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The Conformity of the Hungarian Public Sector Accounting Regulation with the EPSAS Conceptual Framework

I. Introduction

Accounting, transparency and accountability is still a quotidian topic in public finance, macroeconomics and public law, administration. In a financial interpretation, the transparency and legitimacy of governments mean the usefulness of accrual accounting financial statements.

Currently, the only internationally recognized system for public sector accounting is the International Public Sector Accounting Standards (IPSAS) developed by the International Public Sector Accounting Standard Board (IPSASB). In 2019 the IPSAS contains 40+2 accrual-based standards and one cash-based standard, with all standards based on the international Financial Reporting Standards (IFRS). The latest standards (39-42) deal with employee benefits, public sector combinations, financial instruments and social benefits (IPSASB 2012 and 2018).[2] The application of them is not mandatory for the Member States, but they bear a significant impact on the development and practice of EU public sector accounting.[3] Truly modernising public financial management, however, also requires the development of harmonised accrual-based budgeting standards. Budgeting is vital since a public entity's annual budget is still one of the most (if not the most) important financial governance instrument(s).

In the European Union, within the so-called EU Economic governance "Six-Pack", the *Council Directive 2011/85/EU* sets the foundations on requirements for budgetary frameworks of the Member States, and briefly discusses public finances, government accounting and reporting. The directive recognizes IPSAS' role as fundamental sources, which foster the reliability and the surveillance of the national budgets, and makes the comparison easier. Given the interdependence between Member States' budgets and the Union's budget, the regular availability of timely and reliable fiscal data is the key to proper and well-timed monitoring, which in turn allows prompt action in the event of unexpected budgetary developments. Member States should avoid pro-cyclical fiscal policies, and fiscal consolidation efforts should be greater in economic good times. Most fiscal measures have budgetary implications that go well beyond the annual budgetary cycle. Therefore, a single-year perspective provides only a poor basis for sound budgetary policies. Budgetary frameworks should comprehensively cover public finances. For this reason, operations of those general government bodies and funds which do not form part of the regular budgets at sub-sector level and that have an immediate or medium-term impact. The European Commission has decided to set up European Budget Accounting Standards (EPSAS) for the EU Member States,[4] for which the IPSAS standards can provide a good basis.[5] One of the characteristics of the directives is the vertical direct effect, which means, that EU legislation may be invoked before national courts and authorities, directly

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[2] International Public Sector Accounting Standards Board (2012): Handbook of International Public Sector Accounting Pronouncements; and International Public Sector Accounting Standards Board (2018): Handbook of International Public Sector Accounting Pronouncements

[3] Benito, B. Brusca I., and Montesinos, V. (2007), "The Harmonization of Government Financial Information Systems: The Role of the IPSASs", International Review of Administrative Sciences, 73 (2), pp. 293–317.

[4] EU Commission (2013), COM (2013) 114 Final, Report 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. Brussels.

[5] Sforza, Vincenzo; Cimini, Riccardo (2017): Central government accounting harmonization in EU member states: will EPSAS be enough? in Public Money & Management Volume 37, 2017 - Issue 4

by citizens. The European Court of Justice (ECJ) first articulated the doctrine of direct effect in the case of Van Gend & Loos, and laid down the criteria (Van Gend criteria) for establishing a direct effect. The EU article provision had to be: clear (sufficiently clear and precise), negative (a negative rather than a positive obligation), unconditional, containing no reservation on the part of the member state, not dependent on any national implementing measure. In the case of Council Directive 2011/85/EU and the EPSAS the national implementation is required and necessary.

The *European Public Sector Accounting Standards* (EPSAS) bear significant role not only in the transparency and accountability but in attracting the investments as well, because the accounting system used in the member states determines the information available for the investors. Harmonised systems would play a crucial role in achieving the needed transparency.[6] Accounting users (politicians, citizens, financial institutions and, possibly, investors) are not accountants themselves, so it is important to clearly explain to them the terms and concepts used.[7] The main challenges that must be taken into account in order to assess the readiness for the adoption of a common set of accounting principles through Europe can be identified as follows:[8]

Main challenges in the adoption of a common set of accounting principles

Accounting education level: training needs	Limited knowledge of accrual accounting characterizes a number of countries both among politicians and civil servants, while in others progress has been achieved in the accounting culture thanks to the most recent reforms.
Information systems adequacy	The implementation of new accounting systems often requires the adoption of new IT systems, which increases the difficulty of the change for all users and makes the reform process expensive.
Maturity of accounting systems	In some of the more "mature" countries the possibility of following IPSAS has been already denied, as these principles have not been considered suitable to satisfy the information needs of the public sector, or because the traditional use of historical cost for asset evaluation is still preferred to the fair value logic implied by IPSAS.
Political support	A considerable number of the European countries demonstrate low political motivation for an accounting reform which includes the consideration of international accounting standards.
Legislation/clarity of rules	The diversity could create further barriers that must be taken into account by supranational institutions if the willingness to adopt a common set of international accounting standards is to prevail in Europe.
Implementation costs	In a period of budget constraints, this can create a further barrier to change in public sector accounting, especially in those countries with a low degree of maturity in accounting systems and where the need to train civil servants and adapt IT systems is high.
Consulting needs/technical support	The situation within the different countries has also pointed to a strong role for the rules set out by the European Union: the need to comply with the Stability Pact requires an improvement in fiscal coordination between levels of government; committing to new fiscal rules; medium-term budget frameworks; reporting requirements.

Source: own compilation based on Brusca, I. Caperchione, E. Cohen, S. Rossi, FM. (2015): Public Sector Accounting and Auditing in Europe: The Challenge of Harmonization. Palgrave Macmillan pp. 248-250.

[6] Brusca, I. Caperchione, E. Cohen, S. Rossi, FM. (2016): Harmonizing public sector accounting in Europe: thinking out of the box. in Public Money & Management, Volume 36, 2016 - Issue 3

[7] European Institute of Public Administration (2017): Annual Report 2017. p. 31.

