

The IPSASB's Conceptual Framework Reflected Against the Current State of Governmental Accounting in Germany

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The research goal of the paper is to discuss the conceptual issues of the Conceptual Framework project in the light of the current state of governmental accounting in Germany. The main issues regarding the Conceptual Framework would be analyzed from a German point of view. The focus in Germany will be on governmental accounting at the federal/state level.

I. Objectives of the Paper

December 15, 2010, the IPSASB has issued for comment **Conceptual Framework Exposure Draft 1 (CF-ED1)**, *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Role, Authority, and Scope; Objectives and Users; Qualitative Characteristics; and Reporting Entity*, as well as two **Consultation Paper**, one on *Elements and Recognition in Financial Statements* and one on *Measurement of Assets and Liabilities in Financial Statements*.

The objective of the IPSASB by the Conceptual Framework Project is to “develop a Public Sector Conceptual Framework which is applicable to the preparation and presentation of general purpose financial reports of public sector entities, including but not necessarily limited to financial statements and notes thereto” (see IPSASB 2006, page 3). The aim is to develop the concepts, definitions and principles which will underpin the future development of IPSASs. The Conceptual Framework project is of global significance as it is the first project to develop a public sector specific Conceptual Framework. In addition, with the Conceptual Framework the IPSASB not uses the IASB Framework as a blueprint. Therefore, the IPSASB’s Conceptual Framework will not be an interpretation of the IASB Framework.

The Conceptual Framework Project discusses the following five main questions:

1. What are the objectives of financial reporting in the public sector?
2. Should the scope of financial reporting in public sector be broader than in private sector?
3. Who are the primary users of public sector financial statements?
4. What are the essential characteristics of assets and liabilities?
5. What measurement approaches are appropriate in the public sector?

The aim of the paper would be to discuss the issues raised by the IPSASB by its Conceptual Framework from a German point of view. The five topics addressed above would be analyzed in detail using the relevant laws and literature on German governmental accounting at the federal/state level. In order to get a deeper understanding of the state of governmental accounting in Germany, in the first part of the paper its current state will be analyzed.

Finally, it has to be mentioned that phase 4 of the IPSASB’s Conceptual Framework on presentation and disclosure will not be considered in this paper.

II. Current State of Governmental Accounting in Germany

1. Local Level

On the local level, the states in Germany are in charge of the legal affairs of local governments. Therefore, the ministries of interior of each state in Germany set the legal framework for accounting and budgeting of the municipalities.

Traditionally, the accounting framework of the local governments in Germany was based on cameral accounting, i.e. a cash-based system. Earlier in the nineties inspired by the New Public Management-reform the German municipalities began to set up the so-called “New Steering Model” (Neues Steuerungsmodell) (see Bals 2008, pp. 29 ff.) The modernisation of the accounting systems was one of the central elements of this reform.

In 1998, the Sub-Committee of the Standing Conference of the Ministers of Interior of the Bundesländer on the subject “Reforming Local Government Budgeting and Accounting” was installed. In November 2000 the Standing Conference of the Ministers of the Interior passed guidelines on local government accounting and budgeting. This was a general agreement between the 16 states. Nevertheless, each state had to transfer these guidelines and regulations to its own budget law for local governments. Because of the sovereignty of the states they used this power to adapt these regulations to their individual needs.

The Sub-Committee suggested two alternative accounting models: One was the full accrual accounting model and the other one was the so-called “Erweiterte Kameralistik” which is a cameral (i.e. cash-based) accounting system complemented by accrual accounting elements, like an asset accounting system. In 2004 the Bundesländer started to amend their budgeting and accounting laws.

