



**WIRTSCHAFTSPRÜFERKAMMER**

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## **Stellungnahme im Rahmen der Konsultation zu einer möglichen Einführung von europäischen Rechnungslegungsstandards für den öffentlichen Sektor (EPSAS)**

Die Wirtschaftsprüferkammer hat am 17. Februar 2014 im Rahmen der Konsultation von EU-Kommission und Eurostat zu einer möglichen Einführung von europäischen Rechnungslegungsstandards für den öffentlichen Sektor (European Public Sector Accounting Standards – EPSAS) in den EU-Mitgliedstaaten wie nachfolgend wiedergegeben Stellung genommen.

### **Questionnaire**

#### **1. Please state the main motivation of your interest in this public consultation.**

*WPK welcomes the opportunity to comment on the proposed European Public Sector Audit Standards (EPSAS) governance principles and structures.*

*WPK is a corporation under public law, whose members are all Wirtschaftsprüfer [German public accountants], vereidigte Buchprüfer [German sworn auditors], Wirtschaftsprüfungsgesellschaften [German public audit firms] and Buchprüfungsgesellschaften [German firms of sworn auditors], in Germany. The WPK is competent for its more than 21,000 members throughout Germany. In this capacity WPK represents the interests of the whole profession in Germany and takes position on topics of particular importance to them – national and international.*

*The envisaged implementation of EPSAS contains various expectations and challenges which must be considered in advance: on the one hand there is a need for more transparency and reliability in the public budgets, as the last few years have shown; on the other hand manifold technical requirements and cost intensive aspects have potential impact on all member states, namely on federal states, regional authorities, municipalities, public companies etc.*

*Accrual based accounting (on the basis of German Commercial Code) was partly implemented in the public sector throughout recent years in Germany. German Profession has therefore a wide horizon of experience and expert knowledge an accrual based accounting in the public sector which should be taken into consideration during the subsequent steps.*

### Key governance principles

**2. Do you consider that the sets of principles described for the EPSAS governance structure and process as well as for the EPSAS standards are relevant?**

**Yes**

**3. Please provide any comments or proposals on the principles.**

### Governance oversight

#### Additional Overriding Principles:

*There are, in our view some additional principles of overriding importance which should be fulfilled in order to enable a uniform application and to ensure the credibility of EPSAS (and EPSAS related organisations) within the EU:*

*We specifically consider the principles of **manageability and practicability, comprehensibility and applicability** of the utmost priority. Bearing in mind that the transition from cash based accounting to accrual based accounting is in most cases a highly demanding task in practice especially for the preparer's and user's the EPSAS to be implemented should be **manageable and practicable, comprehensive and applicable** in any case.*

*Another important aspect which the report does not deal with in an appropriate manner is the principle of **"Materiality"**. To some extent it might be associated with the principle "relevance" but it should be mentioned by name, explained and respected especially from the preparer's, user's and auditor's perspective.*

#### Proposed Principles:

*Moreover we consider the principle of **"Cost effectiveness"** as an overriding principle which should be mentioned in the prior place (instead of Number six).*

*"Professional independence", "Impartiality", "Legitimacy" and "Transparency" could be grouped under one overriding principle, e.g. **"Independence and Transparency"**.*

*In addition to the above further government aspects might be emphasised depending on the concrete form of the prospective EPSAS – Organisation.*

**4. Following the normal institutional organisation within the EU, the EPSAS governance would be subject to oversight by the Commission itself, and by the Council, the European Parliament and the European Court of Auditors. Do you consider that any further oversight function should be established?**

**Yes**

**4a. Do you consider that the oversight role of the EPSAS Governance Advisory Board as outlined in the consultation paper would be appropriate for EPSAS?**

**Partly**

**5. Please provide any comments or proposals on the oversight.**

*Although some details of the composition of EPSAS Governance Advisory Board are unclear, the proposed oversight structure seems to be appropriate and sufficient. An additional governance oversight body might bear the risk of incapability of acting or conflicts of competence.*

#### The following aspects should be considered during the upcoming process:

*EPSAS Governance Advisory Boards task is among other issues to provide an "annual report" to the European Parliament and the Council on EPSAS standard setting procedure as regards the implementation of the key principles and process. Further details in terms of content, scope and the objective are not clearly evident and need to be defined to avoid an expectation gap. A periodically*

*review of the functionality of the oversight should be performed by the GAB to ensure that the objectives are achieved.*

*Besides this other relevant criteria (such as term of office, composition of the board) are of importance as well as the scope of competence and duties.*

### **Stakeholder involvement**

**6. Taking into account that stakeholders` views could be collected by open consultations during the standard setting process, do you consider that an organised, formal representation of EPSAS stakeholders should be established?**

**Yes**

**6a. Do you consider that the role of the EPSAS Technical Advisory Group as outlined in the consultation paper would be appropriate for EPSAS?**

