“Konzeptionelle Fundamente der Neuen Öffentlichen Rechnungslegung – Interessenkonflikte, Zweckkonzeption und daraus abgeleitete Prinzipien“

(English translation: Conceptual foundation of public sector accrual accounting – conflicts of interests, objectives and principles derived)

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Background

The thesis “Konzeptionelle Fundamente der Neuen Öffentlichen Rechnungslegung – Interessenkonflikte, Zweckkonzeption und daraus abgeleitete Prinzipien“ was written at and submitted to the German University of Administrative Sciences, Speyer (Germany), which is the postgraduate state university for public administration and administrative sciences of the German national and all German federal state governments. The title of the work in English might be translated as follows: “Conceptual foundation of public sector accrual accounting – conflicts of interests, objectives and principles derived”.

Introduction

The thesis was written some years ahead of the current project that is striving to harmonize public sector accounting across all public sector entities in the European Union (EU), called “EPSAS” (European Public Sector Accounting Standards, based on Council Directive 2011/85/EU: the Budgetary Frameworks Directive and Report COM(2013) 114 from the Commission to the Council and the European Parliament: Towards implementing harmonised public sector accounting standards in Member States – The suitability of IPSAS for the Member States). The initial motivation for starting the research project was not related to the EPSAS-project. However, the results of the work may contribute to the discussion of the conceptual basis for future harmonized standards in the EU. Basically, the motivation for the thesis was driven by two insights at national level in Germany:

1. After the implementation of accrual accounting in the majority of German municipalities (“Kommunen”) and some German federal states (“Länder”) a vast diversity of accounting systems can be found. There are many good reasons that there is a federal system in Germany (not only historic, but also – for instance – from a competitive point of view). It is, however, doubtful that this means there should be no coordination or common agreement in fields where this would be most appropriate, such as in terms of financial information. Due to federalism, the Länder and the federal government (“Bund”) have the right to determine their accounting systems on their own. Furthermore, according to German law, municipalities are part of the Länder administration. This means that the Länder are in charge of the accounting rules for the municipalities within their borders – which are normally different from the ones that the Länder apply when preparing their own financial statements. Consequently, there are differences in terms of accounting techniques (cameral vs accrual), the content of rules (differences in recognition, measurement, and presentation), and the terminology used – across the different levels of the state, across entities at the same level and sometimes even between entities within the same level and
jurisdiction. In those entities that apply accrual accounting, all the accrual accounting concepts were more or less closely linked to the German Commercial Code (ComC). However, there was a lack of initial coordination before the accounting reforms in the German public sector were launched. In addition, compromises found after implementation at municipal level were non-binding and rather vague. Far too late, in 2009, a standardization board was also set up for state accounting. At that time, three federal states had implemented accrual accounting at federal state level. These Länder developed detailed ComC-based accounting regulations, separately and differently, that deviated from each other in several regards. However, the new common standards – the Government Double-Entry Bookkeeping Standards (“Standards staatlicher Doppik”) – were developed for state accounting only (they do not apply to municipalities) and they have to be adopted in federal state legislation before their application. To sum up, there is still no binding coordination for the German municipalities and no coordinated accounting regulations for all public sector entities in Germany. Consequently, it is difficult for financial auditing, financial surveillance, and statistical reasons to compare and consolidate data from different jurisdictions.

2. Commercial accounting systems based on the ComC and those based on the international accounting standards (IFRS and IPSAS) are subject to constant change. The accounting rules that are relevant for German non-capital-market-oriented companies are – in fact – the result of controversies in theory and practice, and of the compromises found, over the past 150 years. Elements resulting from past discussions and theories can still be found within these sets of German and international accounting rules.