The reform model based on accrual accounting is characterized by the following elements:

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|---|
| <ul style="list-style-type: none">– output-oriented accrual-based budgeting– decentralized budgets– adequate reporting structures– full accrual financial reporting– consolidated financial statement |
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Source: *Arbeitskreis III Kommunale Angelegenheiten und Unterausschuss Reform des Gemeindehaushaltsrechts (UARG) der Innenministerkonferenz (IMK) (2003)*

Tab. 1: *Elements of the Accrual Accounting and Budgeting Reform of German Local Governments*

The theoretical background for the new model is the so-called “Ressourcenverbrauchskonzept”, an accounting concept that focuses on the use of the resources and intergenerational equity (see Bals 2002, pp. 908 ff.). One central element of the reform model for the local governments is that budgeting is closely linked to accounting and financial reporting. This means that also for budgeting the accrual basis of accounting is used. Therefore, provisions for pensions and depreciations are part of the budget (so-called “resource budgeting”). The inclusion of provisions and depreciation in the budget leads to the fact that it will be much harder for a municipality to achieve budget equilibrium in the future. Another crucial element of the new accounting model is output-orientation. Next to a budget plan based on accrual figures, the local governments are obliged to present the budget also

on an output basis. In this model, each department of a local government is obliged to define outputs, goals, and performance measures that allow to control if these goals are actually reached.

By decentralised budgets each department administers its own budget and is more or less free in the use of these resources in order to reach its goals. These goals are defined by certain output measures. Adequate reporting structures are a further element of the model. The information needs, the users of the reports and the content of these reports are not standardized and are individually defined by each local government.

With the introduction of full accrual accounting the registration and valuation of the assets and liabilities of local governments is required. One of the first milestones of this reform project is to come up with an opening balance sheet. Because of the fragmented structure of local governments, a consolidated financial statement is also an essential reform element (see Busch/Lasarik/Heiling 2009, pp. 822 f.). Mainly the larger German municipalities are characterised by the fact that several public tasks are fulfilled by entities under private law like GmbHs, i.e. public enterprises based on the limited liability company law fully or partly owned by the respective local government. In order to have a complete financial picture of a local government these entities have to be consolidated with the financial statements based on the core budget of the local government. Therefore, the presentation of consolidated financial statements is one of the final objectives of the reform.

The aim of the alternative to the accrual-based accounting and budgeting model, the so-called "Erweiterte Kameralistik" (extended cameral accounting) is to generate more or less the same information as the accrual model. The main difference lies in the fact that the cameral accounting system will be kept and be complemented by accrual information (e.g. depreciation, provisions). This approach was mainly directed to the smaller local governments. Nevertheless, empirical studies show that most of the local governments having the choice in reforming their accounting system choose the full accrual approach (see for example Deloitte 2008, p. 8).

The following table gives an overview of the reform of governmental accounting at the local level in Germany:

Bundesland (only territorial states, i.e. without Hamburg, Berlin etc.)	Accounting/Budgeting System	Opening Balance Sheet per
Baden-Württemberg	solely accrual*	01.01.2016
Bavaria	choice between existing cameral system and accrual	no fixed date
Brandenburg	solely accrual	01.01.2011
Hesse	choice between extended cameralistic and accrual	01.01.2009
Mecklenburg-Western Pomerania	solely accrual	01.01.2012
Lower Saxony	solely accrual	01.01.2009
North Rhine-Westphalia	solely accrual	01.01.2009
Rhineland-Palatinate	solely accrual	01.01.2009
Saarland	solely accrual	01.01.2009
Saxony	solely accrual	01.01.2013
Saxony-Anhalt	solely accrual**	01.01.2011
Schleswig-Holstein	choice between existing cameral system and accrual	no fixed date
Thuringia	choice between existing cameral system and accrual	no fixed date

* According to the coalition agreement from an option to choose between the existing cameral system and an accrual system will be introduced.

** According to the coalition agreement from 24 April 2011 an option to choose between an extended cameral accounting system and accrual system will be introduced.

Source: author's compilation

Tab. 2: Overview of the Accounting Reform of Local Governments in Germany

In the meantime all states including Baden-Württemberg have approved the necessary laws and regulations. One of the first states that have decided to introduce accrual accounting and budgeting was the state of North Rhine-Westphalia (see Wirtz 2010, p. 74). Most of the states have selected the pure accrual accounting and budgeting approach. Only Hesse has provided a choice between the extended cameral accounting system and the accrual approach. Bavaria, Schleswig-Holstein and Thuringia represent an exception. In these states the local governments even have the option to stay with their old cameral accounting system. This leads to the fact that only greater cities (e.g. Munich) have chosen to implement accrual accounting. Many smaller cities and municipalities stay with their cameral accounting system. Just recently, due to results of elections and a change of governments, in Baden-Württemberg as well as Saxony-Anhalt an option to stay with the cameral accounting system (Baden-Württemberg) or to just introduce the extended cameral accounting system were formulated as goals in the coalition agreements of the new governments.

