Opportunities and risks of European Public Sector Accounting Standards from a normative perspective

Helge C. Brixner and Kristin Wagner*

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1. Introduction

The following paper presents the results and methodology of a proof of concept (POC) study on the practicability of European Public Sector Accounting Standards (EPSAS)[2] in Hamburg, Germany[3]. The paper's purpose is to evaluate the results from a normative perspective and develop them further by combining them with the findings of a forthcoming research paper presenting the view of German opinion-leaders on the harmonisation of public sector accounting in the EU[4].

The paper is structured as follows. Section 2 briefly presents the outcome of the European Commission's assessment of the suitability of International Public Sector Accounting Standards (IPSAS) for the Member States, which provides the motivation for the POC study. This section also introduces a distinction between two kinds of financial statements, which forms the theoretical basis of the POC study. Section 3 explains the methods employed in the POC study, while section 4 presents its results. Section 5 begins by summarising the most important findings of the before-mentioned research paper and, in the light of these findings, reviews the results of the POC study. Lastly, section 6 provides a short summary of the preceding considerations based on which it offers a recommendation on the future design of EPSAS.

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* **Helge C. Brixner**, Managing Partner, arf GmbH, Nuremberg, Germany, E-Mail: helge.brixner@arf-gmbh.de
Kristin Wagner, Consultant, arf GmbH, Hanover, Germany, E-Mail: kristin.wagner@arf-gmbh.de

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[2] Based on the European Commission's statement that IPSAS constitute an important source for the development of EPSAS and in the absence of officially defined EPSAS standards, the POC study uses IPSAS as a substitute for EPSAS.

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[4] Wüstemann, Wüstemann, & Conrath-Hargreaves

2. The suitability of IPSAS

In its assessment of the suitability of IPSAS for the Member States, the European Commission comes to a conclusion that is twofold.[5] The Commission's report concludes that, on the one hand, IPSAS "represent an indisputable reference"[6] for the development of EPSAS. On the other hand, however, the report also finds that "IPSAS cannot easily be implemented in EU Member States as it stands currently"[7].

Looking at the first result of the Commission's evaluation, taking IPSAS as a reference for EPSAS seems indeed adequate as IPSAS are in the process of becoming more consistent with international statistical rules. This process began when the IPSAS Board (IPSASB) launched a project to align IPSAS and the International Monetary Fund's reporting guidelines on Government Finance Statistics (GFS).[8] The project's primary aim was to examine the differences that exist between IPSAS and GFS reporting guidelines.[9] As a result, it was found that a considerable number of these differences could be reduced in the actual process of standard setting. The IPSASB therefore initiated a process for taking into account GFS reporting guidelines when developing new standards and revising current ones.[10]

Apart from the IPSASB's alignment efforts, further reasons for the European Commission's positive assessment of IPSAS can be found. One reason is that this particular set of standards has already acquired renown in the European Union[11], providing the basis for the accounting standards applied by EU institutions.[12] A second reason is that a study commissioned by Eurostat found that, even though the current accounting practices of the EU Member States are very heterogeneous[13], their compliance with IPSAS is on average over 60 percent.[14] This finding is hardly

[5] Calmel, 2014, p. 217
[6] European Commission, 2013, p. 8
[7] European Commission, 2013, p. 8
[8] Müller-Marqués Berger, 2012, p. 23
[9] Ibid.
[10] IFAC, 2014a
[11] The renown of this particular set of standards extends well beyond the borders of the EU since IPSAS are currently used in about forty states (Bergmann, & Rauskala, 2012, p. 73) as well as in a number of international organisations (IPSASB, 2014).
[12] Biondi, & Soverchia, 2014, p. 182
[13] As shown by Adam, Mussari, & Jones (2011), this heterogeneity is reflected, for instance, in the accounting of infrastructure, art and heritage assets.
[14] Ernst & Young, 2012, p. 27

surprising as a number of Member States such as Spain and Portugal[15] have already taken IPSAS as a reference for their national accounting standards.

In spite of these examples of its widespread use, however, the European Commission found that in their present form IPSAS are difficult to be implemented in the Member States. This conclusion was based on the fact that some standards allow users to choose between different accounting methods, which runs counter to the Commission's objective to enhance the comparability of Member States' financial data.[16] Moreover, at the time of the Commission's assessment the development of standards that cover central government activities such as tax collection and the payment of social benefits had not been completed, while other standards were expected to be updated after the publication of the IPSASB's conceptual framework in 2014.[17] The Commission also critically commented on the fact that IPSAS are defined by a private organisation[18], whose governance, at that time, neither involved public sector accounting authorities in the EU nor did it seem to have sufficient resources to develop new standards with the necessary speed and flexibility.[19]

Concerning the first point of criticism, users of IPSAS are allowed to measure assets and liabilities either at cost or at fair value.[20] Seen from a theoretical perspective, by making a choice between these valuation methods, public entities simultaneously choose between different accounting principles underlying these methods.