Research questions

Both insights mentioned above show that one may answer any questions arising in respect of accounting in different ways – depending on the perspective and the given basic premises. There is no such thing as a “perfect” accounting system that provides a truly “true” view. What is “true” or “faithful”? The answer relates to the assumptions the system is based on, in particular the stated objectives. This, however, leads to the research question of the thesis: What should public sector accounting look like at its best – given certain public sector

1 A full analysis (including the municipal levels of all Länder) of diversity within the municipal accrual accounting rules was conducted at the German Research Institute of Public Administration in 2009: Mühlenkamp/Glöckner (2009), Rechtsvergleich kommunale Doppik, Speyer (Forschungsbericht 260). Based on selected accounting issues, the study showed the complexity of heterogeneity at municipal level regarding accounting rules, all brought about by German federalism.

2 For instance, see the regulation proposal – called “guiding text” (“Leittext für eine doppische Gemeindehaushaltsverordnung”) – that was issued by the Conference of the German Ministers of the Interior (of Bund and Länder) in November 2003.
premises? In reality, public sector accounting is normally an adaptation of private sector accounting. However, there is not a single accounting theory that is accepted as being fully compatible with all the information needs of all existing stakeholders of public sector accounting. In other words: in countries with an Anglo-American accounting tradition in commercial accounting, public sector accounting will follow the same tradition, and in countries with a Continental European tradition in private sector accounting, public sector accounting normally looks like the Continental European tradition, too. We also see copies of traditions based on the experience and decisions made in the private sector. But what happens if a common public sector conceptual accounting foundation is needed that jurisdictions coming from the most diverse accounting traditions can accept? Unfortunately, it is not as easy as just lumping all entities’ principles and standards together.

The key questions are: What are the specific public sector premises? What are the particular information needs of users of public sector accounting? Are there more people affected by accounting – even if they do not use the information? This thesis explores the foundations of public sector accounting in general as given, independently of the contradictory decisions already made in national and international private sector accounting systems – literally starting with a white page. The intention of the thesis is not to be affected by any kind of path-dependencies. This, of course, does not mean that the thesis ignores existing accounting models, because it is not necessary to “reinvent the wheel”. To continue with this image, if there are different types of wheels, one needs to be aware of what kind of vehicle it is that we are driving and what kind of wheels fit best for certain given conditions (street, weather, planned activities/uses, etc.). Where they appear to be suitable, existing accounting models (especially the IFRS, the IPSAS and the ComC) are used as possible references.

The aim of the thesis is to develop a conceptual foundation (the author avoids using the term “conceptual framework” on purpose, since this is a fixed expression that is closely connected with the Anglo-American accounting tradition, so it could be misleading to use this term). The thesis uses the insights of modern accounting theory as well as the conceptual background of existing accounting models, and develops its own, stand-alone accounting concept from scratch that could be applied in all kinds of public sector entities, across all levels. Since my work uses international reference models, one might also use its results as a basis for the international discussion on the reform of accounting in other EU member states. This is definitely interesting in terms of the discussion (already mentioned) of a possible harmonization of public sector accounting in Europe (EPSAS).

Working on this agenda, I have also pursued some secondary aims. First, there is the necessity of terminological precision. Second, there is the investigation into the specifics of public sector accounting in general. Last, there is the need to develop a logical, coherent idea about the structure of a solid conceptual foundation. Together with this foundation, it is
necessary to define the steps forward, converting the complex ideas into proposals that could steer the setting of single accounting standards or other kinds of (additional) regulations.

**Underlying assumptions**

The thesis works with six underlying assumptions that are taken as given:

- Accrual accounting has certain immediate advantages compared to cash accounting (or cameral accounting, as it is also called). First, these advantages can be found in the system and construction of accrual accounting. Theoretically, modified cash accounting might be able to provide the same kind of information. However, non-systematic, supplementary accounts and/or additional complex and error-prone conversions and calculations are needed to achieve this. Therefore, modifying cash accounting in order to obtain the same information as with accruals is a cumbersome procedure, if at all possible. Second, accrual accounting does not replace the cash focus. On the contrary, it serves as a complement to the cash information by providing additional information about resources (revenues and expenditures) and about all of the entity’s assets and liabilities. However, the cash information is still provided. Third, an accrual system asks for information from all parts of the entity. This information is not necessarily based on payments (e.g. information on legal proceedings, in order to recognize and measure the provisions required; or the information on expenses that give rise to contractual rights and obligations and thus would have to be classified as investments). Therefore, it does not feed into cameral accounting. However, without this information the view of the entity would be incomplete. In that way accrual accounting provides a more comprehensive basis for accountability (or better: stewardship) and decision-making purposes. It improves the general awareness about the entity as a whole, including all dependencies, relationships, risks and opportunities, and expresses all of those in financial terms.

