
The need for harmonised, accruals-based European Public Sector Accounting Standards from a German perspective

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Benefits of accrual based budgeting and accounting reform in German local governments

- In German local authorities, the majority (70%) of financial officers estimate that the benefits of the budgeting and accounting reform will outweigh the costs
- Benefits associated with the move from cash to accrual are:
 - Consolidated Accounts
 - Ensuring intergenerational equity
 - Information relevance
 - Improved transparency about financial position and performance
 - Benchmarking/Comparability
 - Improved management through performance measures



Examples for the diversity of regulations in Germany

- Measurement of property in opening statement of financial position
- Useful life of long-term assets
- Definition of ordinary and extraordinary revenues and expenses and budget implications
- Structure of cash flow statement
- Definitions and scope of consolidated accounts, deadlines for issue of consolidated accounts
- Definition and subcategories of net assets/equity
- Financial assumptions for calculation of pension provisions, e.g. discount rate
- Recognition criteria regarding provisions



Main benefits of IPSAS-based accounting standards

- Improved fiscal transparency
 - Classification of entire statement of financial position into current and non-current elements
 - Measurement of certain types of assets at fair value (realisable assets)
 - Segment reporting in consolidated financial statements

Main benefits of IPSAS-based accounting standards

- Comparability of financial information
 - Only if options regarding the structure of components of financial statements and recognition as well as valuation options are eliminated or reduced to a minimum



Disadvantages of IPSAS-based accounting standards

- Impairment rules
- Extent of notes
- Measurement of PPE at revalued amounts (administrative assets)
- Recognition of revenue from non-exchange transactions
- Budget information in consolidated financial statements



Considerations for EPSASs

- Empirical evidence suggests that benefits of the reform will only be realised to their full extent if budgeting and accounting system are on the same basis
 - EU should encourage governments to simultaneously reform the budgeting system
 - When developing EPSAS, implications on budgetary accounting should be taken into account
 - Diversity of public sector entities within the member states: EPSASs for SME's?



Conclusions

- Harmonisation of public sector accounting standards within the EU is long overdue
- harmonised accrual accounting rules are only a necessary requirement to achieve improved financial management within the member states as improving efficiency and effectiveness of financial management is largely dependent on the context in which reforms are implemented