- By using the fair value, users aim to present a true and fair view on the current financial position of their entity. Thus, they try to determine the current value of their entity, thereby providing useful information for the stock market, which is then able to measure the value of this entity's shares.
- By measuring at cost, users accept a limitation of this view imposed by the principles of objectivity and prudence. In particular, applying the latter principle makes sure that temporary increases in asset value do not raise the overall value

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[15] Jorge, Brusca, & Nogueira, 2016
[16] European Commission, 2013, p. 8
[17] Ibid.
[18] The German Bundesrat also criticised that a close cooperation with the IPSASB would give private organisations significant influence over the public sector (Bundesrat, 2014, par 7).
[19] European Commission, 2013, p. 8
[20] Müller-Marqués Berger, 2012, p. 34. A third measurement basis provided by IPSAS is present value.

of the entity and, hence, prevents both creditors from losing their money and future generations from being burdened with high public debts.

Due to the fact that IPSAS give users a choice of accounting methods, this paper argues that the standards lack clarity regarding their own accounting purposes. This lack is partly attributable to the process of standard setting[21], which until recently was not guided by a general framework[22]. The function of such a framework is to define accounting purposes as well as accounting principles that help fulfil the purposes. The principles are then applied in the development of concrete standards. The IPSASB, however, uses its conceptual framework to confirm the principles that have already been established by existing IPSAS and commits itself to apply these principles in the development of new IPSAS and Recommended Practice Guidelines (RPGs)[23].

From a German point of view, the purposes of public accounting are to ensure the long-term sustainability of government budgets, to guarantee intergenerational equity, and to provide creditors and political decision-makers with information about the financial situation of government entities.[24] They are defined by the constitutional right of parliament to draw up the budget[25] and are laid down in the German Budgetary Principles Act (*Haushaltsgrundsätzegesetz*)[26]. The objectivity principle[27] and the principle of prudence[28] are established as the key principles that help fulfil these purposes. The result of applying these two principles are financial statements that show assets and liabilities valued at cost[29].

In comparison, the IPSASB's conceptual framework identifies the provision of information that is useful for both decision-making and accountability purposes as the primary objective of financial reporting.[30] Moreover, it states that the information given in public entities' financial statements should be equally useful for the decision-making of a large number of users, ranging from the providers of resources to the recipients of

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[21] Brixner, & Wagner, 2015, p. 264
[22] Müller-Marqués Berger, & Heiling, 2015, p. 172
[23] IFAC, 2014b, p. 9
[24] Wüstemann, & Wüstemann, 2013, p. 582f.
[25] Brixner, & Wagner, 2015, p. 266
[26] Federal Ministry of Finance
[27] Brixner, Harms, & Noe, 2003, p. 168
[28] Ibid., p. 179f.
[29] Ibid., p. 168
[30] IFAC, 2014b, p. 13

services and their elected representatives.[31] Thus, IPSAS do not prioritise information that shows state officials' commitment to the protection of future generations and creditors over the information needs of other users of financial statements.[32] The IPSASB fails to address this weakness in its conceptual framework and is rather unspecific about the future orientation of IPSAS other than that a high level of convergence with IFRS and international statistical rules is to be maintained[33].

Compared to those financial statements that the German public accounting system produces on a cost basis, financial statements that serve the information interests of shareholders in the capital market seem to have a different function. In order to present a true and fair view on their current financial position as envisaged by the IFRS, public entities can only choose one of the accounting options that IPSAS offer. Thus, the major difference between financial statements produced by the German public accounting system and those resulting from an accounting system based on IFRS/IPSAS[34] arises from the valuation methods that are used in producing them.

Drawing a distinction between the two kinds of statements is crucial as they convey different messages. The first kind of financial statements seeks to prevent the use of profits that are available only when the economic situation is favourable, thereby protecting creditors and future generations. In contrast, the second kind is intended to accurately present a true and fair view on the current financial position. Because of this focus on the current position, the basis of valuation is subject to fluctuations in line with economic cycles, thereby preventing the creation of hidden reserves. The first kind of financial statements, however, allows for the creation of hidden reserves as the historic cost of an asset often differ from its current market value, while at the same time it provides a solid basis for long-term budgetary planning and the observance of fiscal rules such as the debt ceiling (*Schuldenbremse*) set by the German Constitution.

