Accounting and Auditing Practices in the Public Sector in Germany

Viola Eulner, Member of FEE PSC
Technical Manager at the IDW (Institute of Public Auditors in Germany)

Overview of Governmental Accounting in Germany

Federal Level

State Level

Local Level

Accrual Accounting
Overview of Governmental Accounting in Germany (2) – Local Level

<table>
<thead>
<tr>
<th>Bundesland</th>
<th>Accounting/Budgeting System</th>
<th>Opening Balance Sheet per</th>
</tr>
</thead>
<tbody>
<tr>
<td>Baden-Württemberg</td>
<td>solely accrual</td>
<td>01.01.2016</td>
</tr>
<tr>
<td>Bayern</td>
<td>choice between old cameral system and accrual</td>
<td>no fixed date</td>
</tr>
<tr>
<td>Brandenburg</td>
<td>only accrual</td>
<td>01.01.2011</td>
</tr>
<tr>
<td>Hessen</td>
<td>choice between extended cameralistic and accrual</td>
<td>01.01.2009</td>
</tr>
<tr>
<td>Mecklenburg-Vorpommern</td>
<td>solely accrual</td>
<td>01.01.2012</td>
</tr>
<tr>
<td>Niedersachsen</td>
<td>solely accrual</td>
<td>01.01.2012</td>
</tr>
<tr>
<td>Nordrhein-Westfalen</td>
<td>solely accrual</td>
<td>01.01.2009</td>
</tr>
<tr>
<td>Rheinland-Pfalz</td>
<td>solely accrual</td>
<td>01.01.2009</td>
</tr>
<tr>
<td>Saarland</td>
<td>solely accrual</td>
<td>01.01.2009</td>
</tr>
<tr>
<td>Sachsen</td>
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<td>Sachsen-Anhalt</td>
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<td>01.01.2011</td>
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<td>Schleswig-Holstein</td>
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<tr>
<td>Thüringen</td>
<td>choice between old cameral system and accrual</td>
<td>no fixed date</td>
</tr>
</tbody>
</table>

Reform of the Budget Principles Law - Federal and State Level

- July 2009: Federal Government published a law to modernize the ‘budget principles law’ (‘Haushaltsgrundsätzegesetz’)
- objectives of the new law:
  - harmonization of governmental accounting on the national and state level
  - to acknowledge accrual accounting as adequate system for budgeting and financial reporting for the states (‘Bundesländer’) and the Federal Government
- consequences:
  - possibility to implement accrual accounting without having the burden to operate a cash-based accounting system at the same time
  - implementation of accrual accounting is becoming more attractive
- law came into force by January 1, 2010
- a new **Board for the Standardization of Governmental Accounting** is in charge for standard-setting in budgeting and financial reporting for the states and the Federal government in Germany
  - board should guarantee a minimum level of comparability in governmental accounting
  - to pronounce ‘**Principles for Governmental Accrual Accounting**’
Practical Problems Faced in Implementing Accrual Accounting

- data for the recognition and valuation of assets and liabilities often missing
- procedural and organizational structures are determined by the cameral structures
- political support for the reforms of major importance
- important role of IT
- lack of accrual accounting know-how

use of private sector auditors’ experience

Major Challenges in Accounting and Auditing

- different approaches for governmental accounting
  - introduction date
  - different sets of accounting rules
    - lack of comparability (e.g. pension costs)
    - group accounts
  - missing harmonization between federal/state and local level
- different audit institutions on each level with different auditing objectives/approaches as well as background of auditors
- involvement of private sector auditors possible, but not required (application of IDW Auditing Standards)