Because of the fact that each state in Germany is responsible for its own budgeting/accounting law, each state has its own approach for governmental accounting and budgeting. Besides the different implementation dates of accrual accounting, there are several differences in the recognition and valuation of assets and liabilities (see thoroughly Mühlenkamp/Glückner 2009, pp. 1-12). Also the disclosure requirements differ from one state to the other. In consequence, the budget documents

as well as the financial reports cannot be compared. Currently, the need for convergence has been expressed by various parties (e.g. by the members of a joint project run by the Bertelsmann Foundation and the Kommunale Gemeinschaftsstelle für Verwaltungsmanagement (KGSt)) but actions have not been undertaken so far.

2. Governmental Accounting at the State Level

The situation at the state level is rather diverse and differs between the territorial states and the city states (see Wirtz 2008, p. 76). The 'Bundesländer' have taken different approaches in the reform of the accounting and budgeting systems. Some states just introduced a cost accounting system, but stayed with the cameral system (e.g. Baden-Württemberg). Other states, like Hesse or Hamburg, favour the full accrual accounting approach and also move towards output-orientation. In November 2009, Hesse presented an opening balance sheet as per January 1, 2009. A full set of accrual-based financial statements was published by December 31, 2009.

Hamburg, as a city state, already completed the move towards accrual accounting in 2006. It presented its opening balance sheet as per January 1, 2006. The first consolidated financial statements had been presented for fiscal year 2007. One of the largest states in Germany, North Rhine-Westphalia also decided to implement accrual accounting and budgeting (Finanzministerium des Landes Nordrhein-Westfalen 2009). A project group has been installed and some pilot agencies are identified. The completion of the project is expected not earlier than 2016. Finally, Bremen, the smallest city state in Germany, has also introduced accrual accounting and has presented its opening balance sheet as per 31.12.2010.

3. Governmental Accounting at the Federal Level

Also at the federal level, the government is in a reform process with respect to governmental accounting (Wirtz 2010, p. 77). In 2006 the Ministry of Finance founded a project group for the modernization of federal government budgeting and accounting (Bundesministerium der Finanzen 2009, p. 1). The aim of this project group is to develop a concept for the modernization of the cameral accounting system of the federal government. The Federal Ministry of Finance favours a so-called "modern (extended) cash based accounting system" with a top-down-approach. The aim is to keep the current cash-based (cameral) accounting system and to extend that system by reform elements like an output-oriented budget or an asset accounting system.

The main characteristics are:

- top-down approach for budgeting
- structure of the cash based budget will be reduced essentially
- amendment of the cash based budget by a report focussing on outputs
- resource accounting through the existing cost accounting system
- implementation of a comprehensive asset accounting system

Source: *Bundesministerium der Finanzen (2008)*

Tab. 3: *Main Characteristics of the Planned Accounting Reform of the German Ministry of Finance*

The reasons for the proposed reform of the federal accounting and budgeting system were of general interest in Germany especially in the light of the reform movements at the local and state level. The project group came up with the following arguments for the reform concept:

- good development perspective of the system
- deficits of the cameral accounting system (missing resource orientation and asset accounting) will be solved
- an output-oriented governance is possible
- central control of liquidity is possible without additional resources
- low implementation costs
- builds upon the proven governmental budget principles
- open system with possibilities for development

Source: *Projektgruppe MHR, Bundesministerium der Finanzen (2007)*

Tab. 4: *Reasons for the Accounting Reform at the Federal Level in Germany*

In the light of the international developments in governmental accounting, one might question if the reform concept has a “good development perspective” and if it is an open system with possibilities for development. In the case that in future periods the federal government will shift towards full accrual accounting it follows that the accounting system has to be adapted and a reform process has to be initiated once again.