As the preceding paragraph shows, the difference between the two kinds of financial statements and their respective valuation bases lies in their treatment of hidden reserves

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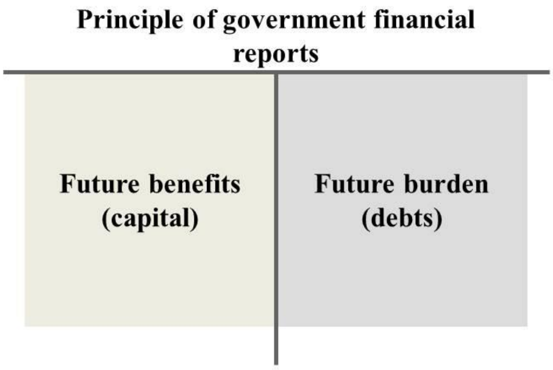
[31] Ibid.
[32] In contrast, Nowak, & Rüdinger (2015) emphasise the need to prioritise because users of public accounting information are not merely interested in the provision of this information but in their protection by means of this information.
[33] Müller-Marqués Berger, & Heiling, 2015, p. 171
[34] Nowak, & Rüdinger (2015, p. 241) also highlight this difference.

and economic cycles. The question remains open whether it is more useful in public accounting to present the current financial position, which is subject to fluctuations and prevents the creation of hidden reserves, or to present a consistent view on the amortised cost of assets. Germany, for instance, has a long tradition of preferring the latter view, which can be attributed to the fundamental principle of budgeting. According to this principle, debts (future burden) are to be incurred only to make investments that bring benefits to future generations (future benefits).[35] From an economic policy perspective, this view is also helpful as in economically difficult times it allows to fund public investments by loans but forbids the use of loans to finance consumption. Yet, if the focus is on the current financial position, the reduction in asset value that is caused by economic crises will considerably limit the ability to invest. Therefore, financial statements that show assets measured at cost and liabilities measured at their nominal value prove more useful to set a debt ceiling that is equivalent to the amortised cost of past investments.



Financial report of Hamburg 2014 (bn €)

Fixed assets	44,4 (77%)	Equity	-- (0%)
Current assets	2,8 (5%)	Special items	1,3 (2%)
Other assets	0,3 (1%)	Pension provisions	25,8 (45%)
		Other provisions	1,9 (3%)
Deficit	10,0 (17%)	Liabilities	28,5 (50%)
Total	**57,5 (100%)**	**Total**	**57,5 (100%)**

Ill. 1 Fundamental principle of budgeting as applied in the financial report of Hamburg for 2014.

3. Methods of the POC study

The POC study takes the existence of accounting options in IPSAS as a starting point for its analysis. In the absence of officially defined EPSAS standards, the POC study tests 31 of currently 38 accrual-based IPSAS standards for their potential impact on the financial administration of Hamburg. The standards are grouped into eight clusters according to which subject relating to public entities' financial statements they cover. In

[35] Sachverständigenrat, 2007; Brixner, Harms, & Noe, 2003; von Stein, 1975

each of these clusters, questions concerning the content of specific standards are addressed. Based on the answers to these questions, the standards are evaluated with respect to their normative implications for accounting and budgeting practices as well as to their impact on organisational processes and technical systems in the financial administration of Hamburg. Lastly, the POC study gives a recommendation for the development of the EPSAS standard that would correspond to the IPSAS standard

