring and studying blockchain and the DLT but it has not foreseen concrete steps in using it.
- As regards to cyber security, Internet is an open space and the ECB is trying to protect its internal systems as much as possible in order to avoid unauthorised intrusions, also by using a dedicated network to interact with National Central Banks.



### **Panel on (Re)building trust: Ethics, Integrity and Accountability of Public Sector**

**Radoslav Sinkovic**, Head of Internal Audit, Fusion for Energy, the European Joint Undertaking for ITER and the Development of Fusion Energy

- Following the recent financial and fiscal crises in the EU member states, the issues of trust, ethics and accountability of public sector became highly relevant. According to the recent Eurobarometer, 60% of EU citizens distrust their national governments and the EU institutions. Similar research in the US shows that 80% of US citizens distrust the federal government.
- A survey in the OECD countries also showed a very similar situation: 60% citizens of OECD countries distrust their national governments. However parts of the public sector, such as healthcare, education, public transportation or judicial system, show higher levels of trust.
- Politicians, public sector managers and officials therefore need to continuously demonstrate that they are able to create and provide high quality public services and policies, create environment which enhances the quality of life and is supportive to businesses, and at the same time maintain financial health and credibility of public institutions.
- Meeting these objectives should help the public sector stewards to gain and maintain the trust of citizens, tax payers and investors to whom they are accountable.
- Today's society has access to unprecedented amount of information, goods and services. With a simple touch of your phone screen you can obtain information, buy goods or services, get a loan or invest your savings. This environment makes citizens and investors more demanding than in the past.
- The citizens demand results and transparency from those entrusted with managing public affairs.
- Trust is linked to the ability of meeting expectations and delivering results. However, history has taught us that the way of achieving results is of equal importance as the result itself. Unethical behaviour might create short term benefits to some but is detrimental to society as a whole. Although ethical standards depend on the culture and one's personal philosophy and values, there is a common understanding of what represents an ethical decision and an unethical one, in particular when public funds are concerned.
- Accountants and auditors in the public sector report on how well those in charge of creating and delivering public policies and services are doing and whether the provided information is accurate. Financial professionals are those on whom the public relies when assessing whether or not to trust the public sector.

**Thomas Müller-Marqués Berger**, IPSASB CAG Chair, Chair ACE PSG & EY

- When it comes to rebuilding trust, we need to ask the following question: whose trust we are rebuilding? From the IPSASB perspective, the strategy and the conceptual framework

defines that as resource providers and service recipients, which is a broad definition. In the end, it is mainly citizens we are talking about.

- It came out quite clear during the IPSASB strategy discussion that citizens are directly affected by financial management decisions of governments and governmental entities. At the same time, in many jurisdictions the lack of complete and audited information about governments' finances continues to be a major source of concern which impacts governments' accountability and informed decision making.
- If we want to rebuild trust in the public sector, there is a need to focus on three major pillars: development of good, harmonized standards; transparent and understandable financial reports being subject to independent audit; proper use of accrual information by decision makers when making public policy decisions.
- The existence of good data is only as helpful as to the extent it is used.
- The development of good standards is obviously the task of the IPSASB. The current strategy of the IPSASB outlines the main objective – strengthening public finance management through increasing adoption of IPSAS. It is done by developing high quality financial reporting standards which are the result of an intensive due process that often starts with consultation papers, making sure that the problem is well understood.
- This process is the legitimacy of the IPSASB standard setting activities; otherwise any jurisdiction could have its own standards. It needs to be made sure that the input is as broad as possible and this is where the Consultative Advisory Group (CAG) and the new oversight mechanism come in. Ethics and integrity play a very important role here because this mechanism has to ensure that the due process is followed diligently and all relevant stakeholder groups are equally involved.
- Applying these globally accepted standards for many countries means to improve accountability and credibility, especially for those countries, which lost trust during the financial crisis.
- As regards to proper use of accrual information by decision makers, it is important to note that it is not enough to offer the accrual information, you also have to create the demand by communicating the benefits of its use to decision makers.
- The OECD has recently presented a study on [Rationalising Government Fiscal Reporting](#) looking at how to better address users' needs. One result from this study was that the reason for politicians not to use financial information is that this information is too complex, it comes too late and it is not enough focussed on specific needs of the decision makers. As the IPSASB has identified this missing link between the standards setters and the users in the public sector, among other measures it gave high priority to the inclusion of the parliamentary perspective when setting up the CAG membership.
- The IPSASB is dedicated to raise awareness of accrual IPSAS and the benefits of their adoption. As a profession we have an important communication function to convince the decision makers to use the information provided in financial statements.
- The OECD study also identified the need for budget forecasts and performance information to be subject to the same degree of independent scrutiny as financial statements and accounts to ensure their integrity. Considering that demand, the audit profession has an important role to play in the public sector when it comes to increasing trust.
- Harmonised standards increase comparability by using the same structure, format and the same key performance indicators, such as surplus/deficit or net assets/net equity. Through these indicators the complexity is being reduced in order to better understand the first high-level messages concerning financial position and financial performance of an entity.
- Different ways of communication are required because for the heterogeneity of users' groups. Financial statements, as much as they are necessary, they are not sufficient. We also need long-term fiscal sustainability reports and other General Purpose Financial

Reports. As regards to complexity, focussed reporting tools are needed. We also need to think of building on new technology available – using different communication tools than just static reports. Additionally to standard setters and preparers guessing what the information need of users might be, the provision of accounting data via data analysis tools - allowing users to generate their own analysis results - is probably the future way to communicate with stakeholder groups both in private and in public sector.