In July 2010 it was decided that the reform project for modernization of budgeting and accounting at the federal level will be realigned. After the Ministry of Finance had talked to the parliament, it concluded that the parliament would not support the reform project. The planned project could not be continued as intended. Parts of the reform project, like accounting for assets, a standardized cost accounting system and the new taxonomy for the budgeting system will be developed further and cared for by the Ministry of Finance.

4. Summary of Governmental Accounting in Germany

Whereas at the local level, reform towards accrual accounting and budgeting are already decided and in three states already “live”, at the federal level a clear commitment towards preserving a cash-based accounting system can be observed. At the state level, the proponents of accrual accounting are outnumbered. With the reform of the budget principles law it might be possible that in the near future other states will follow. With Northrhine-Westfalia one of the largest and most important states has decided to perform an accounting reform based on accrual accounting.

The current situation of governmental accounting clearly reflects the federal system in Germany. From maintaining the cameral accounting system (e.g. at the federal level or in several German municipalities) to approaches of introducing full accrual accounting a whole spectrum of reform approaches can be identified. From a technical point of view the full accrual accounting approaches in the different jurisdictions vary in terms of recognition, valuation and disclosure (see Mühlenkamp/Glöckner 2009, pp. 1-12).

It becomes evident that due to accountability and transparency reasons harmonization and standardization will become one of the major tasks in the future.

III. Legal Developments in Germany

1. General Remarks

Due to the tendency of diverging developments in governmental accounting in Germany, discussions started about harmonization. In July 2009 a law to modernize the 'budget principles law' was approved (see Bundesgesetzblatt (BGBl.) I, p. 2580).¹ The aim of this law is to harmonize governmental accounting on the national and state level in the light of the current reforms. One of the essential elements of the proposed law is to acknowledge accrual accounting as adequate system for budgeting and accounting purposes for the states and federal government. In the future, the federal and state governments have the possibility to implement accrual accounting without having the burden to operate a cash-based, i.e. cameral accounting system at the same time. Therefore, the implementation of accrual accounting is becoming more attractive at the state and federal level. Although, this does not necessarily mean that accrual accounting has to be implemented by the states or the federal government. The main part of the law came into force by January 1, 2010.

2. Installation of a Board for the Standardization of Governmental Accounting

The budget principle modernization law can be seen as a historical change in German governmental accounting: Beginning of 2010 a board will be in charge for standard-setting in budgeting and financial reporting in Germany.

According to par. 49a of the revised budget principles law, a board for the standardization of governmental accounting at the state and federal level will be installed. On the one hand, the board should guarantee a minimum level of comparability in governmental accounting. One of the board's main tasks is to pronounce "principles for governmental accrual accounting". On the other hand, the board will elaborate standards for budgets based on cameral and accrual accounting as well as on output budgets.

Despite its role as standard-setter the board has no mission to set standards for local government accounting. Currently, it is still not clear what impact the standard-setter has on local government accounting (see Heiling/Wirtz 2009, p. 827). The final budget and accounting laws for the federal government and the state governments based on the pronouncements of the board will come into force by federal or state administrative regulations.

The board is a common institution of the federal government and the 16 state governments. It will mainly consist of members of a former board of these entities dealing with budget law and budget structure (so called "Arbeitsausschuss Haushaltsrecht und Haushaltssystematik"). Advisory functions will be performed by the Federal Court of Auditors and one State Court of Auditors. According to the law, the Federal Statistical Office, the central data department of the finance ministers of the state governments and a representative of the Standing Conference of the Ministers of Interior of the Bundesländer will be guests of the board. The weighting of votes for the federal government and the state governments depend on unspecified factors which are only mentioned in the explanatory memorandum to par. 49a of the reform law. Decisions by the board need the votes of the federal

¹ July 10, 2009, the Bundesrat (upper house of the German parliament) approved the Budget Principle Modernization Law („Haushaltsgrundsatzmodernisierungsgesetz“) and in the meantime the law has been published in the German Federal Law Gazette.

government and a majority of two third of all the state governments, i.e. the majority of at least 11 state governments. The Board for the Standardization of Governmental Accounting can make use of a board of experts. Requirements imposed by financial statistics as well as national accounting will be considered by the board.