[8] Brusca, I. Caperchione, E. Cohen, S. Rossi, FM. (2015): Public Sector Accounting and Auditing in Europe: The Challenge of Harmonization. Palgrave Macmillan

In 2013 and 2015, Price Water House Coopers (PWC) conducted surveys on behalf of the Eurostat on the accounting, reporting and auditing systems of the Member States in order to report the implementation of the planned EPSAS standards.[9] The research was focused on 10 key messages classified into three or four topics:

Towards a New era in Government Accounting and Reporting

PWC 2013			
Government accounting and financial reporting The dynamic for accrual accounting	Making the transition to accrual accounting (IPSAS or equivalent), benefits and challenges	The future of the government finance function	
PWC 2015			
Accounting practices	Budgeting practices	IT environment	Finance function

Source: own compilation based on Price Water House Coopers (2013): Towards a New era in Government Accounting and Reporting. p. 5. and Price Water House Coopers (2015): Towards a New era in Government Accounting and Reporting. p. 7.

The EPSAS Working Group adopted a Conceptual Framework in April 2018, and even several EPSAS Issue Papers were published between 2016-2018.[10] The Conceptual Framework (hereinafter referred to as EPSAS CF 2018) basically contains uniform definitions and methodologies. EPSAS are considered in the EU context where the need for harmonisation in Governmental Accounting has been recognised to be important to increase the reliability of sources of information to the National Accounts figures.[11]

The structure of the EPSAS Conceptual Framework 2018

General Purpose Financial Reports	Objectives of General Purpose Financial Reports, Objectives of General Purpose Financial Statements, Accrual basis of accounting, True and fair view, Users of General Purpose Financial Reports
Qualitative Characteristics, Application Principles, Constraints	
Definition of Elements	Assets, Liabilities, Expenses, Revenues, Ownership contributions, Ownership distributions
Recognition (criteria) and Derecognition of Elements	
Measurement	Measurement concepts for assets, Measurement concepts for liabilities, Measurement bases
General Purpose Financial Statements	
Public Sector Reporting Entity	
Standard-setting: Considerations for the future standard-setting	

Source: own compilation based on EPSAS Conceptual Framework 2018

II. Methodology

The research is based on *legal and economic methodology* because of the cross-discipline nature of the topic. Even the law and finance approach is important (Schnyder, 2016).[12] The legal method based on the classical interpretation types (grammatical, historical, logical, systematic) of the relevant supranational and for some practical cases the national law

[9] Price Water House Coopers (2013): Towards a New era in Government Accounting and Reporting; and Price Water House Coopers (2015): Towards a New Era in Government Accounting and Reporting

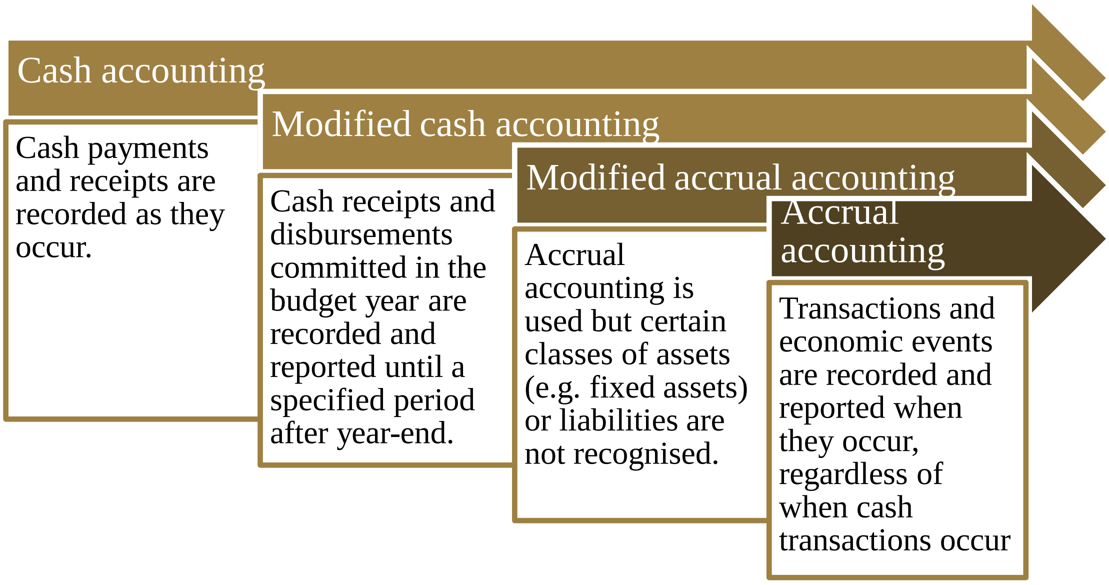
[10] Eurostat (2019): https://ec.europa.eu/eurostat/web/epsas

[11] Caruana, J. Dabbicco, G. Jorge, S. (2019): The Development of EPSAS: Contributions from the Literature. Accounting in Europe 2019 July

[12] Schnyder, Gerhard (2016): The Law and Finance School: What Concept of Law? King's College London

sources,[13] which are completed by the teleological and constitution conformity. For comparison and conformity, the international and EU legislation (e.g. IPSAS and EPSAS) are an important initiation, especially the EPSAS CF 2018 and the other 20 EPSAS Issue Papers 2016-2018. The main material of the paper is the EPSAS CF, which is not focusing on individual standards but on ensuring consistency between the EPSAS derived thereof, in parts or as a whole. Therefore, the paper even handles the subject matter at a general level. The public sector accounting can be analysed by positive and normative law and finance (or law and economics), in the case of the latter the outcome of collective choices is considered "fair", "just", or "efficient". Not only the implementation of the international and European standards is important, but also the economic effects of the provisions.[14]

The spectrum of government accounting practices



Source: Price Water House Coopers (2015): Towards a New era in Government Accounting and Reporting. p. 10.

There are *two basic types of public sector accounting*: the accrual-based and the cash accounting system. According to the general international and European trend and standards, the accrual-based accounting system gradually replaces the cash accounting system.