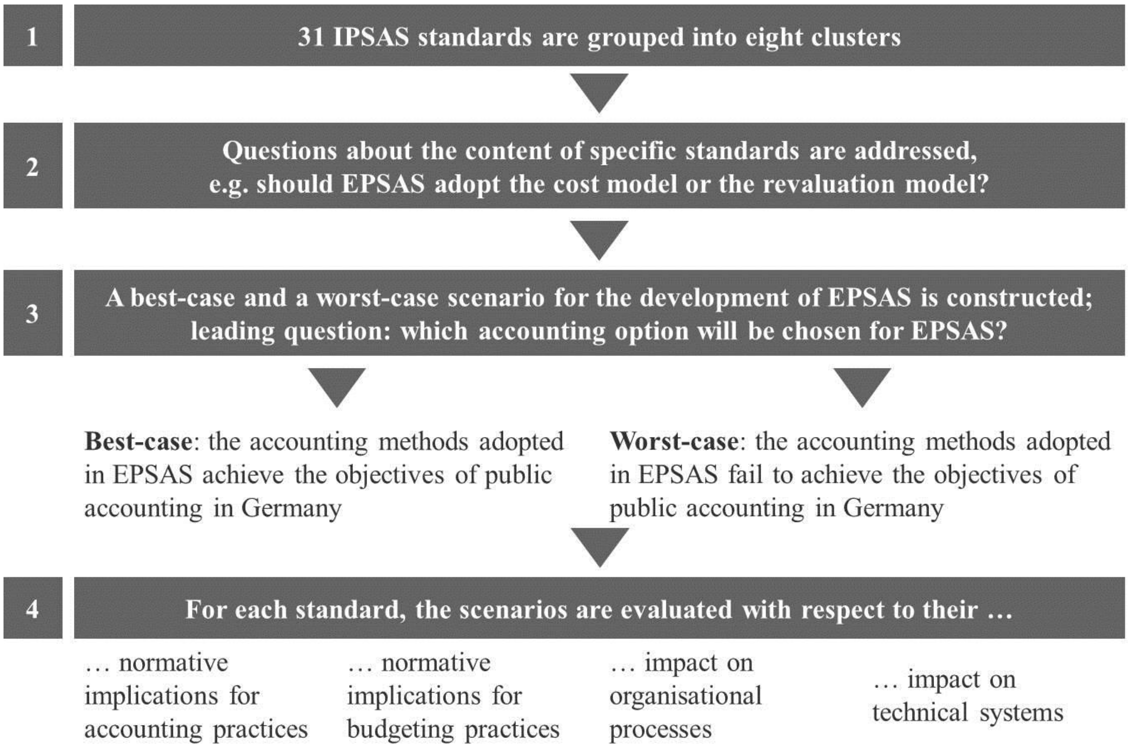
Cluster	Title	IPSAS
1	Elements and presentation of financial statements	1, 2, 22, 24
2	Interests in other entities and consolidation	18, 20, 34, 35, 36, 37, 38*
3	Assets	5, 16, 17, 13, 21, 26, 27, 31, 32
4	Expenses, liabilities, provisions	19, 25
5	Revenues	9, 23
6	Choosing and changing accounting and valuation methods, and events after the reporting date	3, 14
7	Financial instruments	28, 29, 30
8	Construction contracts and inventories	11, 12

* IPSAS 34-37 supersede IPSAS 6-8 and are applicable to financial statements on reporting periods that begin on or after 1 January 2017 (IFAC, 2015a).

Table 1 IPSAS clusters formed in the POC study

under evaluation.

In order to examine the impact of IPSAS as well as its implications, the POC study considers both a best-case and a worst-case scenario for the future development of EPSAS. Based on the assumption that one of the accounting options offered by IPSAS will be excluded from EPSAS, the scenarios are constructed according to whether the option that will actually be chosen for EPSAS achieves the objectives of public accounting in Germany. As mentioned above, these objectives are to ensure government budgets' long-term sustainability as well as intergenerational equity, and to provide information about the financial situation of government entities.



Ill. 2 Steps taken by the POC study to evaluate IPSAS.

Based on the concepts illustrated in the preceding section, the POC study describes the best-case and worst-case scenario for each future EPSAS, exercising the choice between different accounting methods as offered by IPSAS. In order to reflect the need for adjustment in the financial administration of Hamburg that arises from each scenario, the study uses a traffic light rating system. A green light indicates that only minor or even no differences exist between the current accounting and budgeting system and the system that needs to be adopted in order to meet the scenario's requirements. Thus, the effect on organisational and technical processes is marginal. A yellow light, in contrast, reflects an increased need for adjustment, while the red light is chosen only if the adjustments required by the scenario are very significant. A red light moreover indicates that enacting the scenario has a negative effect on the quality of financial data in terms of transparency and comparability and, hence, negatively affects the basis for budgeting decisions.