The standards set by the board for the standardization of governmental accounting, the so-called “Standards staatlicher Doppik”, are based on the German business accounting rules, i.e. the German Commercial Code. The explanatory memorandum of the law states that due to the fact that there are only minor differences between the German Commercial Code and the International Public Sector Accounting (IPSAS) solely the German business accounting rules will be considered by the board for the setting of governmental accounting rules. Therefore, according to the law and its explanatory memorandum the IPSAS will not be considered by the German standard-setter.

More details of the constitution, structure and procedures of the board will be regulated by a common administrative rule of the federal and the state governments.

IV. Selected Issues of the IPSASB's Conceptual Framework Reflected Against the Current State of Governmental Accounting in Germany

a) What are the objectives of financial reporting in the public sector?

According to the IPSASB, the objectives of financial reporting are determined by reference to the users of GPFs, and their information needs. IPSASB CF ED1 states that the primary users of GPFs are service recipients and resource providers as well as their representatives. The IPSASB's CF ED1 concludes that the objectives of financial reporting by public sector entities are to provide information about the entity that is useful to users of GPFs for accountability purposes and for decision-making purposes.

In the German literature, authors typically not use the term “objectives of financial reporting”, they refer to “purposes of financial reporting” (“Zwecke der öffentlichen Bilanzierung”). *Engels/Eibelshäuser* refer to four main purposes of governmental financial reporting (see *Engels/Eibelshäuser* 2010, p. 122 ff.):

- 1) Determination of financial performance and financial position (“Gewinn- und Vermögensermittlung”)
- 2) Protection of generations (“Generationenschutz”)
- 3) Information function (“Informationsfunktion”)
- 4) Consolidation function (“Konsolidierungsfunktion”)

Engels/Eibelshäuser state that the determination of financial performance and financial position and protection of generations (“Generationenschutz”) are closely interconnected by the accrual principle. The main goal of the public financial statements is to secure the future performance potential of a public administration by a public task-related preservation of equity. Therefore, a prudent and objectified determination of financial performance has to be undertaken.

Then, the accrual principle matches expenses to the according revenues. By this, the purpose of protection of generations will be assured. An intergenerational resource allocation equity (“intergenerative Verteilungsgerechtigkeit”) can only be secured if a generation is only charged with

those costs that corresponds to the benefits produced of this generation (see Engels/Eibelshäuser 2010, p. 124).

Thirdly, the users of financial statements have the right to be informed about the financial position, financial performance and the liquidity position of a public sector entity.

Finally, the consolidation function assures that by the use of accrual accounting the statements of a hierarchical structured jurisdiction could be consolidated. By the consolidation function, the financial position, the financial performance as well as the liquidity position at each level of the hierarchy could be depicted.

Engels/Eibelshäuser conclude that to a great extent the purposes of financial reporting are relevant both to public sector entities as well as to private sector enterprises (see Engels/Eibelshäuser 2010, p. 125).

Comparing the objectives of financial reporting as defined by the IPSASB with the German purposes of financial reporting one can see that neither accountability nor the objective of decision-making are stated explicitly in the concept presented by *Engels/Eibelshäuser*. Also, reference to the citizens (being resource provider as well as service recipient) and their informational needs is not made in the German concept.

Regarding the objectives of financial reporting, the so-called "Standards staatlicher Doppik" refer to seven main goals. The origin of these seven goals of financial accounting/reporting lies in the function of the budget and the accounting underlying budgeting has to correspond to these functions. These seven goals are:

- 1) fulfillment of demand-function (Bedarfsdeckungsfunktion)
- 2) political program-function („politische Programmfunktion“)
- 3) economical function („volkswirtschaftliche Funktion“)
- 4) order function („Ordnungsfunktion“)
- 5) control-function („Kontrollfunktion“)
- 6) transparency- and information-function („Transparenz- und Informationsfunktion“)
- 7) protection-function („Schutzfunktion“)

These goals as stated by the Standards staatlicher Doppik mainly have their origin in fiscal policy/economics. In none of these functions neither reference is made to accountability nor to decision-making.