- The specifics of the public sector (such as the right to raise taxes, and the work for the common good) and the resulting specific public sector accounting transactions (such as the reporting of non-exchange revenues and social benefits) need to be taken into consideration when developing a conceptual foundation for public sector accounting.

- It is not only the addressees of accounting information that need to be taken into consideration (such as in the setting of the ComC or the IFRS) when developing accounting rules. It is necessary to be aware of the interests of all other groups of people that are presumably affected by the action of a public sector entity. Their interests should not be ignored. On the contrary, it is in the interest of democratically elected decision-makers and the public sector entity itself to take their interests into consideration, too.
Otherwise, if a society ignores the interests of major stakeholder groups it could lead to a loss of confidence in the overall political and social system. To sum up, in the thesis the addressee point of view is replaced by the much broader stakeholder point of view.

- Only the legislators (elected assembly of representatives of the citizens) are democratically entitled to make final decisions, in cases of conflicting interests, about which interest should prevail. The thesis demonstrates that in the existing accounting systems there are either some stakeholders’ interests that systematically prevail (such as investors’ interests in the IFRS or creditors’ interests in the ComC) or stakeholders’ interests are unsystematically placed alongside each other without any hierarchy, leading to case-by-case decisions (such as in the IPSAS, which intentionally follow this indefinite path to be compatible with the legal-political setting of jurisdictions around the world). However, the conceptual foundation is related to the legal situation of the entities it is developed for. Therefore, the thesis takes some core decisions as granted, since these are laid down in constitutional law (here based on the example of the German constitution) as well as in the European treaties, in budgetary codes, etc. Some major examples are as follows:
  a) the basic rule that the general interests of all citizens (the “common good”) prevail over particular, individual interests,
  b) the principle of intergenerational fairness (that one generation should not live at the expense of future generations),
  c) a particularity of democracies: that the delegation of executive power and funds makes politicians accountable to the public about the decisions made and the spending of financial resources entrusted to them, and
  d) the definition of this stewardship activity, being to safeguard the entity’s assets, financial sustainability, and the leeway of future decision makers.

- Intergenerational fairness includes thinking in two dimensions: the present and the future. Being truly intergenerational means taking the interests of both the present generation and future generations into consideration when taking decisions that have an influence on the future financial sustainability of a public sector entity. On the one hand, the present generation needs to be protected against a kind of “financial exploitation” by raising resources (taxes, tariffs, charges, fees, and contributions) that are excessive (which means that they are higher than required to maintain financial stability and overall sustainability, and resources are stored in some kind of open or hidden reserves). On the other hand, future generations need protection against consumption of future resources by the current generation. This means an increase in public sector debt. There is a general dispute about whether accounting should only provide information and lead to improved transparency. However, the thesis argues that the financial effects this information may have must also be taken into consideration. Because the publication of
accounting information will provide incentives and initiate actions based on it, the organization of a sustainable and comprehensive accounting system cannot ignore the effects it causes.

- At the same time, due to the existence of incompatible interests among the different stakeholder groups there is no such thing as a “perfect” accounting system that allows all the informational and financial interests of all existing stakeholder groups to be satisfied at the same time and to the same extent. Accounting necessarily includes decisions by the preparer of the accounts. Therefore, there is also nothing such as “absolute truth” or “full correctness” in accounting – one has to be careful not to raise false expectations in that sense. A perfect accounting system is set up starting from conceptual decisions. The conceptual foundation should not be reduced to simply being a connecting element between individual, partly contradictory, case-by-case decisions. Thus, the quality of an accounting system is reflected in the way the conceptual decisions are made and consistently implemented in terms of recognition, measurement and presentation.