Under the *accrual-based* accounting transactions and other events are recognized in financial statements when they occur and not when cash or its equivalent is received or paid. Therefore, the relevant events and transactions must be recorded following the rules of double-entry book-keeping and recognized in the financial statements of the periods to which they relate. In general, we can say that the use of accrual accounting in accounting systems is more accepted and more widespread than in the preparation of the budget.[15] The traditional *cash-based* government accounting systems are not capable of showing resource consumption, providing comprehensive information on the public entity's financial situation, and facilitating cross-border comparisons based on performance as well as financial indicators. However, there may be a number of dangers involved in introducing accruals in settlement systems, but not in the budget.

[13] Stelmach, Jerzy; Brozek, Bartosz (2006) Methods of Legal Reasoning. Springer, p. 148

[14] Anessi-Pessina, E. – Steccolini, I. (2007): Effects of Budgetary and Accruals Accounting Coexistence: Evidence from Italian Local Governments. Financial Accountability & Management, 23, 2, pp. 113–131.

[15] Dabbicco, Giovanna (2015): The Impact of Accrual-Based Public Accounting Harmonization on EU Macroeconomic Surveillance and Governments' Policy Decision-Making. in International Journal of Public Administration, Volume 38, 2015 - Issue 4: New Challenges for Public Sector Accounting: IPSAS, Budgetary Reporting, and National Accounts

The budget is the most important document in public finances, and accountability depends on how well the act on budget is implemented in practice. If the budget is based on a cash-based approach, politicians and other officials will think in this approach, and there is a risk that the accrual-based report will be seen as merely an accounting practice.[16]

III. Public sector accounting standards in Hungary

The reform on public finances was launched in 2011 in Hungary. The process and detailed provisions can be easily followed upon the hierarchy of sources of law. The legislation is absolutely in harmony with the Council Directive 2011/85/EU, and covers comprehensively and consistently all sub-sectors of general government. It contains the information needed to generate accrual data with a view of preparing data based on the ESA 95 standard.[17] The public accounting system is subject to internal control and independent audits.[18]

SWOT analysis on IPSAS harmonisation

Strength	Weakness
• an accounting information system measuring efficiency, effectiveness and performance • independence and assistance of the IPSAS (objective rule-setting) • greater transparency and accountability • multiannual view	• IPSAS does not cover all specificities of the public sector • overly complicated rules • time and cost requirement of the transition • profit in the public sector cannot be a performance measure • requires a high level of expertise
Opportunity	**Threat**
• accrual-based budgeting • comparability, uniformity • transparency • accountability • enables more efficient financial control	• the IPSAS has no mandate for the introduction • adoption of IPSAS is not comprehensive • if there is a cash-based accounting in addition to accrual accounting, it does not take over the role of the main information system

Source: Harsányi et al. (2016): Investment into the Future. European Public Sector Accounting: Present and Future. in Pénzügyi Szemle 2016/4. vol. 61(4) and Balog Enikő – Jakab Árpád (2017): Az eredményszemléletű államháztartási számvitel bevezetése a nemzetközi tapasztalatok tükrében. in Farkas – Pelle ed. (2017): Várakozások és gazdasági interakciók. JATE Press, Szeged, 81–94. o.

According to the actual situation of the Hungarian public sector's organizations, it can be verified that the process of accounting reform goes further very languidly. Unfortunately, the adoption of IPSAS is not on the agenda. Even the E&Y EU27 research highlighted in

[16] Anessi-Pessina, E. Barbera C., Sicilia, Mf., Steccolini I. (2016): Public sector budgeting: a European review of accounting and public management journals. in Accounting, Auditing & Accountability Journal, Volume 29 Issue 3. and Blöndal, J. R. (2003): Accrual Accounting and Budgeting – Key Issues and Recent Developments. OECD Journal on Budgeting, 3, 1, pp. 43–49

[17] Simon, József; András, Henrietta (2015): The role of financial standards in Hungarian public sector accounting. 10th International Conference of ASECU

[18] Dömötörfy Józsefné, Szamkó Józsefné (2013): Számviteli és gazdálkodási változások az államháztartás területén. Complex; and Kassó Zsuzsanna (2006): Miért van szükség az államháztartás pénzügyi beszámolórendszerének megváltoztatására? Vigvári András (ed.): Decentralizáció, transzparencia, elszámoltathatóság. Magyar Közigazgatási Intézet.

2012,[19] that IPSAS cannot be introduced in its present form in all EU Member States. The standards do not prescribe mandatory accounting practices, they offer many choices that limit harmonization.

The legal framework for public sector accounting compromises a multilevel legislation from the Fundamental Law towards the acts, which ends with implementing regulations.

Public sector accounting in the Hungarian legislation

Constitution	• Fundamental Law of Hungary
Acts	• Act CXCV of 2011 on Public Finances • Act C of 2000 on Accounting • Act CLXXVIII of 2015 on implementing the application of the International Financial Reporting Standards in Hungary for individual reporting purposes and the modification of certain financial laws
Implementing Regulations	• Government Decree No. 368/2011. (XII. 31.) on the Implementation of the Act on Public Finances; • Government Decree No. 369/2011. (XII. 31.) on the amendment of Gov. Dec. No. 249/2000. (XII. 24.) on the special features of the reporting and accounting obligations of public finance organizations and Gov. Dec. No. 240/2003. (XII. 17.) on the peculiarities of the reporting and accounting obligations of treasury accounts • Government Decree no. 370/2011. (XII. 31.) on the Internal Control System and Internal Audits of Budgetary Organisations • Government Decree No. 4/2013. (I. 11.) on the Accounting of Public Finances • NGM Decree No. 38/2013. (IX. 19.) on mandatory accounting for certain more frequent economic events in public finances • NGM Decree No. 68/2013. (XII. 29.) on the Classification of Government Functions, Public Finances and Branches

Source: own compilation

III.1. Constitutional basis

The basics for public accounting can be found in the *Fundamental Law of Hungary*. Article N) expresses, that Hungary shall observe the principle of balanced, transparent and sustainable budget management. In performing their duties, the Constitutional Court, courts, local governments and other state organs are obliged to respect this principle.

