IDW FACTSHEET

+++ CONVENIENCE TRANSLATION +++

IPSAS AS A REFERENCE FRAMEWORK FOR EPSAS?

Public accounting is very heterogeneous. Directive 2011/85/EU is the cornerstone for the harmonisation of local government accounting in Europe. In it, the Council of the European Union requires that member states have comprehensive, coherent and reliable systems that provide accrual-based data of high quality. The EU Commission is responsible for monitoring compliance with this directive. According to its report "Towards implementing harmonised public sector accounting standards for the public sector in Member States" (March 2013), the international public sector accounting standards – IPSAS – indisputably provide a reference framework for the creation of European Public Sector Accounting Standards (EPSAS).

The lead statistical office of the European Union – Eurostat – has paved the way for the introduction of EPSAS in recent years. The results of public consultations, studies commissioned by Eurostat, issues papers, meeting documents of the EPSAS Working Group consisting of government representatives as well as the draft EPSAS framework are available on Eurostat's website: *https://ec.europa.eu/eurostat/de/web/epsas/overview*. The issues papers cover key topics such as the elimination of IPSAS accounting options as well as practicability considerations and including simplifications for smaller entities.

EU COMPARISON OF THE STATE OF DEVELOPMENT OF GOVERNMENT ACCOUNTING

Eurostat has recently published a report to update the results on the accounting maturity of governments within the EU, which were originally compiled in a study in 2014. The report assessed the extent to which national government accounting (federal, state and local) and social security systems already comply with IPSAS. A higher degree of maturity means that EU member states can adapt their national (accrual) accounting to IPSAS with less effort.

In the comparison of accrual accounting maturity in the EU, Germany is currently at the bottom of the spectrum: behind the Netherlands, at about the same level as Italy, Cyprus and Luxembourg and (still) ahead of Greece and Malta. According to the forecast for 2025, Germany will be overtaken by all of them and will then bring up the rear – by a considerable margin.

AS OF 01.03.2021

The report on the updated maturity levels of EU governments' financial reporting (2020) is available on Eurostat's website at *https://ec.europa.eu/eurostat/de/web/epsas/key-documents/analyses* (Overview of EU comparison: Page 12 Status Quo and page 34 Forecast 2025, see excerpts in the following table).

	Central	State	Local	Social	General government
Austria	77%	73%	73%	61%	72%
Belgium	79%	76%	74%	59%	72%
Denmark	80%	-	71%	72%	76%
Germany	23%	31%	58%	31%	33%
Greece	88%	-	96%	12%	62%
France	90%	-	82%	92%	89%
Spain	78%	79%	80%	65%	75%
Italy	76%	-	74%	14%	56%
Luxembourg	23%	-	11%	67%	36%
Netherlands	38%	-	58%	78%	55%
Poland	72%	-	72%	59%	68%
Portugal	100%	95%	99%	64%	91%

Excerpt from table Forecast 2025 on maturity levels in selected EU Member States

PROS AND CONS OF IPSAS

In the technical discussions in Germany concerning the suitability of IPSAS for harmonised public accounting in the EU, the following arguments in particular have been exchanged between IPSAS' critics and proponents:

IPSAS' Critics	IPSAS' Proponents
The IPSAS contain accounting options, such that harmonisation would be impaired.	Options can be limited or eliminated by exercising them in advance uniformly for all Member States in the event of an EU adoption.
The IPSAS do not yet cover all public-sector specific aspects.	The international standard setter IPSASB continuously supplements the body of rules with standards that are specific to the public sector and have no equivalent in IFRS.

IPSAS' Critics	IPSAS' Proponents
IPSAS are based on private sector, capital market-oriented accounting standards (IFRS), which in turn are largely oriented towards the information interests of investors.	IFRS also serve non-listed companies that operate with external funds. In addition, the IPSASB framework explicitly defines alignment with a variety of audiences.
As they are based on IFRS, IPSAS are geared towards profit-oriented companies and thus cannot be applied to the core administration activities. Assets in the public sector are not used to generate cash surpluses, but to provide public services.	Government action is geared towards meeting public needs. Regional authorities must therefore – just like private-sector companies – constantly consider the optimal use of their limited resources and account for the use of external funds (taxpayers' money). The IPSASB's transformation function is evident in that public sector special features are considered in the development of separate standards for the public sector.
IPSAS do not fulfil the purposes projected from budgeting to public sector accounting.	The IPSASB's Conceptual Framework explicitly includes accountability and decision-making within the purposes of financial reporting. Intergenerational equity and sustainability are already anchored in accrual accounting through the systematic recording of resource generation and consumption and the associated complete depiction of assets or performance potential and liabilities.

A detailed discussion of the different views and an analysis of the scope of fair value accounting in IPSAS can be found, for example, in:

› Plädoyer für die IPSAS als Bezugsrahmen für die EPSAS, by Dr. Alexandre Makaronidis, WP StB Thomas Müller-Marqués Berger and Dr. Jens Heiling, WPg 10/2020, S. 576–584 ff.

SPECIFYING THE PRINCIPLE OF PRUDENCE IN PUBLIC ACCOUNTING

Germany (including the Bundestag, the Federal Ministry of Finance and the audit institutions) has demanded, as a prerequisite for European harmonization, that the EPSAS should follow a principle of prudence similar to that of [German] commercial law.

The importance of the principle of prudence is a fundamental issue in accounting. Commercial accounting serves various objectives, such as the provision of information and the determination of distributable profits, for example in the case of (limited liability) companies. There is a certain conflict of objectives between the two, which can be resolved by placing more or less emphasis on the principle of prudence in favour of one or the other objective. An overemphasis on the principle of prudence can lead to an asymmetrical representation of the economic situation, as the reporting entity is more likely to present itself as "too poor".

Within an EPSAS framework, a convention would also be required. If, for example, in order to protect future generations, the principle of prudence were emphasised in determining government provisions for future burdens, this tends to lead to higher provisions. In the sense of intergenerational fairness, a more objective form of the prudence principle would definitely be called for.

An analysis of the various forms of the principle of prudence according to IFRS, IPSAS, HGB and the [German] Standards of State accrual accounting can be found, for example, in:

> Das Vorsichtsprinzip in der öffentlichen Rechnungslegung – Sind die IPSAS ein „unvorsichtiges" Rechnungslegungssystem?, by Prof. Dr. Berit Adam, Dr. Jens Heiling and Tim Meglitsch, B.A., WPg 19/2020, S. 1190–1197 ff.

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We look forward to receiving your comments. You can send them directly to Dr. Viola Eulner, Institut der Wirtschaftsprüfer in Deutschland e.V., Postfach 320580, 40420 Düsseldorf or to eulner@idw.de.

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