

Implementing Reforms in Public Sector Accounting

Susana Jorge
Editor



(Página deixada propositadamente em branco)

Implementing Reforms in Public Sector Accounting

Comparative
International
Governmental
Accounting
Research

Susana Jorge
Editor

COORDENAÇÃO EDITORIAL
Imprensa da Universidade de Coimbra
Email: imprensa@uc.pt
URL: http://www.uc.pt/imprensa_uc

CONCEPÇÃO GRÁFICA
António Barros

PAGINAÇÃO
Simões & Linhares, Lda.

EXECUÇÃO GRÁFICA
Simões & Linhares, Lda.

ISBN
978-989-8074-39-3

ISBN DIGITAL
978-989-26-0422-0

DOI
<http://dx.doi.org/10.14195/978-989-26-0422-0>

DEPÓSITO LEGAL
281657/08

OBRA PUBLICADA COM O APOIO DE:



CONTENTS

PREFACE	7
FOREWORD	9
ACKNOWLEDGEMENTS.....	13
LIST OF CONTRIBUTORS	15
PART 1 – COMPARATIVE INTERNATIONAL STUDIES.....	17
Local government accountability in European Continental and Anglo-Saxon countries: an international comparison <i>Elisabetta Reginato</i>	19
Accountability Regimes and Financial Reporting in Government: A Comparison of China and Australia <i>John Neilson and Zhang Qi</i>	53
Evolution of National Government accounting: a comparative study of Finland and Norway <i>Norvald Monsen and Lasse Oulasvirta</i>	71
Setting government accounting standards: a comparative institutional analysis of China and The United States <i>James Chan and Xu Yunxiao</i>	89
Transition Barriers of Accrual Accounting in the Public Sector of Developed and Developing Countries: statistical analyses with special focus on The Netherlands and Egypt <i>Hassan Ouda</i>	111

PART 2 – COUNTRY STUDIES OF REFORM PROCESSES	139
Changing Ideology in Nepalese Central Government Accounting Reform <i>Adhikari Pawan and Frode Mellemvik</i>	141
The relevancy of contingency approach to public sector accounting development: recent evidence from Poland <i>Wojciech Nowak</i>	151
Accrual-based accounting within the Malagasy urban municipalities <i>Rakoto Oliarilanto</i>	165
Tracing changes in Central Government accounting: a case of Rússia <i>Konstantin Timoshenko</i>	183
The Reform of the Public Sector Accounting in Romania: past, present and future <i>Luminita Ionescu</i>	201
Studying the implementation of governmental accounting reforms – reflections on possible contributions of the Actor-Network Theory <i>Sébastien Rocher</i>	217
PART 3 – LOCAL GOVERNMENT STUDIES	227
The adoption of accrual accounting in Flemish public centres for social welfare: examining the importance of agents of change <i>Paul Windels and Johan Christiaens</i>	229
Measuring Portuguese Local Government relative efficiency: a re-analysis <i>Pedro Camões, Susana Jorge, João Carvalho and Maria José Fernandes</i> ...	253
Mission impossible or an obvious option - provisions and contingent liabilities in Norwegian local government accounting <i>Helge Mauland and Ailin Aastvedt</i>	279
Local government Service Charters: the Spanish experience <i>Vicente Montesinos and Isabel Brusca</i>	299
PART 4 – FINANCIAL REPORTING, INFORMATION USERS AND ACCOUNTA- BILITY.....	311
IPSASs for a better financial disclosure. An appraisal on the awareness of Italian local authorities <i>Luca Anselmi and Simone Lazzini</i>	313