Traffic light			
Normative implications for accounting practices	no or only minor divergences from current accounting rules	divergences from current accounting rules	significant divergences from current accounting rules
	no or only minor material effects on the accounting system	significant material effects on the accounting system	very significant material effects on the accounting system
	positive effect on transparency and comparability	neutral effect on transparency and comparability	negative effect on transparency and comparability
Normative implications for budgeting practices	no or only minor material effects on the budgeting system	significant material effects on the budgeting system	very significant material effects on the budgeting system
	positive effect on the basis for budgeting decisions	neutral effect on the basis for budgeting decisions	negative effect on the basis for budgeting decisions
Impact on organisational processes	no or only minor capacity requirements for one-off adjustments in organisational processes	significant capacity requirements for adjustments in organisational processes	very significant capacity requirements for adjustments in organisational processes
	no or only minor adjustments to organisational processes and the structural organisation necessary	significant adjustments to organisational processess and the structural organisation necessary	very significant adjustments to organisational processes and the structural organisation necessary
	no or only minor training needs for employees	significant training needs for employees	very significant training needs for employees
Impact on technical processes	no or only minor adjustments to the ERP system necessary; implementation possible during the day-to-day operation of the system	significant adjustments to the ERP system necessary (customising, programming, migration of data); implementation on a project basis	the existing ERP system does not meet the requirements; a new system is implemented

Table 2 Traffic light rating system used in the POC study.

4. Results of the POC study

The most significant result of the POC study is that in their present form IPSAS offer accounting options that enable users to produce different financial statements, conveying different messages. The study concludes that these options need to be excluded from EPSAS in order to achieve the European Commission's goal to improve the level of harmonisation and comparability of financial data within the European Union. However, the question remains open as to which of the two options should be excluded – or, put differently, which kind of financial statements should be the desired result of applying EPSAS.

One possible answer to this question is offered by the POC study, which concludes that from a German perspective only the first kind of financial statements provides valid information for users of public entities' financial statements. Only those financial statements that help to determine the leeway for budgetary decisions ensure intergenerational equity and give creditors effective protection. Furthermore, the POC study sees a great potential for the reduction of costs and problems involved in the implementation of EPSAS, if they do not differ considerably from existing accounting rules in Germany.

In order to explain the POC study's decision in favour of accounting methods designed to produce a particular kind of financial statements, the evaluation of IPSAS 17

Property, Plant, and Equipment is given as an example. The standard allows users to choose between two valuation models when measuring an asset after it has first been recognised.[36] Users can use the cost model or the revaluation model.[37] According to the cost model, an asset is valued "at its cost, less any accumulated depreciation and any accumulated impairment losses"[38]. The administrative rule for accounting (*Verwaltungsvorschrift Bilanzierung*) applicable to the financial administration of Hamburg, which is mainly based on the standards for accrual-based accounting in German government entities (*Standards staatlicher Doppik*), also proposes this valuation model for the subsequent measurement of assets.[39] Thus, if the choice offered by IPSAS is exercised in accordance with existing accounting rules – that is, if the cost model is adopted – applying this standard will not have any implications for the current accounting and budgeting system, neither will it affect organisational and technical processes in Hamburg. The best-case scenario therefore assumes that EPSAS adopt the cost model.

The revaluation model specifies that assets of the category of property, plant, and equipment are to be valued at their "fair value […], less any subsequent accumulated depreciation, and subsequent accumulated impairment losses".[40] Furthermore, assets of this category need to be revalued on a sufficiently regular basis.[41] The special challenge posed by the revaluation model is that an asset's fair value is determined on the basis of information provided by the market. Yet, to make use of market information to measure the value of assets held by government entities may be extremely difficult.[42] Difficulties arise from the fact that the majority of these assets are not traded freely due to their

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[36] IFAC, 2014c, IPSAS 17.42
[37] Ibid.
[38] IFAC, 2014c, IPSAS 17.43
[39] Finanzbehörde der Freien und Hansestadt Hamburg, 2013, p. 17
[40] IFAC, 2014c, IPSAS 17.44
[41] IFAC, 2014c, IPSAS 17.49
[42] IFAC, 2014c, IPSAS 17.45 The POC study's evaluation of the revaluation model does not take into account the changes that the IPSASB's conceptual framework introduced with regard to measurement bases. One of these changes concerns the term *fair value*, which is substituted by the term *market value* in order to emphasise the differences between IPSAS and IFRS. In IFRS, fair value is explicitly defined as an exit value, whereas IPSAS assume that "[i]n an open, active and orderly market" (IPSASB, 2014b, par. 7.25) the market value represents both an entry and an exit value. Nevertheless, the need for obtaining market information remains and, hence, leaves room for interpretation especially if such an ideal market does not exist.

special purposes or their unique character like being natural or heritage assets.[43] If this is the case, IPSAS 17 provides that the fair value can be determined by using the value of other assets that are similar to the asset in question as a reference.[44] In addition, the standard describes various techniques to estimate an asset's value.