The Public Finances chapter declares that the National Assembly adopts an act on the *central budget* and on the implementation of the central budget for each year (principle of annual accounting; in EPSAS: reporting period). The legislative proposals on the central budget and on its implementation shall contain state expenditures and revenues in the same structure, in a transparent manner and in reasonable detail (principle of materiality, “true and fair view” principle, principle of consistency; in EPSAS: relevance, faithful representation/ reliability, understandability, comparability, consistency). The National Assembly may not adopt an Act on the central budget as a result of which government debt would exceed half of the total gross domestic product. As long as government debt exceeds half of the total GDP, the National Assembly may only adopt an Act on the central budget which provides for a reduction of the ratio of government debt to the total GDP. These regulations are strictly meet with core concept set by the Six Pack legislative package (especially Council Directive 2011/85/EU) and the EPSAS: strengthen the stability and growth of the economic and monetary union; and reduce

[19] Ernst & Young (2012): Overview and comparison of public accounting and auditing practices in the 27 EU Member States

the number of excessive deficit procedures. The regulation for local government finances will be discussed under the separate chapter.

III.2. Act on Public Finances

At the next level, the *Act CXCV of 2011 on Public Finances* (Áht.) can be found under the Fundamental Law. The IPSAS was the starting point for the development of EPSAS, and this process is expected to significantly shape the accounting practices of the EU member states, and thus had an important impact on Hungary's budget accounting. As a consequence of the supremacy of the EU law and the moderate direct applicability of the directives, Sections 13, 22-24, 29 and 29/A, 90 and 103. § serve the implementation of the Council Directive 2011/85/EU. These provisions focus on the preparation and the adoption of the central government budget, the local government budget regulation, medium-term planning for the next 3 years, discharge (closing account) in the central subsystem of public finances and public finance information system.[20] According to general rules for reporting (Section 87), every fiscal authority (government agency) is required to prepare

- an annual budget report on assets and budget implementation in accordance with accounting legislation;
- on the basis of the annual budget reports, a final accounting statement (closing account) in accordance with the approved budget on an annual basis, comparable to the approved budget, on the last day of the year.

This method is in harmony with the EPSAS CF 2018 because the central and local fiscal authorities can be identified as Public Sector Reporting Entities with i) the ability to take economic decisions and engage in economic activities for which they are responsible and accountable; ii) entitlement to own and transact assets in its own right; iii) ability to incur liabilities on its own behalf, to take on other obligations or further commitments.

Currently, the EPSAS CF 2018 just provides a general concept of *Public Sector Reporting Entity*, which later will be based on decision-making and accountability considerations with due regard to the circumstances of smaller and less risky entities. In Hungary, the *budgetary entity* is a legal person established for the performance of a public task as defined in law or in the instrument of incorporation. This concept is quite broad in order to cover the full spectrum of public expenditures. The activities of the budgetary entity are

- basic activity, consisting of activities other than profit-making, as defined in the statutes, charter of incorporation of which it is established, and other non-profit-making activities which contribute to the performance of its basic professional tasks;
- business activity which, for the purposes of profit-making, is a non-compulsory source of production, service or sales activity from sources other than general government.

Act C of 2000 on Accounting primarily regulates the general provisions on business accounting, but for quite a few topics e.g. definitions and terminologies (impossible claim, purchase price, selling price, valuation, measurement), fundamental principles, techniques, processes, the public sector legislation (acts and regulations) refers back to it. The *Act CLXXVIII of 2015 on implementing the application of the International Financial Reporting Standards in Hungary* for individual reporting purposes and the modification of certain financial laws implemented and incorporated the detailed rules on IFRS into the Acts on Corporate Tax and Local Taxes, in addition to the Accounting Act with the effective date 1st January 2016.

[20] Sivák József, Vigvári András (2012): Rendhagyó bevezetés a közpénzügyek tanulmányozásába. CompLex.

III.3. Implementing regulations

The above presented brief provision is detailed by the *Government Decree No. 368/2011. (XII. 31.) on the Implementation of the Act on Public Finances* (Ávr.) Sections 156-162. The Treasury prepares a Treasury Budget Report every month. The Report is broken down by budget entities, centralized appropriations, chapter-managed appropriations, and appropriations of the earmarked state fund, the social security fund, on the basis of the data known on the last day of the month in question for every single item. For publicity and transparency, the Treasury publishes the Report on its website until the 10th day of the month following the reference month, with the exception of national security services. Section 160 refers further, declaring that the annual financial reporting obligations must be fulfilled by the deadline and meet with the conditions defined in the government decree on the accounting of public finances. Therefore, the EPSAS disclosure requirements are fulfilled.

The multilevel legal hierarchy finally results in a single law source, where the *Government Decree No. 4/2013. (I. 11.) on the Accounting of Public Finances* (Áhsz.) sets all the relevant provisions for government accounting. This entered into force 1st January 2014, with 58 sections and 17 annexes.[21]

The structure of Gov. Decree No. 4/2013. on the Accounting of Public Finances

Chapter I General provisions	1. Interpretative provisions 2. Application of the Regulation 3. Accounting system of public finances 4. Applying accounting principles
Chapter II Rules for reporting	5. Reporting obligation 6. The parts of the annual budget report related to budgetary accounting 7. The balance 8. Cost of assets 8/A. Reassessing the cost 9. Depreciation of assets, impairment, value adjustment 10. Evaluation of assets and liabilities 11. Supporting the balance with inventory 12. Profit and Loss Statement 13. Supplementary Annex 14. Municipal Property Statement 14/A. The date of the balance sheet preparation 15. Preparation, approval and submission of the annual budget report
Chapter III Consolidation	16. Consolidated financial statements 17. Methodology of consolidation
Chapter IV Rules of accounting	18. Budgetary accounting 19. Financial Accounting 20. Accounting policies 21. The uniform chart of accounts and account system 22. Accounting Documents 23. Accounting constraint 24. Opening items, post-opening tasks 24/A. Improving errors
Chapter V Final provisions	25. Entry into force 26. Transitional provisions
Annexes	1. Central management appropriations including accounting and accounting 2. Bodies responsible for recording tasks relating to centralized management appropriations within the scope of the Treasury's accounts 3. Residual Statement 4. Provision of data on planned amounts and performance of certain benefits and subsidies from social security funds 5. Balance sheet 6. Income Statement / Consolidated Income Statement (profit and loss account) 7.* 8. Statement of changes in intangible assets, tangible assets, concessions and asset management 9. Impairment Loss of Assets 10. Additional information 11. Consolidated balance sheet 12. Tasks to be performed during consolidation 13. Statement on government debt 14. Content of the detailed records 15. Uniform heading order for budget and finance revenues and expenditures 16. Uniform Chart of Accounts 17. Compulsory conformities (matches)

Source: own compilation based on the Government Decree No. 4/2013. (I. 11.) on the Accounting of Public Finances

[21] Lilliné Fecz Ildikó (2015-16): Államháztartási számvitel a gyakorlatban I-III. Saldo; and Lilliné Fecz Ildikó (2019): Államháztartási számvitel változásai.