**Research methods applied**

With regard to the methods applied, the academic work contains three components:

First, the thesis has a *deductive point of view* since the conceptual foundation is derived from the specific conditions of the legal/socio-economic/political environment of public sector entities. The first part of the work focuses on this environmental issue since the quality of a theoretical system depends on whether the assumptions that were used to construct it are valid and reality-based.

Second, as the work is being done by learning from accounting systems that already exist, there is also a strong comparative component. As stated before, it is not necessary to “reinvent the wheel”. Consequently, it is possible to build on the theoretical findings of previous research. The ComC, the IFRS and the IPSAS are used as reference models for this *comparative part* for three reasons. First, these systems resemble both dominant accounting traditions (described as Anglo-American vs Continental European for simplicity’s sake). Second, they are nationally and internationally proven conceptual systems. Third, all of them are still applied (even though all of them are applied in a different context). Concerning the third reason: the European legislator (the European Parliament and the Council) decided with *Regulation (EC) 1606/2002* (the so called IAS-Regulation) to make the IFRS the accounting system for capital-market enterprises in the EU. This leaves the decision on the accounting system of non-capital-market, and rather national-oriented, small and medium-sized enterprises (SMEs) in the hands of the national legislators. In this situation, the German legislator decided to keep the ComC, as it was considered to be
simpler and better suited to the specific objectives of such companies. The European Commission applies a kind of customised EU-IPSAS for their accounts. For these reasons, I chose the IFRS, the IPSAS, and the ComC as useful reference objects. Since the ComC is a private-sector accounting system, adaptations for the public sector are needed (comparable to those adjustments made in the IPSAS compared to the IFRS). In Germany there are two dominant, competing academic groups which follow different approaches as to how closely the ComC can be applied and how it should be adapted to fit public sector needs. These two groups consist of university professors and their scholars, and the initiative to “modernize” public sector accounting spread from those academic think tanks. Consequently, they have been called “schools” in the thesis. This is what I called the Frankfurt School of Accounting (as represented by Adolf Moxter and his scholars) and a network of academics and their scholars called “Wissenschaftlicher Arbeitskreis Integrierte Verbundrechnung” (AK IVR; an influential member of this group is Klaus Lüder). The Frankfurt School of Accounting has argued strongly for a 1:1-application of the ComC, the German principles of orderly accounting, and the decisions by the German Federal Fiscal Court, if feasible. There should only be deviations from these in cases where specific public sector characteristics exist or where options in the ComC need to be reduced for reasons of comparability and reliability. However, the core idea was that the same or comparable accounting questions should be answered in the same way in the private and in the public sector. The result was that the accounting theory that the ComC is based on was transferred consistently to the public sector. Only if necessary was it interpreted differently and slightly adapted, so that it fitted the new context. The AK IVR-School (closely related to the International Comparative International Governmental Accounting Research Network, CIGAR) has argued in favour of a modified version of the ComC which deviates from German principles of orderly accounting, partly using methods of recognition and measurement that are more often applied in the Anglo-American accounting environment. This thesis represents the first time that the concepts and ideas of these two academic schools have been compared in literature. Even though the Frankfurt School of Accounting prevailed in practice and the reference projects of the AK IVR-School also changed to some extent to a stronger ComC-based accounting practice, I gained some elementary insights from both schools. For instance, I was able to prove in the thesis that the disputes between these two academic schools somehow resembled the disputes between the supporters of the IFRS (arguing for an information-oriented “true and fair view”/“faithful representation”-point of view) and the supporters of the ComC (arguing for a paternalistic-protective-oriented point of view that is called “conservative” in Anglo-American literature). On the one hand, the use of these two German academic schools as additional reference models completes the picture of current public sector accounting in Germany. On the other hand, the findings are used as error-proofing in the sense that the IFRS/ComC-comparison and the comparison of these two academic
schools show comparable results. One additional outcome of the thesis was that I was able to show possible “bridges” between these two academic schools.

