INSTITUT DER WIRTSCHAFTSPRÜFER

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Mr. Ian Carruthers
Chairman
International Public Sector Accounting
Standards Board (IPSASB)
International Federation of Accountants

Submitted via IPSASB website

Institut der Wirtschaftsprüfer
in Deutschland e. V.

Wirtschaftsprüferhaus
Tersteegenstraße 14
40474 Düsseldorf
Postfach 32 05 80
40420 Düsseldorf

TELEFONZENTRALE:
+49 (0) 211 / 45 61 - 0

FAX GESCHÄFTSLEITUNG:
+49 (0) 211 / 4 54 10 97

INTERNET:
www.idw.de

E-MAIL:
info@idw.de

BANKVERBINDUNG:
Deutsche Bank AG Düsseldorf
IBAN: DE53 3007 0010 0748 0213 00
BIC: DEUTDEDDXXX
USt-ID Nummer: DE119353203

Re.: IPSAS ED 81: Conceptual Framework Update: Chapter 3, Qualitative Characteristics and Chapter 5, Elements in Financial Statements

Dear Mr. Carruthers,

We would like to thank you for the opportunity to provide the IPSASB with our comments on the proposed International Public Sector Accounting Standard – Conceptual Framework Update: Chapter 3, Qualitative Characteristics and Chapter 5, Elements in Financial Statements (referred to hereinafter as “ED 81”).

While the ED introduces a number of highly appreciated changes, such as addressing the issue of information overload (SMC 2), we would like to restrict our detailed comments to SMC 1 “Prudence”, because this is the most controversial issue from a national (German) perspective with respect to the EPSAS discussion in Europe.

Some stakeholders have demanded, as a prerequisite for the European harmonization of accrual accounting, that governmental accounting should follow a principle of prudence similar to that of German commercial law.

Specifying the principle of prudence, as well as its character (is it a Qualitative Characteristic?) and objective, is a fundamental issue in accounting. Commercial accounting in Germany serves various objectives, such as the provision of information and the determination of distributable profits, for example in the case of (limited liability) companies. There is a certain conflict of objectives between the two, which can be resolved by placing more or less emphasis on the principle of prudence in favor of one or the other objective. An overemphasis on the principle of prudence can lead to an asymmetrical representation of the economic situation, as the reporting entity is more likely to present itself as "too poor". This convention has a long tradition in German commercial accounting and favors an asymmetrical representation in determining distributable profit in the interest of creditor protection, i.e., it has to be determined what can be distributed to the shareholders without jeopardizing the company's existence and the interests of other stakeholders such as lenders, suppliers and employees.

While this approach is justifiable for the annual individual financial statements of (limited liability) companies, the same approach for public sector accounting would tend to higher provisions for future burdens and therefore rather protect future generations to the detriment of the current generation. In the sense of intergenerational fairness, a more objective form of the prudence principle would definitely be called for. Besides, the profit distribution function is not applicable for governmental accounting.

We therefore welcome the approach in ED 81 which serves primarily the informational function of financial statements. In our opinion, the additional guidance in paragraphs 3.14A and 3.14B is helpful in clarifying the role of prudence. It is essential for general purpose financial statements of governments to convey an adequate (neutral) depiction of the financial position and performance and neither make the entity appear poorer nor richer than it actually is. On these grounds, we support the notion of prudence described as the exercise of caution when making judgments under conditions of uncertainty.

If you have any questions relating to our comments in this letter, we should be pleased to discuss matters further with you.

Yours truly,

Melanie Sack
Executive Director

Viola Eulner
Technical Manager

617/523