The *public accounting system* consists of two double-entry bookkeeping subsystems, a cash-based public (budgetary accounting) sector accounting system and an accrual-based financial accounting system (financial accounting). In the case of the *budgetary accounting* (költségvetési számvitel), revenue and expenditure appropriations, receivables, commitments, other payment obligations, and economic events that have an impact on their fulfilment, should be kept in a proper, continuous, closed-ended, transparent record and closed at the end of the budget year. In the context of the *financial accounting* (pénzügyi számvitel), economic events that affect assets and liabilities, their changes and the development of earnings that occur in the course of economic activity should be kept in a proper, continuous, closed-ended, transparent record and closed at the end of the budget year. The budgetary accounting mainly reflects the cash flow of the appropriations, while the financial accounting is responsible for the assets. Both accountings are prepared by using the same uniform chart of accounts provided in Annex No. 16.

Further, the starting point for the *accounting principles* is the true and fair view of the financial position, financial performance and cash-flow of the reporting entity, where the GPFRs should conform with the qualitative characteristics, the application principles and the constraints acknowledged in EPSAS CF 2018. The Gov. Decree No. 4/2013 reflects back to 14 principles in Act C of 2000 on Accounting:

- in Section 15: principle of going concern, principle of completeness, "true and fair view" principle, principle of clarity, principle of consistency, principle of continuity, principle of matching, principle of prudence, principle of grossing up
- in Section 16: principle of valuation on an item by item basis, principle of accruals, principle of substance over form, principle of materiality, principle of cost-benefit.

Accounting principles in the EPSAS Conceptual Framework and in Hungary

	EPSAS Conceptual Framework 2018	Act C of 2000 on Accounting
Qualitative characteristics	Relevance	≈ principle of materiality
	Faithful representation/ Reliability	"true and fair view" principle
	Completeness	principle of completeness
	Prudence	principle of prudence
	Neutrality	n.a.
	Verifiability	"true and fair view" principle
	Substance over form	principle of substance over form
	Understandability	principle of clarity
	Timeliness	n.a.
	Comparability	≈ principle of consistency
Application principles	Going concern	principle of going concern
	Consistency	principle of consistency
	Offsetting/ Aggregation	principle of grossing up
	Presentational sensitivity	n.a.
	Reporting period	annual reporting
	Compliance	n.a.
Con-straints	Materiality	principle of materiality
	Cost-benefit	principle of cost-benefit
	Balance between the individual qualitative characteristics and application principles	n.a.
Other	n.a.	principle of continuity principle of matching principle of valuation on an item by item basis

Source: own compilation based on EPSAS Conceptual Framework 2018 and Act C of 2000 on Accounting

To apply them in an appropriate way, some *simple modifications and interpretations* are required. In the case of the principle of going concern the changes in organization and tasks during the reporting period should also be taken into account.[22] In budget accounting, the principle of completeness applies in such a way that the budget is prepared for a calendar year. When applying the principle of prudence, the rules for provisions are not applicable due to the requirement of the effective and economical utilization of public funds. Because of the annual budgeting system, the principle of accruals is not applicable in budgetary accounting. During the application of the principle of matching, when determining the budgetary and entrepreneurial residues, the revenues and expenditures are to be considered separately for each activity. The principle of valuation on an item by item basis can be applied specifically to liabilities subject to a simplified valuation procedure.

It is worth comparing these principles to the *qualitative characteristics, application principles, constraints* in EPSAS CF 2018. Most of the European requirements and the Hungarian principles comply with each other. They have common features such as that are all self-standing, mutually limiting each other, and there is no hierarchy between them. The neutrality and the timeliness need to be implemented, while the presentational sensitivity and balance between the individual qualitative characteristics and application principles are questionable as they may cause arbitrary deviations and differences in the national regimes. The compliance may be applied only after the implementation of the final version of EPSAS. From the Hungarian rules, the principle of continuity should be an important element, which means that the opening data of a financial year shall be identical to the corresponding closing data of the previous financial year.

According to the EPSAS CF 2018, an *asset* is a resource presently controlled by the entity as a result of past events or transactions. A resource is an item with service potential or the ability to generate economic benefits. In Hungary, within the *assets*, there are special rules for *national assets* as registered them as fixed assets or current assets. In the balance sheet, intangible assets, tangible assets, invested financial assets and assets assigned to concession and asset management should be recorded as fixed assets within national assets. The inventories and securities are classified as current assets in national assets. The liquid assets, receivables, other specific accounts and active accruals are even recognized as assets.

The EPSAS CF 2018 defines the *liability* as a present obligation of the entity for an outflow of resources that results from past events or transactions. The Gov. Decree No. 4/2013 declares, that in the balance sheet, the equity, liabilities, accounts related to the keeping of treasury accounts and accruals are to be shown in the liabilities.

