

# 10 years of the EPSAS process: an appraisal from the perspective of the federal government

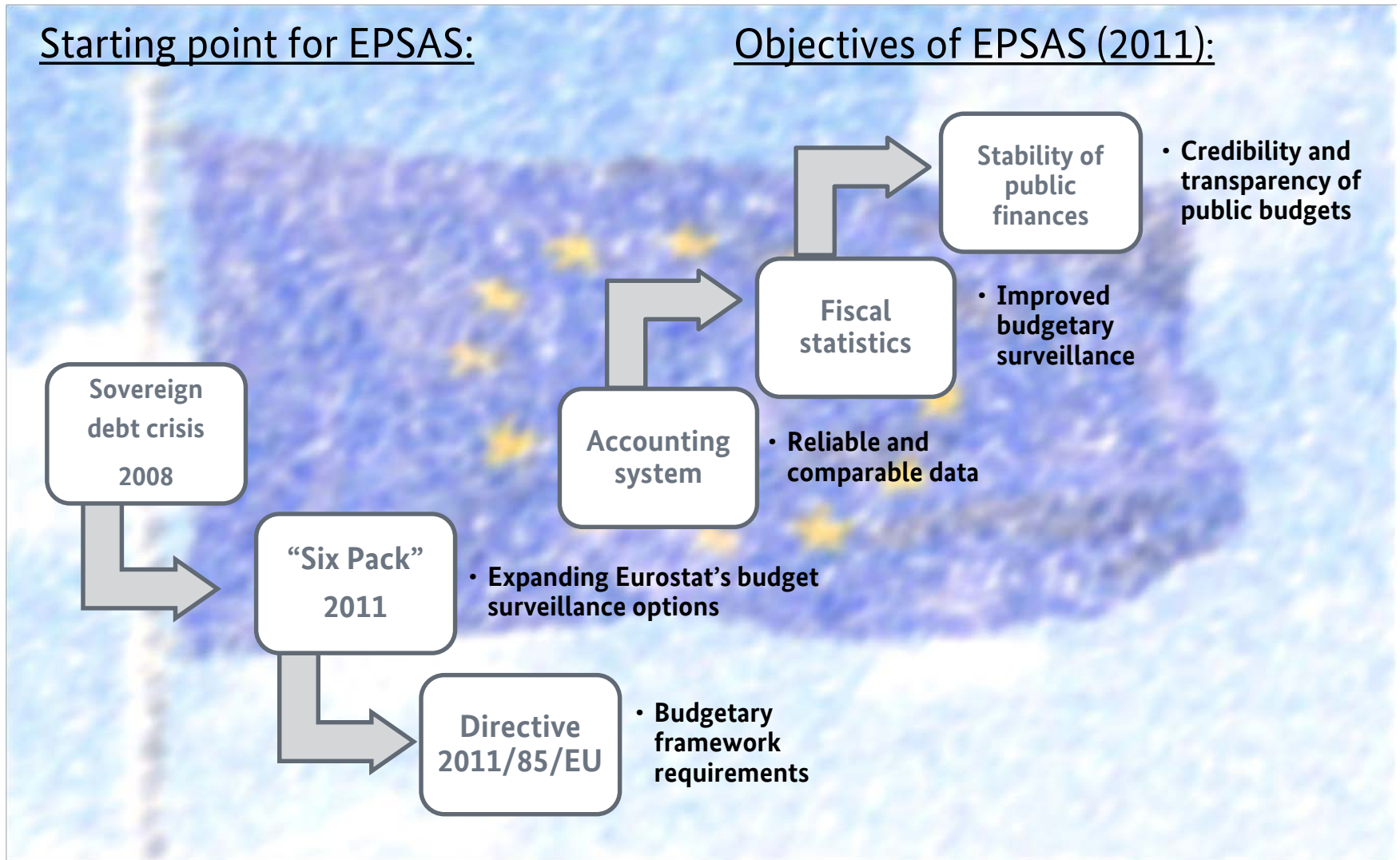
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Federal Ministry of Finance

EPSAS from the perspective of Germany, 27 April 2021

# Agenda

1. EPSAS as a European idea
2. EPSAS as a political agenda
3. The federal administration's position on EPSAS
4. EPSAS as a working process
5. Evaluation of the results – key criticisms
6. Modernising the statement of assets and liabilities – in the shadow of EPSAS
7. Conclusions and outlook

# 1. EPSAS as a European idea



## 2. EPSAS as a political agenda

Period	Results
November 2011	<b>“Six Pack”</b> to strengthen the EU’s fiscal policy: 5 Regulations, 1 Directive: “Council Directive on requirements for budgetary frameworks of the Member States” (Directive 2011/85/EU) – request for the European Commission to conduct an evaluation of IPSAS for the EU Member States.
February – December 2012	<b>Public consultation</b> by the European Commission on the suitability of IPSAS. 16 of 68 responses came from Germany. 38% of the responses: “IPSAS is generally suitable”; 31%: “partially suitable / further development needed”; 28%: “unsuitable”
March 2013	<b>The European Commission’s report:</b> Strengthen autonomy of the standard-setting process; take into account the needs of the public sector; this should be the starting point for EPSAS; avoid deviations to IPSAS and IFRS; minimise differences to the ESA. Objective: fully integrated statistical and accounting system.
May 2013	<b>European Commission’s EPSAS conference in Brussels, objective is formulated: Introduction of EPSAS in EU Member States by 2020</b>

# 3. The federal administration's position on EPSAS

Legal framework: Article 23 (5) and Article 65 of the GG, EUZBLG, EUZBBG, GO BReg, GGO