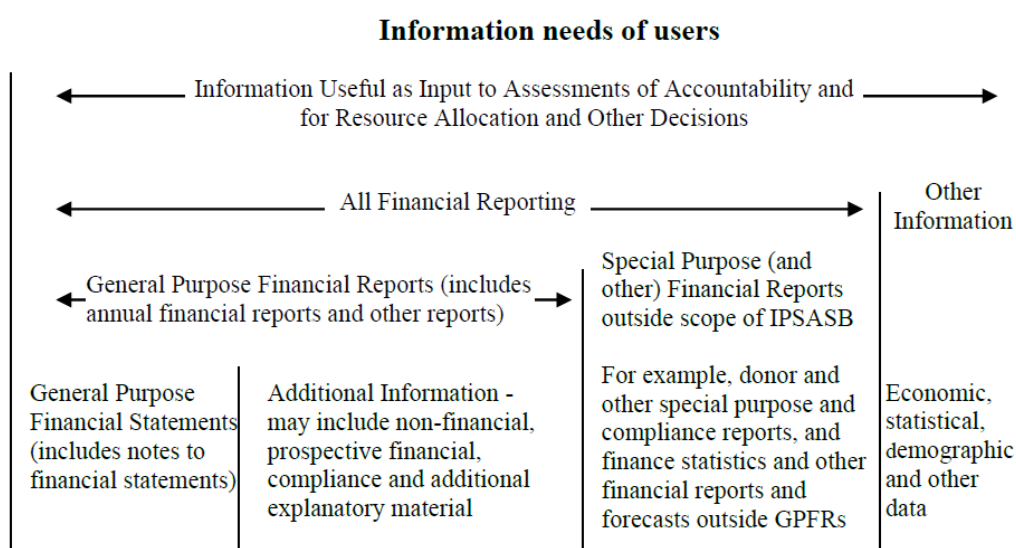
Also when comparing the purposes of financial reporting as stated by *Engels/Eibelshäuser* and the goals of the Standards staatlicher Doppik one can see that only in the information-function both concepts are equal. In all the rest, both concepts differ significantly. The roots of the goals as stated by the Standards staatlicher Doppik are mainly based on fiscal policy/economics whereas the concept of Engels/Eibelshäuser has its origin in business accounting.

It can be concluded that the objectives of financial reporting as stated by the Standards staatlicher Doppik as well as those presented by *Engels/Eibelshäuser* do not correspond to the IPSASB's proposition as they are mainly based on either the objectives of fiscal policy/economics or private sector accounting. Obviously, service recipients, resource providers and their representatives have not been seen as main users of financial information.

b) Should the scope of financial reporting in the public sector be broader than in private sector?

According to CF ED1, the scope of financial reporting establishes the boundary around the transactions, other events and activities that may be reported in GPFs.

In its first Conceptual Framework Consultation Paper, issued in September 2008, the IPSASB distinguished traditional general purpose financial statements (GPFs) and general purpose financial reports (GPFrs). The following graph depicts the distinctions the IPSASB makes between GPFs and GPFrs:



Source: IPSASB (2009)

Tab. 5: Information need of users

General Purpose Financial Statements (GPFs) comprises a statement of financial position, a statement of financial performance, a cash flow statement, possibly a statement of changes in net assets/equity as well as notes accompanying the financial statements. The concept of General Purpose Financial Reports (GPFrs) is wider than the concept of GPFs as they also include additional information, such as non-financial, prospective financial, compliance information as well as explanatory material.

According to the IPSASB the scope of financial reporting is determined by the information needs of the primary users of GPFrs and the objectives of financial reporting, and responds to the operating characteristics of public sector entities. The IPSASB sees a dynamic concept behind the scope of financial reporting as it says that the scope will evolve in response to users' information needs, consistent with the objectives of financial reporting.