Third, the thesis uses literature research to complete the research approach and to substantiate the findings from the first two parts described above. “You can only understand the present and shape the future if you are familiar with the past.” (original quote: “Nur wer die Vergangenheit kennt, kann die Gegenwart verstehen und die Zukunft gestalten.”). This famous pronouncement by August Bebel can be transferred to the field of accounting, too. For this purpose I have made particular use of the discussions that can be found in 20th century German and International accounting theory. And somehow, most thoughts had already been thought in the history of accounting by its founding fathers. It is really just a question of drawing a contemporary conclusion from their ideas that fits the public sector context in the EU.

Selected key issues and findings

The first part of the thesis concentrates on the development of clear definitions and explanations about the subject of research. This is particularly important since – as I found out – there have been many misunderstandings in literature and practice, both nationally and internationally, simply due to the use of different, misleading terminology. Contributing to a clarification in this regard is a separate result of the research project.

For the deductive part of the work, the thesis concentrates on outlining the category of political-legal and the category of socio-economic stakeholders. It demonstrates that there are many more stakeholder groups than potential users of accounting information. They all have informational and financial interests that are partly conflicting. Using matrices, (potential) conflicts, commonalities, and theoretical solutions for solving the conflicts that are all embedded in an accounting system are presented in a transparent way. If the legislators take a decision in a situation of conflicting informational and financial interests, this will automatically entail a decision on the objectives of an accounting system. I demonstrate that those proposals that reconcile the opposing interests of the current generation and future generations of citizens have the potential to (indirectly) reconcile the partial differences between other stakeholder groups, too. Figure 1 shows these relations. In other words, if you reach a consensus between the interests of the current and future generations of citizens, it might be a solution that most probably all other stakeholder could agree on, too.
OBJECTIVES of public sector accounting:

Protection of public sector institutions ("sustainability"; implicit)

Protection of individuals ("intergenerational fairness"; explicit)

Justification of stakeholdership:
- Economic (due to the provision of capital resources)
- Legal-political (due to regulations of the political system in general)

Finding compromises in the event of conflicting interests and when performing tasks in the interest of...

There are conflicting interests and when performing tasks in the interest of...

Protection of the ability to perform tasks by...

Commission
- Citizens (the electorate)

Existing overlap of group membership:
- Tax payers and Service recipients
- Elected representations of the citizens, public sector specific surveillance and audit institutions
- Pro-Equity-Provider
- Outside Creditors
- Natural persons, normally citizens
- Companies
- Current Creditors
- Future Creditors
- Future Investors

Justification of stakeholdership:
- Economic (due to the provision of capital resources)
- Legal-political: explicitly stipulated, e.g. within budgetary codes and the constitutions or treaties

The compromise need to be found taking into consideration the interests of these stakeholder groups. A compromise found will implicitly also be acceptable for conflicts of interests between these groups of stakeholders.