Using the revaluation model constitutes a violation of the accounting rules existing in Germany. This is due to the fact that the administrative rule for accounting applicable to Hamburg and the standards for accrual-based accounting in German government entities define an asset's cost as the limit of its measurement. Thus in the worst-case scenario, EPSAS adopt the revaluation model instead of the cost model.

While in the best-case scenario all four traffic lights are switched to green, the opposite is true for the worst-case scenario, in which the red lights indicate that the implications for the accounting and budgeting system as well as the organisational adjustments required by the scenario are very significant. The evaluation is based on the fact that, given that there is no market for the particular asset, the fair value can be determined with the help of various methods. As a result, the estimated values of assets of different public entities cannot be compared, which runs counter to the European Commission's objective to enhance the comparability of financial data. Moreover, the revaluation model violates the objectivity principle, which is a key accounting principle in Germany as it is crucial to fulfil the accounting purpose of ensuring intergenerational equity. Concerning the budgeting system, the considerable fluctuation in the values of assets poses a major problem as long-term budgetary planning can only be done on the basis of reliable data and a consistent basis of valuation. The scenario also incurs organisational expenses for Hamburg[45] since, firstly, assets need to be revalued regularly and, secondly, given that there is no market for the asset in question, measuring its value becomes costly. Also, as Hamburg will need to continue applying its own administrative rule for accounting and the standards for accrual-based accounting in German government entities, it has to calculate two values for each asset, which involves additional costs. The technical expenses, however, are the same for both

[43] Barton, 1999, p. 27
[44] IFAC, 2014c, IPSAS 17.47
[45] Adam (2014) provides an estimate of the cost of implementing EPSAS for two additional municipalities in Germany.

scenarios because the problem does not lie in the illustration of asset values in the IT system, but in the valuation of assets.

Based on this evaluation, the POC study suggests that the option regarding accounting methods as offered by IPSAS 17 should be excluded from EPSAS. All assets falling into the category of property, plant, and equipment should be valued at their cost.

- Users are allowed to choose between the cost model and the revaluation model for measuring an asset after it has first been recognised.

Question:	Should EPSAS adopt the cost model or the revaluation model?		
Best case **Worst case**	**Best case** **Worst case**	**Best case** **Worst case**	**Best case** **Worst case**
Normative implications for accounting practices	**Normative implications for budgeting practices**	**Impact on organisational processes**	**Impact on technical processes**
• Determining the fair value with the help of different valuation methods hampers the comparability of data • Violation of the objectivity principle	• The values of assets are potentially subject to considerable fluctuation	• Regular revalutions are necessary • Given that there is no market for a particular asset, measuring its value may be costly	• Different values can be shown in different valuation areas • By applying an index, it is possible to show the development of replacement costs
Recommendation:	Assets falling into the category of property, plant, and equipment should be valued at their cost.		

Ill. 2 Evaluation of IPSAS 17

Summarising the evaluation results of all 31 IPSAS standards tested in the POC study, the study shows that under the best-case scenario Hamburg already fulfils a majority of the requirements of IPSAS.[46] Consequently, there is no need for adjustment in the consolidation process, the existing IT system, or the organisation of the accounting and budgeting system. Also, under the best-case scenario many of the accounting options that standards such as IPSAS 17 offer can be exercised in accordance with the accounting rules and standards existing in Germany.

Still, even the best-case scenario creates a need for adjustment. Additional expenditure is expected to be incurred by the valuation of financial instruments, the necessary adjustments in the existing system of accounts, and the increasing number of public entities that are required to produce financial statements that meet international

[46] Glöckner (2007) indirectly supports this conclusion, stating that the rules for accrual accounting in Germany, which are also applied in Hamburg, have a certain similarity to IPSAS.

standards. Moreover, a considerable risk of additional expenditure is involved in the development of new IPSAS standards dealing with social benefits and government grants. An even higher amount of expenditure is involved in fulfilling the requirement of IPSAS 18 to report financial information by segments and of various other standards to disclose additional information in the notes to the financial statements. Concerning these standards, the POC study also raises the question whether they are strictly necessary to achieve the objectives of the EPSAS project. Thus, additional information in the notes to financial statements may be helpful to explain the choice of accounting options that the preparers of the financial statement made. Yet, given that EPSAS follow the POC study's recommendation to exclude one of the options, this additional information no longer needs to be disclosed.

Lastly, the valuation rules applying to investment property as established in IPSAS 16 and IPSAS 26 are seen as problematic since they violate the objectivity principle. Also, the probability that the financial statements of German public entities show any assets falling under the category of investment property is fairly low as they need to demonstrate that the possession of a particular asset furthers the public interest. Public entities in other countries, however, may not have to comply with this requirement.