The difference between GPFs and GPFrs is not made explicitly in German governmental accounting. Nevertheless, German governmental financial reporting goes beyond General Purpose Financial Statements as it also includes Management Commentary ("Lagebericht"). Unfortunately, in the

current version of the “Grundsätze staatlicher Doppik” nothing is stated whether the Management Commentary will also include non-financial information, such as performance information. For the public sector entities at the federal/state level reference is made to the private sector accounting standards focusing on Management Commentary. This means, that only that financial and non-financial information foreseen in the private sector accounting standards can be presented by the public sector entity. Thus, public sector specific financial or non-financial information might possibly not get presented in the financial statements of a public sector entity.

c) Who are the primary users of public sector financial statements?

According to IPSASB CF-ED1 Par. 2.4, GPFs of public sector entities are developed primarily to respond to the information needs of service recipients and resource providers who do not possess the authority to require a public sector entity to disclose the information they need for accountability and decision-making purposes. The legislature (or similar body) and members of parliament (or a similar representative body) are also seen as the primary users of GPFs when acting in their capacity as representatives of the interests of service recipients and resource providers. Therefore, the IPSASB came to the conclusion that for the purposes of the Conceptual Framework, the primary users of GPFs are service recipients and their representatives as well as resource providers and their representatives. The main reason for choosing service recipients and resource providers as primary user is because governments and other public sector entities are accountable primarily to those that provide them with resources, and to those that depend on them to use those resources to deliver necessary services (see CF-ED1 BC2.4).

The following resource providers or service recipients are not considered by the IPSASB as the primary users of GPFs:

- residents who pay taxes and/or receive benefits but are not citizens;
- donor agencies
- lenders
- corporations that provide resources to, and transact with, a government

Finally, the IPSASB came up with the notion of “other parties” which are also users of GPFs but not considered as primary users:

- government statisticians
- analysts
- the media
- financial advisors
- public interest and
- lobby groups.

Especially organizations that have the authority to require the preparation of financial reports tailored to meet their own specific information needs may also use the information provided by GPFs for their own purposes—for example, regulatory and oversight bodies, audit institutions, subcommittees of the legislature or other governing body, central agencies and budget controllers, entity management and, in some cases, lending institutions and providers of development and other

assistance. While these other parties may find the information provided by GPFRs useful, they are not the primary users of GPFRs. Thus, the IPSASB clarifies that GPFRs are not developed to specifically respond to their particular information needs.

The “Standards staatlicher Doppik” do not refer to specific users of the financial reports. They refer to external financial reporting so it is made clear that the standards will be used for external presentation of financial information. According to *Engels/Eibelshäuser* users of governmental accounting are decision maker in the public sector entities, banks and rating agencies as well as the general public (i.a. tax payers) (see *Engels/Eibelshäuser* 2010, p. 124). Unfortunately, no rationale is provided by *Engels/Eibelshäuser* why solely these are the users of governmental financial reports.

The general public as users of financial information is only stated at third position. Also a distinction between service recipients and resource providers is not made. In addition, a specific reference to the political representatives of the general public is missing in the German concept.

Therefore, it can be summarized that the users of financial reporting under IPSAS are much more precisely defined as it is the case for Germany. The Standards staatlicher Doppik leaves the question of the users open and *Engels/Eibelshäuser* only defines three types of users. Important other users such as media, government statisticians, financial advisors or academia are not stated explicitly as users in Germany. So, a gap with regard to the definition of users of financial reporting can be identified.

d) What are the essential characteristics of assets and liabilities?

The IPSASB’s Consultation Paper *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: The Consultation Paper The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (CF-CP 2) discusses the elements of financial statements. According to the IPSASB, elements are the basic building blocks from which financial statements are constructed, but could potentially apply more broadly to other types of information included in GPFRs. These building blocks form the basis for recording, classifying, and aggregating economic phenomena and activity in a way that enhances a user’s understanding of the detailed data contained in an entity’s financial reporting system. Par. 1.8 of CF-CP 2 states that elements of financial statements are designed to provide useful categories of information necessary, at a minimum, for measuring financial position and financial performance.