- One of the reasons why financial statements are often not read by citizens or politicians is that financial information is lacking context in terms of non-financial performance-related type of information. Avoiding unnecessary complexity is important but public sector entities need to provide more context to the financial information in order to make the latter understandable.

**Alexandre Makaronidis**, head of Task Force EPSAS - European Public Sector Accounting Standards, European Commission - DG EUROSTAT

- In most EU member states and the Eurozone in particular the governments are the largest single issuers in the capital markets. The recent financial crisis in Europe manifested itself essentially as a sovereign debt crisis, in the course of which it became apparent that sovereign debt was not as nearly risk-free as it seemed.
- Necessary information was lacking to fairly assess the risks associated to sovereign debt, because in contrast to the private sector, no common accounting standards for financial reporting are in place for the public sector in the EU. This lack of comparability and transparency in public finance management creates risks for both sound policy and decision making as well as for accountability and democratic scrutiny.
- The Commission work on European Public Sector Accounting Standards (EPSAS) is aimed at improving fiscal transparency and comparability through setting a common set of accruals-based public sector accounting and financial reporting standards for accountability and decision making purposes; for informing management of public finances as such.
- EPSAS has been developing along the following two-phase approach: Phase 1: Increasing fiscal transparency by encouraging IPSAS implementation and accruals reforms in Member States in the short to medium term and in parallel developing the EPSAS framework (i.e. EPSAS governance, accounting principles and standards) e.g.: in the period till 2020,
- Phase 2: Addressing comparability within and between the member states in the medium to longer term, e.g: by implementing EPSAS by 2025.
- The timeline should give member states a substantial time window to prepare for the necessary adjustments, and integrate them with any further national-level initiatives they may have or will choose to develop, and for ensuring that existing reporting systems can be coordinated with and take full benefit from EPSAS.
- High quality accounting standards is one thing. High quality financial statements and high quality of financial audit are also necessary in order build and maintain trust. And, comparability of GPFs is also necessary since as long as financial accounts are not comparable we leave at stake that issue of trust. Deserving the trust of citizens is a complex issue. Citizens are both resource providers and service recipients, among whom we may also face the challenge of a lower financial expertise. Too little or too much information cannot do it and too technical does not do it either. We must communicate key messages in a simple language. We need some sort of a plain language approach or initiative for reporting the outcome of the financial accounting.
- The way we see things as good or bad heavily depends on culture. The more inter-connected we get the more pressing the need for commonly accepted rules about ethics, including in the domain of accounting and audit. It is also very important to devise the

necessary systems of control for compliance with ethics as it is to report and communicate effectively on compliance with ethics. Public sector is, one way or another, about exercising sovereign power mostly over those who entrusted it to it and therefore the issue of ethics is key.

- Regardless of the tools we choose to improve the way we communicate information to citizens, most of our decisions in policy making and public sector management do have financial impacts both on the present and the future. Financial accounting will therefore remain at the core because there can't be accountability without accruals accounts; there can't be accountability without audited accruals accounts..

### **Philippe Peuch Lestrade**, the IIRC

- Trust is a key concern in democracy. The change in accounting is necessary but not enough because the world has changed: the mind set and the culture across the world has evolved, the expectations from people are completely different than they were few years ago.
- Citizens require ethics, transparency and accountability from politicians and tax payers want to know where their money is going. A different way of life is also observed across the globe due to digitalisation.
- The expectation from the public is there. It is essential that the public sector representatives understand the citizens' needs. Reporting, therefore, must address these needs.
- Purely financial information is no longer enough, although it is necessary. It is about more interconnected information – the perspective needs to be enlarged and the vision broadened. Otherwise the integrity of reporting will be lost.
- Integrated Reporting is the only initiative to bridge the gap between current state and expectations. It will enable governments to get a better understanding and to better manage economy, efficiency and effectiveness. It is important to note that integrated reporting and non-financial reporting is not the same thing.