**Partly**

**7. Please provide any comments or proposals on stakeholder involvement.**

*An involvement of competent Technical Advisors and Experts (e.g. by Implementing a Technical Advisory Group) seems to be crucial to the EPSAS implementation process in the light of the complexity of IPSAS (which are the starting point for the future EPSAS). An additional Task of TAG should be emphasising on potential transposition and implantation problems in practice. The diverse composition of TAG should therefore comprise experienced preparer from practice as well as auditors to an appropriate extent. Preparer from practice as well as auditors should have collected experience in implementing and applying accrual based accounting in public entities to benefit from their lessons learned.*

**8. If you think that both the EPSAS Governance Advisory Board and the EPSAS Technical Advisory Group would be appropriate for EPSAS, could their role and tasks be fulfilled by a single advisory group?**

**Yes**

**8a. Please provide any comments or proposals on a single advisory group.**

*Summing up both EPSAS Governance Advisory Board and EPSAS Technical Advisory Group could be envisaged in the light of partly conform objectives. Enlarging the tasks of such an „Expert Group“ could enhance their attractiveness so that experts of high reputation are even more willing to engage in such a process. In addition it would ensure a more holistic view and allows shorter decision paths. This assessment is due to the fact, that a considerable area of overlap of technical related and governance related aspects exist in many case.*

*If otherwise agreed (so that EPSAS Governance Advisory Board and the EPSAS Technical Advisory Group will be established separately) we recommend (depending on the particular shape) a mutually observation through a permanent representative (this means that a member of Technical Advisory Group participates in EPSAS Governance Advisory Board – Meetings and vice versa).*

## Interpretation of the standards

9. Do you consider that an interpretation function should be foreseen for EPSAS?

No

9a. Do you consider that this interpretation function should be kept separate from the standard setting function?

No

10. Please provide any comments or proposals on the interpretation?

*In our view the question of an interpretation function should normally not arise, since standards should be **basically self-explanatory** (such as German Commercial Law – Handelsgesetzbuch – which is completed and explained by principles of proper accounting and commentary literature).*

*If Standards were released in a **manageable and practicable, comprehensive and applicable** form as already requested under question Nr. 3 there would be in principle no need at all for an Interpretation Working Group. These basic requirements should be considered due to the prospective widely varying preparer groups (from a cultural as well as from an accounting-related educational background). The objective of “Comparability“ is otherwise not or at best limited attainable.*

*Should it become clear that interpretations are indispensable, **illustrative example** or a “**Q&A-Section**” should be **included to the standards** in order to explain unclear provisions or give additional advice for the preparer.*

*If a separate interpretation function seems to be necessary we recommend a mutually observation through a permanent representative (this means that a member of WG Interpretation participates in WG Standards – Meetings and vice versa).*

## General

11. Do you have any additional comments concerning the proposed EPSAS governance structure?

*Notwithstanding the previous comments we would like to make some general remarks concerning the proposed introduction of EPSAS on European level.*

*It cannot be denied that in recent years several EU - Member States (but also beyond the EU) have experienced serious difficulties with their public sector budgets and refinancing of the bonds in the bond market; valid und prompt numerical data were not always available which affects the possibility to initiate an excessive deficit procedure. Therefore the call for better data reliance is in principle understandable and justified.*

**However** – from our perspective - it is questionable if the costs of such an outstanding undertaking can be justified in the light of the hoped-for success. The costs (including future costs) can hardly be measured reliably due to the number of immanent uncertainties but they comprise in any case:

- Hardware (Acquisition & Maintenance),
- Software (Acquisition, License & Maintenance),
- Training employees (for the first time and on-going, technical and concerning the content),
- Supposedly additional human resources,
- Setting-up of the technical functionality (including: preparation of accounting manuals, charts of accounts, access rights etc.),
- Monitoring of compliance,
- Evaluation and Preparation,
- etc.

*When determining the total costs it also needs to be emphasised that the costs for the preparation of opening balances must be considered. Even recording the quantitative structure of property, plant and*

equipment (PPE) would take a very long time. The subsequent measurement is in most cases not that easy due to the fact that e.g. PPE is partial very old, very particular or in some cases part of a sale and lease back agreement. It is obvious that additional costs for engaging valuation experts incur in this context all the more if valuations at Fair Values would be permitted or even mandatory.

Generally we do not support the wide-spread use of fair values in financial statements. Market values are only available for a portion of the assets to be reported at fair value (essentially for certain financial instruments) and even this leads to discussion about the liquidity of the particular market. Ultimately in the area of valuation models, the systematic weakness of fair value reporting becomes apparent. At the end of the day, the forecasts underlying the valuation models can hardly be based on objective criteria – virtually any trend can be argued more or less plausibly. By moving the "adjusting pins", a calculation is made not of the fair value but rather of a range of "possible values", within which one can seek a fair value of an asset.

Another aspect infringing comparability would be the scope of estimates (e.g. remaining useful life for PPE, interest rates while measuring pension liabilities, leases etc.). These parameters have a significant influence on the calculated values and must therefore be consistently predetermined.

***In view of the expected costs a reliable verification of the expected benefit is crucial before taking further steps in our opinion.***

At the same time consideration should be given to use less effort to achieve the nearly the same results, for example reconciliation from fiscal accounting ("cameralistic") to accrual based accounting could be considered (solely to obtain selected data on specific items, e.g. order commitments, pension liabilities, etc.).