As a further step, I develop my own proposal for a stand-alone conceptual foundation for public sector accounting, clearly stating the differences compared with the reference models used and explaining the reasons for them. The most important characteristic of this conceptual foundation is that it was based on the two postulates of intergenerational fairness and financial sustainability. Politics often claims that these two postulates are morally unchallengeable. This was also the reason why many European countries have a rule requiring an ex ante balanced budget and an ex post balanced income statement – sometimes this rule can even be found in the constitution. In that way it is politically-legally established that the state cannot spend more than its income, even though this would perhaps be feasible (in the short term) from an economic point of view. My work consistently follows these ideas to the very end: what does it mean to apply intergenerational fairness and sustainability in public sector accounting? The core idea of my proposal is to give equal weight to the interests of current citizens and the interests of future (generations of) citizens. I also give equal consideration to the financial and informational interests of stakeholders. This is because a potential compromise between the different interests necessarily has to avoid any kind of distortion: a “conservative” form of accounting (similar to the ComC position that is based on reliability and the prudence principle) tends – regarding the incentives given – to favor future generations of citizens and stakeholders with similar interests. It is shown in the thesis that, contrary to that, an accounting system that asks for presentation of a “true and fair view”, providing a “faithful presentation” and the like (similar to the IFRS position) is rather in the interest of the current generation of citizens and those stakeholders who share similar interests. My own proposal takes a moderate position in between. Both sides should be able to accept this position. One might call it “a third way” that has the potential to balance conflicting interests and to combine positions which have so far been considered incompatible. The proposal is also interesting in terms of developing a harmonized public sector accounting foundation for Europe, since here, too, the same conflicting positions and incompatible accounting traditions can be found in the member states. In the end, there will be a need to reach a compromise that all sides can live with.

The thesis also raises the question of what the objective of accounting should be: whose interests should be protected and how should this protection be granted? The protection of the current generation of citizens (or their interests) can be ensured by providing information (accountability) and public sector services today. However, the protection of future generations (and their interests) necessarily means the preservation of long-term sustainability, keeping revenues and expenses and the value of assets and debts in a (in the short/mid-term, floating, but in the mid/long-term, stable) kind of balance. This is because future generations of citizens cannot be protected by providing information. To protect their interests today’s financial resources have to be managed in a sustainable way. Consequently, if there is an accounting system whose sole objective is to provide information
or transparency, this is incompatible with the objective of achieving the postulate of intergenerational fairness, since it ignores future generations’ interests that cannot be protected via the provision of information. Therefore, it is political decision-makers that should care about balancing current and future generations' interests. The thesis demonstrates that if political decision-makers claim that the interests of future generations should be protected, there is a need to steer financial flows in a paternalistic way (comparable to the protection of creditors within the ComC system). However, the latter is understood in the Anglo-American environment and accounting tradition as a lack of “neutrality” or the existence of “bias”. Figure 2 shows the hierarchy between objective and supporting sub-objectives described for the field of public sector accounting.

![Figure 2: Public sector accounting hierarchy of objectives and sub-objectives](source: Glöckner (2016), Anforderungen an die neue öffentliche Rechnungslegung, in: Innovative Verwaltung, 2016, 38 (5), p. 41 (translation)).

Developing a conceptual foundation is no use if it does not provide further guidance on how this foundation can be applied in practice. For that reason, as a last step, I chose a principle-based approach and developed a set of formal and material accounting principles. Principles may guide the work of both standard-setters and those preparing the accounts. If the ideas that are included in the conceptual foundation are carefully converted into binding accounting principles, there are two advantages. First, the standard-setter is guided by the principles, so that individual standards are derived consistently and there are no inconsistencies in the system. Second, the preparer of accounts already has an overall general understanding of how to solve an accounting problem – even without knowing the details of the single rules/standards in place. This is particularly relevant if there are regulatory gaps and the preparer of accounts has no other guideline. Therefore, one can broadly steer an accounting system with the help of binding principles. Of course these principles have to be supplemented with more detailed rules, if the financial reports are to be fully comparable so that the data can be aggregated and audited (also for statistical reasons).
Even though Anglo-American accounting frameworks normally contain formal accounting principles, the latter do not guide the accounting system. This is because these frameworks are usually non-binding and are only intended to guide the standard-setter in developing new accounting standards. It is more like a vague promise that ought to be respected but that could be ignored if necessary. In addition, Anglo-American frameworks contain “formal principles” only. The latter are common to all accounting systems, and do not pre-determine the content of any standards by laying down what is called in the Continental European accounting tradition “material principles”. The German accounting tradition uses guiding material principles, as described above. For example, there is the “realization principle” which broadly determines how to realize revenues – even though more detailed, additional regulations could exist for specific accounting problems. However, these regulations never conflict with the general principle. This provides the advantage that a preparer of financial reports based on the ComC develops the ability to determine what is compliant with law and regulations without fully knowing additional case-by-case decisions of the high courts or publications by the accountancy profession. The latter usually develops a kind of useful “cook-book”-like set of accounting standards that provide a very detailed description of what to do in which situation.