Under the worst-case scenario, the situation for Hamburg worsens significantly as it involves considerable expenditure and, in the light of a financial position that changes continually, requires additional justification of budgetary decisions. In addition to the items of expenditure listed above, additional expenditure is required by the necessity to determine the fair value of a large number of assets and to measure the amount of tax revenue. An even higher amount of expenditure is expected to be incurred by the application of IFRS in government business entities that are included in the consolidated financial statements of Hamburg, the regular revaluation of assets, and the separate depreciation of significant parts of assets.

Best-case scenario	Worst-case scenario
• Centrally organised consolidation process • Relatively modern IT-system • Effective organisation of the accounting and budgeting system • Many accounting options can be exercised in accordance with existing accounting rules and standards	• Centrally organised consolidation process • Relatively modern IT-system • Effective organisation of the accounting and budgeting system
• Additional expenditure due to - valuation of financial instruments (IPSASs 28-30), - adjustments in the system of accounts (IPSAS 1), - increased number of users of financial statements (IPSAS 1) • Risks involved in the development of new IPSAS on social benefits and government grants	• Additional expenditure due to - valuation of financial instruments (IPSASs 28-30), - adjustments in the system of accounts (IPSAS 1), - increased number of users of financial statements (IPSAS 1), - measurement of assets at fair value (IPSASs 3, 16, 21, 26, 29, 31), - measurement of tax revenue (IPSAS 23) • Risks involved in the development of new IPSAS on social benefits and government grants
• Additional expenditure due to - segment reporting (IPSAS 18), - disclosure in the notes to the financial statements (various IPSASs) • Valuation rules of IPSAS 16 and IPSAS 26	• Additional expenditure due to - adoption of IFRS by GBEs - segment reporting (IPSAS 18), - separate depreciation of significant parts and revaluation of assets (IPSAS 17), - disclosure in the notes to the financial statements (various IPSASs) • Valuation rules of IPSAS 16 and IPSAS 26

Ill. 3 Results of the POC study.

In view of the different outcomes outlined above, the POC study concludes that the choice of accounting methods to be included in EPSAS makes a big difference not only for Hamburg but for all public entities in Germany. Therefore, and in accordance with the European Commission's goal to enhance the comparability of Member States' financial data, accounting options should be excluded from EPSAS. The findings of the research paper by Wüstemann, Wüstemann, and Conrath-Hargreaves, which are briefly summarised in the following section, support this conclusion, demonstrating that German opinion-leaders will be more willing to accept international accounting standards, if their views are taken into consideration.

5. The view of German opinion-leaders on public sector accounting harmonisation in the EU

In their forthcoming research paper, Wüstemann, Wüstemann, and Conrath-Hargreaves present the view on public sector accounting harmonisation in the EU as held by representatives from ministries of finance and courts of auditors in the German Federal

States and from German local-authority associations. The paper is based on a study that examines the current situation of public accounting at different levels in German public administration in order to show the possibilities and limitations of its harmonisation from a practical point of view.

A key finding of the study is that in Germany the purposes of public sector accounting and the interests of the users of accounting information as represented by the study's participants closely correspond with each other. From the participants' point of view, the most important accounting purposes are to ensure the accountability of state officials and the long-term sustainability of government budgets.[47] The provision of information on the financial situation of government entities and the achievement of intergenerational equity are further important purposes.[48] The study's participants also agree that these purposes should provide the basis for the development of EPSAS.[49] As argued above, establishing principles are a necessary first step in the process of achieving the purposes of public accounting.[50] Accordingly, the participants were asked whether they consider the principles underlying German as well as international accounting rules very important, important, neutral, or not important. In response to this question, almost all of the study's participants regard the principles of reliability and objectivity as important or very important accounting principles.[51]

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[47] Wüstemann, Wüstemann, & Conrath-Hargreaves, p. 67
[48] Ibid.
[49] Ibid., p. 64
[50] Nowak, & Rüdinger (2015, p. 240) also show that there is a direct relation between the purposes and principles of public accounting. Thus, applying the principles of objectivity and prudence in the valuation of assets can serve to limit the use of financial resources. This limitation in turn can help reduce public debts and, hence, enhance the sustainability of government budgets, thereby contributing to the achievement of intergenerational equity.
[51] Wüstemann, Wüstemann, & Conrath-Hargreaves, p. 72f.

