

27 April 2021

EPSAS from the perspective of the federal state of Hesse

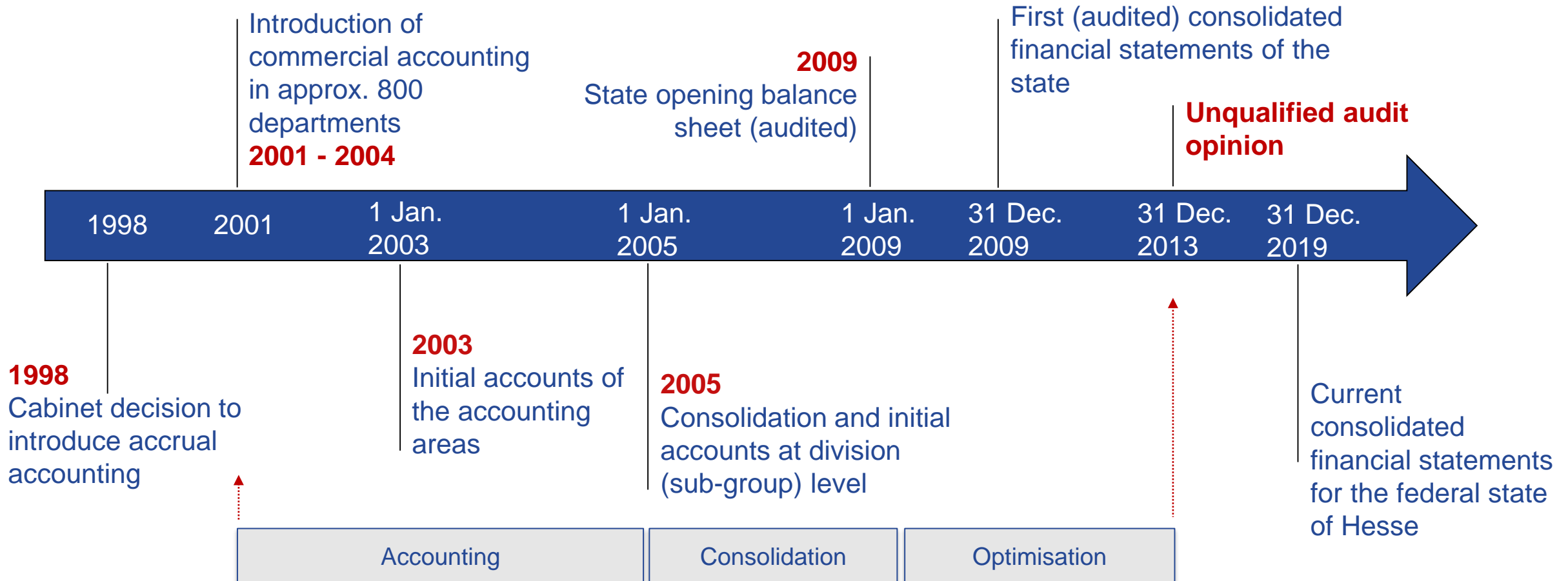
– Experience and expectations –

State Minister
Michael Boddenberg



Accrual accounting in Hesse: Our path

Accounting at state level with unqualified audit opinion





Accrual accounting at state level

Our experience



Path to accrual accounting at state level has proved successful

- Extended information basis with statement of assets and liabilities, cash flow statement and statement of financial performance.
- Relevant statement of assets and liabilities with full recognition of assets and liabilities.



Meaningful statement of assets and liabilities, also meaningful for regional administrative authorities using a cash budget

- Relevant statement of assets and liabilities not necessarily linked to accrual-based budget presentation.

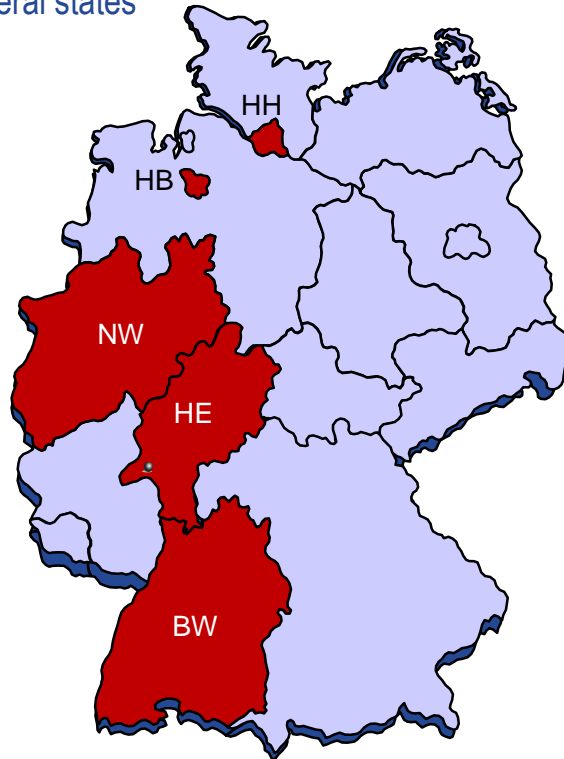
**Accrual and cash accounting (budget management) also possible as mixed form
(e.g. Baden-Württemberg, Hessen)**