According to Par. 2.2 CF-CP 2 assets of a government or other public sector entity are a key element of the entity’s financial position. The recipients of goods and services and providers of resources (financial statement users) are interested in assessing whether the entity’s assets are managed efficiently and effectively in providing public goods and services. Asset definition and recognition therefore also play an important role in reporting on financial performance.

The three characteristics necessary for a complete definition of an asset relate to:

1. The substance of an asset
2. Is it the reporting entity’s asset?
3. Is it an asset at the reporting date?

In its Consultation Paper, the IPSASB discusses the substance of an asset (service potential; net cash flows; unconditional rights to receive resources), criteria for the ownership of an asset (control; risks and rewards; access to the rights; restrict or deny access of others; enforceable claim to benefits) and the question, if there is an asset at the reporting date (existence – definition, or recognition criteria vs. past transaction or event).

In the same manner as for assets, liabilities as elements are discussed. As further elements, revenue and expenses, other potential elements (deferred outflows and deferred inflows, net assets/net liabilities, transactions with residual/equity interests) are identified and elaborated. Finally, the need for recognition criteria is explored.

In Germany, the “Standards staatlicher Doppik” use the same principles than for business accounting. This means that for the definition of an asset and a liability in the public sector the same guidelines are used than for business accounting. Nevertheless, the Standards state that special rules exist for infrastructure and heritage assets. A reference to the concept of service potential is not made. With respect to the liabilities side more or less the same liabilities are accounted for than it is the case for the private sector.

To sum up, the IPSASB is still in a conceptual phase with respect to elements. Currently it is not clear how an asset or a liability is defined. The IPSASB tries to come up with definitions that comprise public sector specifics. In Germany, reference is made to the concepts of business accounting. The accounting concepts consider some public sector specific aspects for the elements, but does not conceptualize them explicitly.

e) What measurement approaches are appropriate in the public sector?

The Consultation Paper *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Measurement of Assets and Liabilities in Financial Statements* explores the measurement bases for the elements that are recognized in public sector GPFs. Examples of measurement bases are historical cost, market value and replacement cost. According to the IPSASB measurement bases could be classified according to whether they

- reflect historical or current attributes of an asset or liability;
- represent an entry or an exit perspective; and
- reflect either a market or an entity-specific perspective.

In its Consultation Paper the IPSASB defines historical cost, market value as well as replacement cost as the central measurement bases for the elements of financial reporting. The IPSASB discusses the advantages and disadvantages of these three measurement bases. The board also classifies the concepts according to the attributes above (historical vs. current; entry vs. exit; market or entity-specific perspective). Finally, the IPSASB proposes the **deprival value model** as a highly relevant valuation model for the public sector. This model provides a means of selecting the most relevant measurement basis, which is that which would just compensate the entity for the loss of the asset. This is:

- replacement cost, except where recoverable amount is lower.
- recoverable amount is the higher of value in use and net selling price.

The relief value model applies the same reasoning to liabilities with some changes in terminology.

Currently, the IPSASB does not favor any of the measurement bases stated before. Nevertheless, it is envisaged that the IPSASB Framework will identify factors that should be considered in choosing the measurement basis to be required for particular assets and liabilities in specific circumstances. It has to be underlined that that the IPSASB Framework will likely not identify a single measurement basis that is appropriate in all circumstances. Also in the Consultation Paper on Measurement reference is made to accountability and decision-making. Therefore, the IPSASB concludes that in order to provide a proper basis for the assessment of accountability it is important that assets are not understated (or liabilities overstated). A representationally faithful statement of the cost of providing services requires that the full value of assets that are consumed in service provision is included in that cost.

For Germany, the „Standards staatlicher Doppik“ refer – as it is the case for business accounting - to the principle of prudence and the cost principle as main principles for valuation of assets and liabilities. In spite of the cost principle the German Standards also refer to prudently determined current market values as possible measurement bases for the opening balance sheet. These values will be used as deemed cost for future periods. The use of fair values for valuation is only made in case of extraordinary depreciation of assets. In the German valuation concept, replacement cost are seen to be used in order to determine fair value.

To sum up, all three measurement bases, historical cost, market value and replacement cost, are used in the German valuation concept. A reference to the deprival value model is not made.

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