Having explained the advantages of a truly principles-based approach, the thesis defines a set of principles based on the conceptual ideas developed before (here especially the principle of intergenerational fairness and sustainability). In that way it follows the Continental European accounting tradition of setting material principles that guide all regulations. Only such a top-down approach can guarantee a consistent system. The work differentiates between compliance principles and public sector-specific principles of orderly accounting. The latter split into formal principles (that normally are relevant for both bookkeeping and the preparation of financial statements in most accounting systems worldwide), the principles of orderly bookkeeping, and accounting principles (which are what make the difference between accounting systems and traditions). The first two might be applied in both private and public sectors (sector-neutral principles). However, the accounting principles are specific to the sector for which they are developed. Accounting principles split again into systematic and material accounting principles. The thesis precisely defines all of these principles. For instance, systematic principles comprise the accrual principle, the public sector-specific understanding of going-concern (based on the sovereignty of public sector entities), and substance over form. Examples for the material principles are the freedom of distortion in all respects (neither overstatement nor understatement of financial conditions) and the parity principle (unlike the Continental European “imparity principle”, it states that revenues and expenses – or in other words – opportunities and risks should be treated equally). Furthermore, the accounting principles also include principles concerning income, such as the principle that the income statement (the amount of total revenues and total expenses)
has to be balanced (short/mid-term floating but mid/long-term stable). I also provide a modified, public sector-specific definition of the realization principle.

In the final chapter, the thesis summarizes the specifics of public sector accounting that were established during work on the thesis as a kind of side-effect. In addition, I explain how these specific conditions were taken into consideration in the preparation of my own draft of a conceptual foundation (presented above).

Conclusions

In terms of a potential harmonization of public sector accounting information in Europe – as a common basis for EU-wide, comparable, financial information that can be aggregated (for statistical reasons) and audited (for surveillance reasons) – conceptual decisions have to be made before the work can begin. The development of more detailed single standards on specific questions of recognition, measurement and presentation (such as in the fields of social benefits, taxes, and heritage assets) must be guided by conceptual decisions. The latter need to be made by democratically legitimized decision-making bodies (parliaments). More detailed, consistent standards and regulations must be developed so that there are no contradictions between different standards on the one hand, and the standards and the conceptual foundation on the other. It is legitimate to use existing reference models (such as the IPSAS or the ComC). But guidance in the form of a conceptual foundation is needed if the following decisions have to be made: Which standards or regulations could be taken over from existing reference systems?; Which should be adapted?; Which would not fit the public sector context? A systematic approach, based on a conceptual foundation and enriched by a set of guiding and binding principles provides advantages compared to a casuistic approach. This is because a clearly-stated conceptual foundation is like a coordinate system that might help to develop consistent new standards without any kind of contradiction. It is a “helping hand” to cope with – so far – unknown accounting problems, and an instrument to interpret existing rules and regulations in case of regulatory gaps.

The author hopes that his work will contribute to a more open discussion of what public sector accounting should look like. This discussion should be free from any restrictions, in particular it should not be caught in traditional paths of discussions known from private sector accounting (in particular the traditional Anglo-American vs the Continental European understanding of “right” or “wrong”). In Europe there is a need to develop customized standards that meet European requirements and respect European particularities. Experience made and knowledge gained in private sector accounting should be taken into account when developing a harmonized public sector accounting system. However,
decisions made by institutions that set private sector accounting standards/regulations should not simply be taken over. There are specific public sector conditions that make it necessary to think carefully about how public sector accounting should look in order to meet the expectations of different stakeholders.