Regarding the *measurement bases of the assets and the liabilities*, the EPSAS CF 2018 just contains the two main concepts: historical costs (recognizing depreciation and impairments) and current value; but there are no further or detailed provisions. In Hungary, the value of purchased goods is the purchase price of a final liability or other payment obligation. A planned depreciation with a prescribed depreciation rate is eligible after the intangible assets (16-33 %), tangible assets (2-16 % defined by the Act LXXXI of 1996 on Corporate Tax and Dividend Tax, for public roads 3%) and assets contributed into concession. Depreciation of low-value intangible assets (max. HUF 200,000 ≈ € 620) is accounted in a lump sum. In the event of a subsequent change in the value of the asset, the amount of the difference shall be considered significant if it exceeds 1% of the original cost but at least HUF 100,000 (≈ € 300). The limit of correction is low enough so the results are particularly accurate (take into consideration, that the government budget in Hungary is app. € 62 billion). For central revenues

[22] Varga Imre (2009): A valódiság elvének érvényesülése a magyar számviteli rendszerben. PhD értekezés. Nyugat-Magyarországi Egyetem

(e.g. taxes, fees, fines, duties) the impairment may be determined by a simplified valuation procedure based on a joint rating, and their collective valuation.

The provisions for annual budgetary reporting contain the main preparation rules. The balance sheet date is the last day of the budget year. The *parts of the annual budget report* are the following:

- for the *budgetary accounting*: budget report; residual statement; provision of information on the composition of personal benefits and employees, elected officials; provision of data on the planned amounts and performance of certain benefits and subsidies from the social security funds; accounts relating to the specific management of the municipal subsystem;
- for the *financial accounting*: balance sheet; profit and loss account, and the notes on the accounts (supplementary annex).

Within the *budgetary book-keeping*, the revenue and expenditure appropriations, receivables, commitments, other payment obligations, and economic events that have an impact on their implementation are kept in a proper, continuous, closed-ended, transparent record and closed at the end of the budget year no longer than 31st of January. It is based on the specificities of accounting principles, using accounts based on the single account framework, in accordance with the rules of double-entry bookkeeping, and kept in HUF. The class of accounts are within line 0, with K for expenditures and B for revenues. In the context of *financial book-keeping*, on the economic events affecting the assets and liabilities, their changes and on the economic developments affecting profit must be kept a proper, continuous, closed-ended, transparent record and closed at the end of the budget year. The class of accounts are within line 1-9; 0 for register accounts. The general requirements are similar but the budgetary book-keeping as a cash-based accounting focuses on the revenue and expenditure appropriations while the financial book-keeping as an accrual-based accounting deals with the assets and liabilities. Every budget entity adopts a single accounting policy, which as a framework lays down the special rules, regulations and methods for the application of budget and financial accounting

The EPSAS introduces the terminology of *General Purpose Financial Reports* (GPFRs) which comprise General Purpose Financial Statements (GPFSs) and other reports presenting financial and non-financial information. These include statements such as the statement of financial position or balance sheet, the statement of financial performance or income statement, the statement of cash-flows, the statement of changes in net assets/ equity, and the disclosure notes to those statements. The annexes of the Gov. Decree No. 4/2013. define the detailed *structure of financial documents*: the single or consolidated balance sheet, single or consolidated income statement (profit and loss account), residual statement, uniform chart of accounts, statement of changes in intangible assets, tangible assets, concessions and asset management etc. For the principle of consistency and clarity, further subdivision of the items in the balance sheet or profit-and-loss statement; pooling of items and introduction of new items are not permitted. The budgetary entities are obliged to prepare the following annual financial reports on the

- elementary budget and property of the budgetary authorities: the State, the central budgetary authorities, public bodies and other the budgetary authorities governed by them;
- elementary budget and property of the separate state funds (e.g. National Employment Fund, Central Nuclear Financial Fund, National Fund for Research, Development and Innovation) and the social security funds (Pension Insurance Fund, Health Insurance Fund);

- elementary budget and property of the chapter-managed appropriations (e.g. support for parties and party foundations, public media service, National Defence Fund, National Family and Social Policy Fund);
- elementary budget and property of the centralized appropriations;
- assets held in the balance sheets of the beneficial owner organizations and the centralized management of the assets they manage;
- elementary budget and property of the local governments, nationality self-governments, associations, regional development councils and other the budgetary authorities governed by them.

The content and the objectives of the financial accounting are very close to the General Purpose Financial Reports (GPFRs) and Statements (GPFSs) defined by the EPSAS CF 2018, because they include statements such as the statement of financial position or balance sheet, the statement of financial performance or income statement, the statement of cash-flows, the statement of changes in net assets/equity, (the statement on comprehensive income), and the disclosure notes to those statements upon accrual basis. But if there is a cash-based accounting in addition to accrual accounting, the latter does not take over the role of the main information system.

The Treasury prepares a *consolidated report* on local governments, nationality self-governments, associations, furthermore the sub-system of the local and central government, and finally the general government.

The primary users of the financial documents are the are resource providers, in Hungary, the central and local governments, the National Assembly, and for controlling the State Audit Office (both belongs into the legislature), Directorate General for Audit of European Funds (EUTAF) and the Government Control Office. The disclosure of the budget and reports are the guarantees for transparency and accountability for the direct and indirect resource providers as well as service recipients and their representatives – ultimately the society,[23] the citizens as taxpayers, contributors to public funds.

By 28th of February of the year following the budget year, the budgetary entity uploads the data of its annual budget report into an electronic reporting system operated by the Treasury, together with a full general ledger statement supporting the annual budget report. This date for local governments is longer with 20 days; for a chapter directing entity is 20th of March, for separate state funds and social security funds is 31st of May, and for an entity exercising ownership rights is 30th of June.

Within the Integrated Financial Management Information System (IFMIS), the Treasury operates the *IT background* for data submitting and providing, which consists of several subsystems: Treasury Dream (TD, for app. 400 centralized appropriations), Appropriation Registration System (TSH), Centralized Payroll Salary System Application (KIRA), Public Pay Reference System (KNETTO), Budgetary Reporting System (KGR-K11).[24] As an option, with this infrastructure, the Treasury can also provide accounting services as shared service centre.[25]

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[23] Biondi, Yuri (2014): Harmonising European Public Sector Accounting Standards (EPSAS): Issues and Perspectives for Europe's Economy and Society. in Accounting, Economics, and Law 4 (3)

[24] Szablics Bálint ed. (2018): A költségvetés végrehajtásának elmélete és gyakorlata. Dialóg Campus, pp. 70-78

[25] Raudla, Ringa; Kaide Tammel (2015): Creating shared service centres for public sector accounting. in Accounting, Auditing & Accountability Journal, Volume 28 Issue 2

IV. Specialities for Local Governments

For local governments, the starting point is even the Fundamental Law. In harmony with the provisions of the European Charter of Local Self-Government (1985) Article 32 sets, that in the management of local public affairs and within the framework of the Acts,[26] local governments

- determine their budgets and autonomously manage their affairs on that basis;
- may engage in entrepreneurial activities using their assets and revenues available for this purpose, without jeopardising the performance of their mandatory duties;
- shall decide on the types and rates of local taxes.

