

## **The IDW as an example of a FEE member body involved in public sector accounting pronouncements even though it is not the public sector accounting standard setter**

In some jurisdictions, FEE or IFAC member bodies are not responsible for the setting of public sector accounting standards. These member bodies can only promote the implementation of accrual basis of accounting in the public sector, and especially try to promote the International Public Sector Accounting Standards (IPSAS). In these circumstances, these member bodies do not have a direct influence on implementation of accrual accounting in the public sector, but they can exercise significant influence over other processes. As an example, we would like to describe the role of the Institut der Wirtschaftsprüfer in Deutschland e.V. [Institute of Public Auditors in Germany, Incorporated Association] (IDW).

First, we would like to give you a brief overview of the IDW and of public sector accounting in Germany: The IDW is a private organization of the audit profession in Germany ('Wirtschaftsprüfer'). At present, the IDW comprises approx. 10,170 Wirtschaftsprüfer and 960 professional firms and thus represents approximately 87% of the Wirtschaftsprüfer profession. One of the main roles of the Wirtschaftsprüfer profession is the audit of accrual-based financial statements of private sector entities and government business enterprises. In contrast to some other countries, the auditors employed in the Bundes- and Landesrechnungshöfen [Federal and State Courts of Auditors] being responsible for the audits of financial statements of the federal government and of state governments are not and currently cannot be members of the German Wirtschaftsprüfer profession.

Traditionally, financial accounting and reporting by both the private and the public sector in Germany is, to a large extent, governed by either by federal or state legislation, respectively. Financial statements issued by the federal and state governments in Germany are still prepared on a cash basis of accounting as defined by legislation. Also, most local governments (e.g., cities and municipalities) still issue financial statements on a cash rather than accrual basis of accounting

In the late 1990's discussions began in Germany on the implementation of the accrual basis of accounting in the public sector. This development was driven primarily by the local governments in Germany. Due to economic crises and the failure to undertake necessary maintenance of physical assets over the last decade, local governments have become increasingly in need of funds. Furthermore, local governments are subject to restrictions on the right to levy taxes and on the uses to which such revenues are put.

These limitations on financial resources and local government funding requirements made the need for useful information even more necessary than otherwise to make economic decisions regarding restructuring, outsourcing and spending, etc. The existing cash basis of accounting cannot provide such information adequately. The ac-

crual basis of accounting which, among other things, recognizes depreciation and accrues revenues and expenses, would provide the local governments considerably more useful information.

Due to the experience of the Wirtschaftsprüfer profession with the audit of government business enterprises and the accrual basis of accounting, the IDW's Fachausschuss für öffentliche Unternehmen und Verwaltungen [Technical Committee for Government Business Enterprises and Government Administration] (ÖFA) noted these circumstances and therefore developed and issued a discussion paper on accrual based accounting for the public sector in December 2001 before any legislation on public sector accounting had been proposed by governments in Germany. The accounting principles proposed in that discussion paper refer to the accounting requirements of the German Commercial Code (Handelsgesetzbuch – short HGB), i.e. the German accounting standards for the private sector applicable to commercial businesses.

The reform of public sector accounting is currently an emerging issue in Germany. The German states have a few exclusive areas of legislative competence, e.g. with respect to budgeting and accounting by the local governments within the jurisdiction of each respective state. Consequently, a number of states initiated programs establishing full accrual accounting for the local governments.

Due to their legislative autonomy in setting accounting standards for the local governments, the different states have developed different transitional provisions for the implementation of accrual accounting for local governments in their jurisdiction. To a large extent and in line with the ÖFA Discussion Paper, the accounting framework proposed by state governments for local governments within their jurisdiction adopt the German Commercial Code. However, there are departures from the Commercial Code - especially with respect to the valuation in the opening balances.

In this connection, members of the ÖFA have had several meetings with representatives of different states to discuss the ÖFA Discussion Paper and to stress the importance of a harmonized set of public sector accounting standards. Furthermore, the IDW and the Wirtschaftsprüferkammer (WPK) invited the IFAC Public Sector Committee (PSC) to Berlin for its meeting in November 2003. The IDW decided to take the opportunity afforded by the presence of the PSC in Germany to organize a symposium on public sector accounting during that meeting. The IDW invited guests from the public sector in Germany, academics as well as members of the IDW to this symposium.

The symposium had two sessions. The first dealt with international developments in public sector accounting; the second addressed detailed questions with respect to the reform process in Germany, such as valuation issues in the opening balance sheet or the involvement of Wirtschaftsprüfer in the transition process. The symposiums purpose was to promote international and national dialog on public sector accounting. The chairman of the PSC, Ian Mackintosh, presented the work of the PSC. Other speakers provided an overview on the reform of government accounting in Europe and on developments and needs in Germany with respect to public sector

accounting, and also compared the IPSAS and the German public sector accounting approaches. The session was followed by a plenary discussion. A report on the discussions held in the symposium will be published soon. The feedback of the participants was very positive.

Towards the end of February 2004, the state of North Rhine-Westphalia (NRW) issued an exposure draft of proposed legislation for regulating the transition of financial statements prepared by local governments within its jurisdiction from a cash basis of accounting to the accrual basis. It is anticipated that other states will follow with similar legislation in the near future.

The IDW intends to accompany further developments in this area by issuing comment letters and by being available for qualified, independent and apolitical consultation. The IDW anticipates that the introduction of accrual accounting into the public sector in Germany will follow a two step approach: in the first step accrual basis of accounting introduced into the public sector will be based upon the requirements of the German Commercial Code; in the second step, governments will implement the IPSAS.