Involved parties	Activities, outcomes
Bundestag	<ul style="list-style-type: none"> <li>• <b>2013, 2015</b> Decisions on EPSAS: introduction of new standards must not affect the planning and implementation of budgets.</li> <li>• Discussion of the reports from the Bundesrechnungshof (Germany's Federal Court of Auditors) by the Auditing Committee</li> </ul>
Bundesrat	<ul style="list-style-type: none"> <li>• <b>2014:</b> Decision on EPSAS: freedom of choice regarding the management of budgets must be retained.</li> </ul>
Federal and <i>Land</i> administrations <ul style="list-style-type: none"> <li>• Federation</li> <li>• <i>Länder (States)</i></li> <li>• Interior ministers conference</li> <li>• Finance ministers conference</li> </ul>	<ul style="list-style-type: none"> <li>• Federation-<i>Länder</i> working group &amp; discussion group at the Secretary of State level → <b>2017:</b> Publication of a position paper on EPSAS: supporting freedom of choice, complying with the subsidiarity principle, cost/benefit analysis</li> <li>• Participation in the EPSAS working group (Bavaria, Hamburg)</li> <li>• Regular joint written opinions to Eurostat</li> <li>• <b>Since 2017:</b> Reporting to the Bundestag on developments in the EPSAS process</li> </ul>
Bundesrechnungshof and <i>Länder</i> audit courts	<ul style="list-style-type: none"> <li>• Participation in the EPSAS working group (Hesse audit court, Bundesrechnungshof until 02/2018)</li> <li>• <b>2014, 2016:</b> Reports pursuant to section 88 of the Federal Budget Code; <b>2017:</b> report pursuant to section 99 of the Federal Budget Code</li> <li>• <b>2016 and 2020:</b> Decision of the presidents of the Bundesrechnungshof and the <i>Länder</i> audit courts: Request to look into alternatives, the necessity and effectiveness of EPSAS and to evaluate measures already taken</li> </ul>

# 4. EPSAS as a working process

## Original time frame:



## Results that were expected by 2020:

- Political governance structure (EPSAS-Governance)
- Analysis of the problems with IPSAS
- Governance Body
- Established standard-setting process
- Information on costs, flexibility, limitations for small entities
- Mechanisms for verifying and enforcing the use of EPSAS

# 4. EPSAS as a working process

## The EPSAS working group

- Initiative by Eurostat: “Forum for Member States for providing advice and expertise in preparation for EPSAS”
- No decision-making body, no negotiations
- Participants: representatives from all Member States, IPSASB, PwC, Ernst & Young
- Germany: Joint federal-*Länder* position

## 4. EPSAS as a working process – realignment

Time frame	Activities, outcomes
December 2015	Decision of the European Commission: Extended rollout of EPSAS. For the time being it is not mandatory to introduce EPSAS. EU Member States should introduce accrual accounting on the basis of IPSAS by 2020.
November 2018	Information from Eurostat: Technical work on the EPSAS framework has been completed. Regulatory impact assessment will follow by the end of the year.
2019, 2020	Continuation of the technical work: Updating of a cost study on the introduction of EPSAS. Start of the IPSAS screenings.
2021	Continuation of the technical work: Further IPSAS screenings: 21 are outstanding (9 of them are being discussed tomorrow).



## 5. Evaluation of the results – key criticisms

### **EPSAS Conceptual Framework:**

- No hierarchy among users of EPSAS financial statements
- Yes to the principle of prudence, but not within the meaning of the Commercial Code
- No principles hierarchy
- Valuation benchmarks: fair value instead of historical cost
- EPSAS reporting entity: no clarity regarding consolidation and rules for smaller entities
- Definition of assets: alignment with control principle, deviation from ESA

## 5. Evaluation of the results – key criticisms

### Issue papers and IPSAS screenings:

- Processing of issue papers from 2016 to 2019
  - Explanation and comparison of various financial reporting aspects in the IPSAS and IFRS systems, in the European Commission's financial reporting rules and the ESA 2010.
- Processing of IPSAS screening reports from 2019 – now
  - Checking whether the individual IPSAS standards fulfil the criteria of the EPSAS Conceptual Framework.

### Outcome:

- Eurostat relies strongly on IPSAS → All presented IPSAS correspond overall with the requirements of the Conceptual Framework. According to PwC, an analysis of the IPSAS screenings has not revealed any major conceptual issues; additional guidance would be desirable, however.
- Uncritical perspective is questionable from our point of view.
- Federal Ministry of Finance's approach: together with the *Länder*: clear, practical criticism in the working group

## 6. Modernising the statement of assets and liabilities– in the shadow of EPSAS

- In the German *Länder* that have opted for the accrual-based system, the government double-entry bookkeeping standards apply (objectivity principle and principle of prudence).
- The federal government does not completely reject aspects of accrual accounting.
- Continual improvement of the federal government's statement of assets and liabilities.
- Development of a new web-based IT application, and in particular the further development of the administrative rules for bookkeeping and accounting of assets and liabilities for the federation (*Verwaltungsvorschriften für die Büchführung und Rechnungslegung über das Vermögen und die Schulden des Bundes*) towards government double-entry bookkeeping standards.
- Objectives of the modernisation: Integration of existing positions in the new account structures and digitalisation of the production process.
- Next steps: Incorporate further positions / accounts in the federal government's statement of assets and liabilities

# 7. Conclusions and outlook

The original objectives of EPSAS – harmonisation and integration of accounting systems and statistics – are difficult to achieve.

The process has reached an impasse. A decision by the European Commission on how to move forward is long pending.

The process is creating uncertainty. Many questions remain unanswered.

Germany is involving itself in the activities and is continuing to accompany the project constructively and critically.

Thank you for listening!