The municipality determines its economic program and budget itself. The detailed rules for compiling the budget are determined by the Act on Public Finances, but the financing, central supports and transfers set in the annual budgetary act. The tasks of the state budget planning for local government are carried out by the Ministry of Finance and the Ministry of the Interior. Parliamentary budget decisions should be made after consultation with local government associations, taking into account their opinions.

All local government revenues and expenditures are included in the local government budget. But it is important to highlight, that the act on the certain central budget contains the support of the general operation of local governments and their sectoral tasks, as well as the budget subsidies to be allocated to them in a separate chapter.

In order to preserve the *balanced budget* at local level, the Fundamental Law and the Act CXCIV of 2011 on the Economic Stability of Hungary provide that, for any borrowing or for other undertaking of commitments by local governments to the extent determined by the law, certain conditions and the consent of the Government is required. A local government may only enter into a debt-generating transaction if it has introduced with local decree the local business tax or at least one of the type of property taxes or communal tax of private individuals in accordance with the Act on Local Taxes.[27] Thus, even before the introduction of accrual accounting, local governments had to present their schedule of long-term liabilities when borrowing, as well as when planning annual budgets.

Chapter VI of the Act CLXXXIX of 2011 on Local Governments in Hungary (Mötv.) deals with the *economic foundations of local governments*. The rules are stable since it is a cardinal act, therefore the adoption and amendment of them requires the votes of two-thirds of the Members of the National Assembly present.[28] For a balanced local budget operating deficit cannot be planned in the financial regulation. The public sector accounting rules for municipalities are governed by the provisions of the Act on Public Finances and its implementing regulations. For transparency and accountability data on the presentation, assessment and evaluation of the local budget need to be published at least annually by the clerk in the usual manner. The local governments join the electronic information system operated by the state (municipal Application Service Provider, ASP system), which provides remote application service through an IT network for supporting the local tasks.

The *Gov. Decree No. 4/2013* set some special rules for the local government *statement of assets*. The Statement of Assets attached to the Closing Statement presents the fixed assets, national assets and funds belonging to the national assets owned by the local government and the budgetary authority directed by it, including the property rights to which they are entitled.

[26] Berit, A. Fudalla, M. and Lüder, K. (2014): "Positionspapier 'European Public Sector Accounting Standards' (EPSAS): Möglichkeiten und Grenzen der Harmonisierung des öffentlichen Rechnungswesens in der Europäischen Union", der gemeindehaushalt, 115 (7), 145–147.
[27] Act CXCIV of 2011 on the economic stability of Hungary, Section 10. §
[28] Szamkó Józsefné (2015): Költségvetési szervek gazdálkodása és pénzügyei. CompLex - Wolters Kluwer

According to the principle of matching, the equivalence between the gross value of the real estate property in the property statement and in the real estate property cadastre register must be ensured. The assets are to be registered and classified into the following categories: non-marketable assets, assets with outstanding economic importance, limited marketable assets and business assets.

V. Conclusions

The EPSAS Conceptual Framework 2018 is a useful summary of the main goals and key issues in public sector accounting, since collects all the relevant topics at a general level. Similar to the IPSAS, these standards are also not binding yet, but it is necessary for the EU member states to prepare for the application as soon as possible. The first step is to realise the conformity of the current national system with the standards.

In Hungary, the public accounting reform – besides the public financial changes (2011) – has started at the end of 2013. The multilevel legal hierarchy should be examined as a whole, all the components (Fundamental law, acts and implanting regulations) are in a strong logical correlation. First of all, it is important to declare, that the legislation is absolutely in harmony with the Council Directive 2011/85/EU. Analysing the Hungarian rules through the EPSAS CF 2018, the national concept basically is in harmony with the standards.

The budgeting processes, the medium-term planning meet with the European requirements. In the case of public sector accounting reforms, the major changed was the introduction of the accrual-based accounting, which replaced the previously used modified cash accounting system. For completeness, a dichotomy exists: the accounting system still consists of two double-entry bookkeeping subsystems, a cash-based public sector accounting system (budgetary accounting) and an accrual-based financial accounting system (financial accounting).

The balance sheet, the profit and loss account, the Treasury reports, the consolidated reports and elementary budgeting comply with the General Purpose Financial Reports and Statements. The budgetary entity is a legal person established for the performance of a public task as defined in law or in the instrument of incorporation with i) the ability to take economic decisions and engage in economic activities for which they are responsible and accountable; ii) entitlement to own and transact assets; iii) ability to incur liabilities on its own behalf, to take on other obligations or further commitments. This concept is quite broad in order to cover the full spectrum of public spending and fulfils the general concept of Public Sector Reporting Entity, which later will be based on decision-making and accountability considerations with due regard to the circumstances of smaller and less risky entities.

The Hungarian accounting principles greatly meet the EPSAS qualitative characteristics, application principles and constraints. They have common features, for example all of them are self-standing, they are mutually limiting each other, and there is no hierarchy between them. The neutrality and the timeliness need to be implemented, while the presentational sensitivity and balance between the individual qualitative characteristics and application principles are questionable as they may cause arbitrary deviations and differences in the national regimes. The compliance may be applied only after the implementation of the final version of EPSAS. From the Hungarian rules, the principle of continuity should be an important element, which means that the opening data of a financial year shall be identical to the corresponding closing data of the previous financial year. The definitions are based on the same concepts, the assets and liabilities fit rather into the accrual-based system, while the expenses and revenues into the cash-based public sector accounting system. Even the conceptual recognition and measurement rules comply with the Hungarian ones. For the principle of completeness all the financial events, obligations need to take into account, and the rules on measurement, evaluation depreciation are defined clearly.