IFRS	IPSAS	German standards for accrual-based accounting in government entities	German Commercial Code
		Protection or intergenerational equity	Protection of creditors and capital maintenance
Decision usefulness	Decision usefulness	(Transparency)	(Provision of information)
(Stewardship)	Accountability	Legimitize decisions	Accountability

Table 3 Purposes of international and national accounting standards. Secondary purposes are shown in brackets.

In the light of these findings, the European Commission's harmonisation efforts would be likely to achieve a higher level of acceptance among opinion-leaders in Germany if the importance of the above mentioned principles in fulfilling the purposes of public accounting is acknowledged. As indicated by the POC study, this acknowledgement would also lower the costs of the implementation of EPSAS in Germany. Nevertheless, the basis for a broad acceptance of EPSAS already exists. While 65 percent of the study's participants consider the comparability of accounting information important, only 58 percent state that the accounting system they currently use is comparable to those of other public entities in the same federal state and in other federal states[52]. Thus, EPSAS offer an opportunity not only to enhance the comparability of accounting information from the Member States but also to harmonise public accounting within the countries themselves[53].

6. Conclusion

By combining the results of the POC study with the findings of the research paper by Wüstemann, Wüstemann, and Conrath Hargreaves[54], this paper demonstrates that a system of public accounting that focuses exclusively on the current financial position of an entity endangers the sustainability of public finances. This danger arises from the political decisions that affect economic development, which are in turn influenced by

[52] Wüstemann, Wüstemann, & Conrath-Hargreaves, p. 58f.
[53] Burth, & Hilgers (2014) further emphasise the necessity for harmonising accounting rules for public entities in Germany. The authors view IPSAS as a useful instrument for this harmonisation because the standards advocate an accrual accounting system, which is associated with a number of benefits such as enhancing comparability between different entities as well as intergenerational equity.
[54] The arguments presented in this paragraph are also based on Brixner & Wagner, 2015, p. 266.

this development and its effects on public finances. In contrast, the parliament's right to decide on the budget has a protective effect on public finances because due to its goal to ensure intergenerational equity it imposes a limit on public debts. In order to achieve this purpose, financial data needs to be objective as well as comparable with data from past and future periods. This particular accounting purpose has no direct relation to the current users of financial statements as it protects the interests of future generations who do not have influence over the budgetary decisions of today. As a consequence, these interests are insufficiently represented in the IPSASB's conceptual framework, whose primary purpose is to increase the usefulness of financial data for current users of financial statements.

As the European Commission's harmonisation effort has only recently been initiated, a window of opportunity remains open to correct the deficiencies of the standard setting process at the international level. The process for developing EPSAS should start by establishing a general framework that defines accounting purposes and lays down accounting principles, which are then applied in the development and application of future standards.

As argued in this paper, there are good reasons to value assets at cost rather than at fair value. Although providing capital market information is an important function of public entities' financial statements, their intended users are not shareholders in the capital market but creditors such as buyers of government bonds or international institutions like the IMF. Those creditors have a particular interest in being provided with reliable data as the European Commission's harmonisation efforts show. Yet, it is questionable if the data reported in financial statements that aim to provide a true and fair view on an entity's current financial position is indeed useful for reliable budgetary planning and in ensuring conformity with fiscal rules, both of which are goals of the directive 2011/85/EU that is part of the six-pack[55]. Since this data reflects the fair value of assets and liabilities, it is subject to considerable fluctuations in value. In contrast, the parliament's right to draw up the budget provides a solid basis for defining the purposes of public sector accounting, which are, first and foremost, to guide budgetary decisions in a way that protects both future generations and creditors. Directive 2011/85/EU

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[55] Council of the European Union, 2011

seems to have the same objective as it puts the development of harmonised accounting rules in one context with the establishment of numerical fiscal rules. In order to achieve this objective, financial data need a reliable and durable basis.

In summary, the authors come to the conclusion that the European Commission's efforts provide a good opportunity to harmonise as well as modernise public accounting and budgeting in EU Member States, particularly in Germany. Also, EPSAS will likely have a positive impact on the international harmonisation of public accounting in that they define purposes of public accounting that are commonly accepted and, moreover, help to guide the decision about accounting methods used by public entities. In order to achieve these goals, the accounting options given in IPSAS need to be excluded from EPSAS. Before a decision in favour of one of the options can be made, however, the normative issues discussed in this paper need to be addressed. Following the authors' conclusion, the goal must be to produce financial statements that help to determine the leeway for budgeting decisions and to ensure future generations' capacity to act.

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