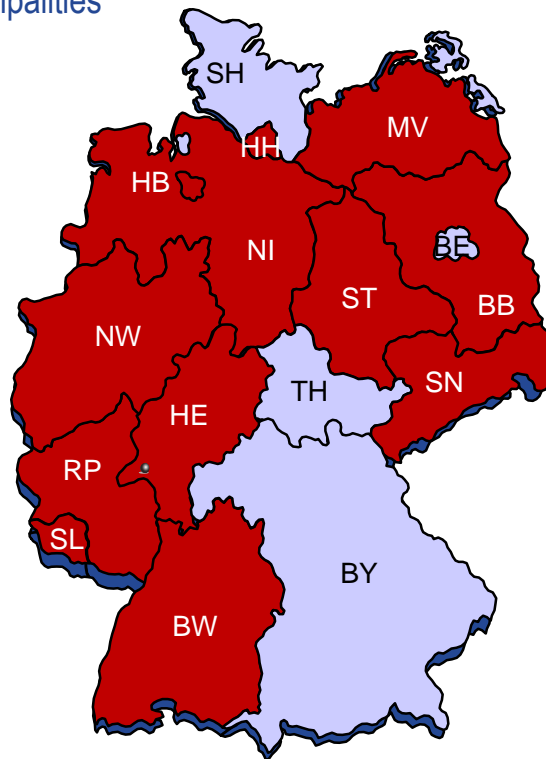
Accrual accounting in Germany: Heterogeneous development

Harmonisation (urgently) required, also at national level

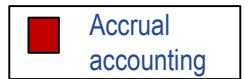
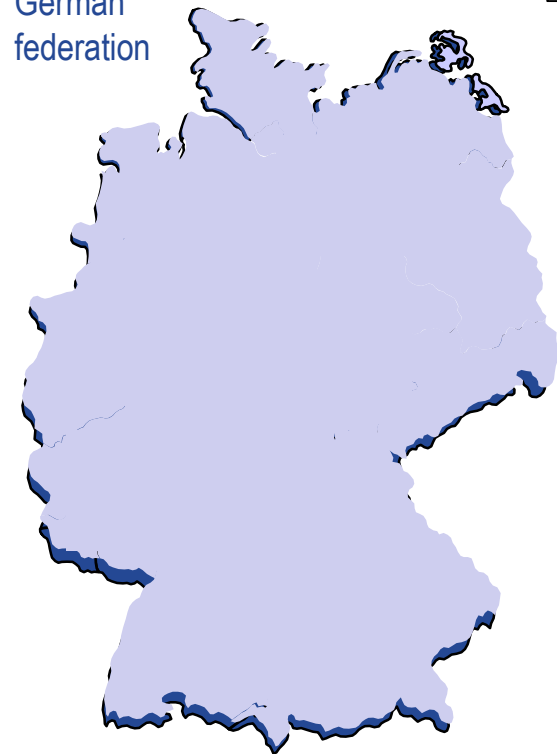
Federal states



Municipalities



German federation





EPSAS project as opportunity for harmonisation

New accounting style with IPSAS as possible reference on the testing bench



The **national debt crisis** in Europe exposed the need of a reformed and harmonised public-sector budgetary and accounting system in Europe.



With **Council Directive 2011/85/EU** dated 8 Nov. 2011¹, the EU Commission was instructed to assess the suitability of the **International Public Sector Accounting Standards - IPSAS** for the member states.



In its **report dated 6 Mar. 2013**², the **EU Commission** made a pronouncement in favour of developing **European Public Sector Accounting Standards (EPSAS)** as a new accounting style in the public sector, with the existing IPSAS as possible reference.

¹ OJ L 306 dated 23 Nov. 2011, page 41

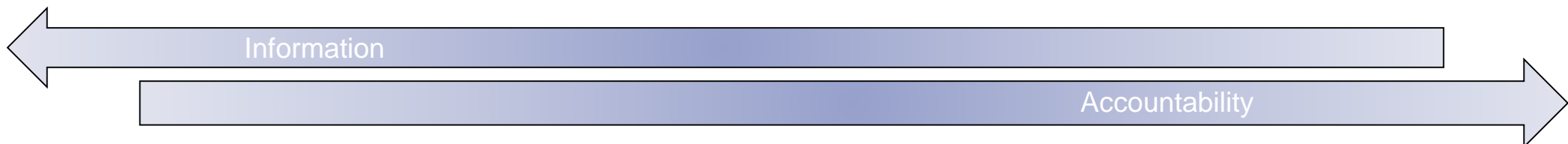
² EU Commission dated 6 Mar. 2013, COM(2013) 114 final



Overview of accounting standards

Conflict between information and accountability?