Altogether the Hungarian public sector accounting system generally complies with the EPSAS, therefore it is ready to implement the standards. Only some conceptual and technical changes are necessary to be made in the field of IT, professionals, policy and responsibility. International experience shows that the length of implementation can vary widely (2-3 or more than 3 years), as the scope and implementation of reforms are very different. Although both systems are able to serve the basic requirements of transparency and accountability at a financial and social level, but for uniformity the European standards are necessary. Obviously, the subtle details require a lot of attention, as the proverb says: *God is in the parts*.

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Annexes

Name	Government accounting approach applied	Relationship with IPSAS standards
Austria	Accrual accounting at the central level, modified accrual accounting at the local and regional level	Applies IPSAS, full-scale adoption is in progress
Belgium	Modified accrual accounting and full accrual accounting	Pending approval, IPSAS adoption is planned. IPSAS is applied as a primary rule only by the flemish government
Bulgaria	Accrual accounting at central and local level	Initiatives have been made for adoption
Cyprus	Modified cash accounting at the central level, modified accrual accounting at the local level	Cash-based IPSAS adopted, adoption of accrual-based standards is targeted
Czech republic	Accrual accounting at both levels	IPSAS has not been adopted but high-level compliance is in place
Denmark	Accrual accounting at the central and regional level, cash accounting at the local level	IPSAS-based national standards, full-scale adoption is not planned
United Kingdom	Accrual accounting at both levels	IFRS-based domestic standards; no plans for ipsas adoption but high-level conformity is in place
Estonia	Accrual accounting at both levels	IPSAS-based national standards, full-scale adoption is in progress
Finland	Modified cash accounting at the central level and modified accrual accounting at the local level	No ipsas adoption is planned, but professional debate has been initiated
France	Accrual accounting at the central level, modified accrual accounting at the local level	IFRS and ipsas-based national standards, full-scale adoption is not planned
Greece	Modified cash accounting at the central level, accrual accounting at the local level	Non ipsas-based, adoption is not planned
Netherlands	Modified cash accounting at the central level, modified accrual accounting at the local and regional level	Despite several previous adoption attempts, adoption is currently not planned
Croatia	Modified accrual accounting at both levels	Non IPSAS-based, adoption is not planned
Ireland	Modified cash accounting at the central level, accrual accounting at the local level	Decision on adoption is pending
Poland	Accrual accounting at both levels	Non IPSAS-based, adoption is not planned
Latvia	Modified accrual accounting at both levels	High-level compliance with ipsas but adoption is not planned
Lithuania	Accrual accounting at both levels	Ipsas-based national standards
Luxembourg	Modified cash accounting at both levels	Non ipsas-based, adoption is not planned
Hungary	Accrual accounting at both levels	Non IPSAS-based, adoption is not planned
Malta	Modified accrual accounting at the central level, modified accrual accounting at the local level	IPSAS-based standards, adoption is in progress
Germany	Modified cash accounting at the central level, accrual accounting at the local level	non IPSAS-based, adoption is currently not planned
Italy	Modified cash accounting at both levels	Adoption is planned only after transition to accrual accounting at the local and central level
Portugal	Modified cash accounting at the central level, accrual accounting at the local level	non IPSAS-based, decision on adoption is pending
Romania	Accrual accounting at both levels	full-scale IPSAS adoption is in progress
Spain	Accrual accounting at both levels	Adoption in progress, current system is already IPSAS- based
Sweden	Accrual accounting at both levels	High-level compliance but adoption is not planned
Slovakia	Modified accrual accounting at both levels	Adoption in progress, current system is already IPSAS-based
Slovenia	Modified cash accounting at both levels	non IPSAS-based, adoption is not planned

Source: Harsányi et al. (2016): Investment into the Future. European Public Sector Accounting: Present and Future. in Pénzügyi Szemle 2016/4. vol. 61(4)

The top 10 key messages on Government Accounting in 2013 and 2015

PWC 2013	
Government accounting and financial reporting The dynamic for accrual accounting	There is great diversity in accounting practices but the trend towards accrual accounting is clear
	A major shift to accrual accounting is expected in developing countries, with IPSAS serving as a common reference point
	Budgets remain largely on a cash basis
Making the transition to accrual accounting (IPSAS or equivalent), benefits and challenges	Conversion to IPSAS or similar accrual accounting standards is useful for government stakeholders
	Greater transparency and accountability, comprehensive inventory of assets and liabilities, and performance assessment are the main benefits
	Accounting for fixed assets, application of accruals concepts and disclosure requirements are the major areas of impact
	More than three years is required on average to transition to accrual-based IPSAS (or similar)
	The lack of trained staff and IT system requirements are the main challenges
The future of the government finance function	Governments indicate a desire to improve their finance function
	Cost accounting, performance management, fixed assets management and long-term planning and forecasting are the key areas for improvement
PWC 2015	
Accounting practices	There is still a high level of diversity in accounting practices, but the trend towards accrual accounting is confirmed and even amplified.
	The trend towards accrual accounting is visible across all continents, with the biggest shift expected for non-OECD countries.
	IPSAS stands out as the global reference framework for accrual accounting reforms.
Budgeting practices	Budgets remain largely on a cash basis, although an upward trend towards accrual budgeting is identified.
	The use of consistent accrual accounting and budgeting systems brings more coherence in decision making.
IT environment	ERP systems are commonly used to manage the accounting, budgeting and reporting processes.
	Greater integration of IT systems is a key priority and a major challenge for most governments.
Finance function	Governments mainly focus on compliance and control but also indicate a desire to improve efficiency and insight.
	Cost accounting, performance management, fixed asset management and long-term planning and forecasting are still the major areas that require improvement.
	Governments' key priorities for the next five years are accrual accounting (based on IPSAS or similar) adoption, greater integration of IT systems, capacity building and improvement of management information systems.

Source: own compilation based on Price Water House Coopers (2013): Towards a New era in Government Accounting and Reporting. p. 5. and Price Water House Coopers (2015): Towards a New era in Government Accounting and Reporting. p. 7.