### **Peter C. Lorson**, Dean of the Faculty of Economic and Social Sciences, University of Rostock, on DiEPSAm Project (<https://www.wiwi.uni-rostock.de/en/diepsam/home/> )

- The [DiEPSAm Project](https://www.wiwi.uni-rostock.de/en/diepsam/home/) – Developing and Implementing European Public Sector Accounting modules. The project will be done in partnership with 5 European universities with different public sector accounting traditions. The project tries to raise awareness for public sector issues and provides a comparative perspective.
- It is important to enhance citizens' financial literacy in order to enhance their trust. One of the objectives of this project is to increase positive attitude towards the EU and its values.
- Intellectual output (IO) 1 of the project consists in comprehensive course materials that are ready for use. These materials are meant to be used for bachelor and master programmes. The development of the 2<sup>nd</sup> IO – a textbook on European public sector accounting – will start in 2018. The textbook will provide comparative views of the partners' diverse national public sector accounting traditions versus international (IPSAS) and EU perspectives (current state of EPSAS).
- The programme produces 14 lessons. The topics cover: motivation, development of public sector accounting, accounting theory, harmonisation challenges, conceptual framework, IPSAS, accounting cycle, consolidated accounts and harmonisation perspectives (EPSAS).
- The programme is now at the exploratory stage. Pilot courses will be started in October 2017 at the project partner universities. Awareness will be raised by EU-wide multiplier events and mini modules (target audience: students and practitioners). Other universities and any other



interested person or institution will be able to use of module output from Q3/2018 onwards through the Open University Rostock platform free of charge (Open Access Philosophy).

- Trust is not really a function of transparency. Transparency initiatives cannot start out of nothing – there needs to be a demand for it. We need different formats and non-financial information in reporting.
- As regards to teaching ethics in education at university level, Rostock University includes this topic in different courses. The university tries to educate students by showing and explaining different examples.
- Save the dates for next DiEPSAm multiplier events:
  - „Harmonisierung des öffentlichen Rechnungswesens in Europa – Status Quo und Perspektiven“, 16 March 2018 in Rostock (<https://www.wiwi.uni-rostock.de/en/diepsam/events/me5tagung-harmonisierung-des-oeffentlichen-rechnungswesens-in-europa-maerz-2018/> )
  - EGPA PSG XII Spring Workshop 2018 “Users, use, usefulness and user needs: The challenges faced by public sector financial management”; 03-04 may 2018 in Rostock (<https://www.wiwi.uni-rostock.de/en/diepsam/events/me3-egpa-psg-xii-spring-workshop-2018/> )

#### **Brian Mc Enery, ACCA President**

- Finance professionals working in the public sector will be playing an even more pivotal role over the coming years in managing challenges, driving change and seizing opportunities. Governments around the world have a vital and crucial role to understand the drivers of change ahead, and to assess the potential impact that global changes will have in a local context.
- The practice of accounting and the finance profession itself are also changing and this will have an effect on professionals in the field. The finance professional must continue to meet professional development requirements so as to remain up to date with current practices and respond to future changes.
- It is also important for employers and professional bodies to provide the infrastructure to support the development and training of public sector finance professionals.
- And this is where ACCA fits in. We prepare finance professionals to work in many sectors, the public and the private, in small business and large. We are the world’s most forward-thinking professional accountancy body, and our strapline of Think Ahead illustrates very clearly our future-looking aims.
- We believe that accountancy and auditing are vital for economies to grow and prosper, which is why we work all over the world to build the profession and make society fairer and more transparent.
- Since our foundation in 1904, we have consistently held unique core values: opportunity, diversity, innovation, integrity and accountability. We also believe that accountants bring value to economies in all stages of development and we seek to develop capacity in the profession and encourage the adoption of global standards.
- Our core values are aligned to the needs of employers in all sectors, and we ensure that through our range of qualifications we prepare accountants for the work that needs to be done.
- And when it comes to the public sector, we have 64,000 students and members, preparing to work or who are already in successful careers, working in a wide range of roles, from public audit to the health service to national and local government. We’ve been working with public sector organisations around the world for more than 100 years – training accountants



and finance teams, building capacity, advising international, national and local bodies and helping governments tackle corruption.

- It is our members and the contacts we have who help us to Think Ahead and create really excellent Professional Insights into the public sector and more. The findings of our *Drivers for Change in the Public Sector* report are based on over 1,000 survey responses by senior executives, ACCA members and members of other professional accountancy bodies working in public sector organisations – so it's a highly credible horizon scan of what lies ahead. It was the first global ACCA report to focus exclusively on identifying the key factors that will change in the public sector and to assess how they will shape the future. And as we've discussed at length tonight, it clearly showed that global changes will have a local impact and governments, and their finance professionals, will need to be at the forefront of tackling their effects.
- Economic growth, the quality and availability of the global talent pool and business leaders' responsiveness to change are the top three drivers affecting the public sector globally. We know from this research that collectively these drivers of change are making the public sector environment more fluid and forcing it to evolve.
- And that is why it is an exciting time to be a professional accountant in the public sector. There is a huge opportunity to help shape the public services of the future, achieving value for money and long-term sustainability.
- Focus on ethics needs to start with accounting training. It has to be embedded by the firms and it is equally important for the accounting profession to ensure that the standards are fit for purpose.