	IFRS/IAS International Financial Reporting Standards/ International Accounting Standards	IPSAS International Public Sector Accounting Standards	EPSAS European Public Sector Accounting Standards	HGB <i>Handelsgesetzbuch</i> (German Commercial Code)
Regulations for	Commercial enterprises (binding, EU Regulation IAS, Section 315e HGB)	Public sector entities (voluntary)	Public sector entities of the EU (questionable legal basis)	Business persons (binding Sections 238 ff. HGB) Public sector (binding at state level with accrual budget, Sections 7a, 49a HGrG)
Standard setter	International Accounting Standards Board (IASB); binding within EU after "endorsement"	International Public Sector Accounting Standards Board (IPSASB)	<i>Standard setting procedure being discussed</i>	EU and national legislator, case law (BFH, BGH, EUGH) and DRSC
Objective of accounting	Information and decision usefulness (intended investors)	Accountability and decision usefulness	Transparency and comparability	Information, tax assessment and distribution measurement, creditor protection
Dominating principle	Calculation of profits on an accrual basis (accrual principle)	cf. IFRS	<i>Questionable No hierarchy of principles</i>	Prudence (realisation and imparity principle)





Criticism of IPSAS

Debate in Germany with HGB (German Commercial Code) as benchmark

- Principle of **prudence** with realisation and imparity principle
- **Accountability**, generational fairness, sustainability and comparability
- Required **objectivisation**
- **Special characteristics of the public sector**
- Minimising **accounting options**
- No weakening of the control possibilities of **parliaments** in budget execution



Sources: *Bundestag* dated 25 Feb. 2015 (BT printed matter 18/4182)
Bundesrat dated 14 Feb. 2014 (printed matter 811/13)
Position paper from the EPSAS federal/state working group dated 5 Jan. 2017
Presidents Conference of the federal/state courts of auditors (May 2020)

Practical test: IPSAS financial statements federal state of Hesse

Our contribution to a fact-based discussion



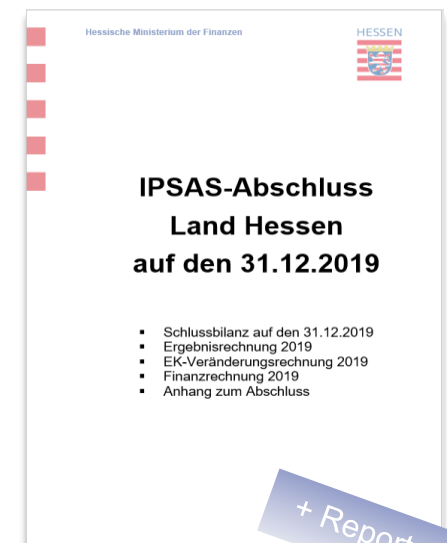
Objective of the one-off IPSAS 2019 financial statements of the federal state of Hesse

- Is fit-for-purpose public-sector accounting possible on the basis of IPSAS?



Fit-for-purpose public-sector accounting

- With its fundamental principles, accounting must do justice to the objectives of public-sector accounting with the primarily users of the legislative and executive.
- On a widely understood basis, (also) citizens and inhabitants of the regional authorities as general public, alongside supervisory authorities, statistical offices, supranational institutions and the capital market are regarded as users.



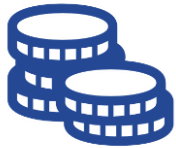


Insights from our project

Prudence can also be implemented in IPSAS financial statements



Differences between current national GAAP (HGB) and IPSAS are manageable if accounting options are used appropriately.



Acquisition/production **cost** as measurement base widely possible; measurement at fair value only in justifiable individual cases when active market exists (e.g. pension reserve).



Objectivisation and prudence can be implemented under IPSAS; fit-for-purpose accounting based on IPSAS possible.



EPSAS from the perspective of the federal state of Hesse

Our expectation - What needs to be done?



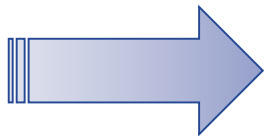
Separating the discussion on harmonisation of public sector accounting from the design of **parliamentary budgetary law** (esp. in Germany).



Harmonisation of accrual accounting for German state, federal states and local authorities in Germany on the basis of current German national GAAP (HGB), which is already based on common, internationalised standards (Accounting Directive 2013/34 EU).



Consider: To what extent is it necessary to further develop existing European accounting law in the direction of IFRS / IPSAS (information) on the path to **EPSAS**?



Here our IPSAS financial statements, with an examination of the differences to German national GAAP (HGB) provides a contribution and starting point.