Consolidated financial reports in local government: a comparative analysis of IPSASB and SCMA <i>Giuseppe Grossi and Torbjörn Tagesson</i>	337
Communication and accountability in the Public Sector: a possible overlap explored in the American and Italian contexts <i>Aldo Pavan and Francesca Lemme</i>	351
What matters in legislators' information use for financial reporting? The case of Japan <i>Kiyoshi Yamamoto</i>	377
Results of a case study based international comparison in financial reporting of public higher education institutions: Germany <i>versus</i> the United States <i>Jens Heiling</i>	393
PART 5 – PERFORMANCE AND MANAGEMENT ACCOUNTING	405
Use of Performance Measurement in the Public Sector: the case of the police service <i>Patricia Gomes, Silvia Mendes and João Carvalho</i>	407
Voluntary online performance reporting in the 50 US States: assessment of two agencies <i>Rita Cheng, Kenneth Smith and Ola Smith</i>	427
Creation of Internal Markets and Transparency and Controllability of the Municipal Services' Cost Structures: comprehensive education in the City of Tampere <i>Salme Näsi, Pasi Leppänen and Pentti Meklin</i>	445
PART 6 – SPECIAL TOPICS	457
The impact of date of recognition on the consolidated accounts: from Reliability to Relevance <i>Evelyne Lande, Sandrine Boulerne and Fatima Jaouan</i>	459
Disclosing Local Government budgets: comparing North Rhine Westphalia and The Netherlands <i>Johan de Kruijf</i>	479
How do Supreme Audit Institutions measure the impact of their work? <i>Belén González, Antonio López and Roberto García</i>	503

(Página deixada propositadamente em branco)

PREFACE

CIGAR (Comparative International Governmental Accounting Research) is a network of scholars (www.cigar-network.net) interested in cross-national aspects of public sector budgeting, accounting, financial reporting and auditing, promoting cooperation between scholars of different countries working in the same field. Biennial conferences have been a primary means of achieving this.

The 11th CIGAR Biennial Conference took place in Coimbra in June 2007 and was the first CIGAR event to have taken place in Portugal. 2007 was also the 20th anniversary of the CIGAR network.

Over the life of the CIGAR network, there has been unprecedented global interest in public sector accounting reforms. Hence the theme focused on taking stock of reform implementation.

More than 50 papers were presented at the conference, from 22 countries, addressing a variety of topics such as: performance measurement, local government, developing countries, financial reporting, management accounting, accounting standards, reform processes, information users, budgeting, auditing and controlling systems, governance and public assets. From these, after further refereeing by the Scientific Committee and revision by the authors, this book was produced.

If one person can be said to be responsible for the book it is Susana Jorge. She not only led every aspect of the associated conference but also every aspect of this book. Her success is a particular pleasure for me because she came to specialise in public sector accounting as my PhD student. I trust this book will be a forerunner of many more of her, and CIGAR's, successes.

Birmingham, June 2008

Rowan Jones
CIGAR Chair

(Página deixada propositadamente em branco)

FOREWORD

These papers were originally presented at the 11th CIGAR Biennial Conference. They were refereed before the conference, for inclusion in the conference, and were subsequently refereed and revised for publication here, attending to criteria of scientific relevance (topic, methodology and contributions for theory and practice), international comparative focus and relation to the conference main theme.

Part 1 comprises five papers of comparative international studies, most of them involving comparisons between two countries.

Elisabetta Reginato analyses, through a comparative approach, the reform effects on the local government accountability codes of some European Continental countries (Italy, France and Germany) and Anglo-Saxon ones (United States and United Kingdom). The study enquires the hypothesis of a direct correlation between the accountability codes, and the institutional features – the legal system and the administrative culture.

John Neilson and *Zhang Qi* offer a comparison between China and Australia on what concerns the development of the Government sectors, the emerging trends and the financial reporting of the Government sector in each country. They highlight how such distinctly different countries have approaching while making the government structures and public sector more transparent and accountable, and continuing to implement reforms to increase efficiency and effectiveness of government services.

Norvald Monsen and *Lasse Oulasvirta* develop a comparative study between Norway and Finland, focusing on the influences of cameral accounting and commercial accrual accounting (theoretical level) on the evolution of national government accounting regulations in both countries (regulatory level), contributing to the general understanding of governmental accounting systems.

James Chan and *Xu Yunxiao* use the stakeholder theory to describe three government accounting standard-setting organisations in China and The United States, as well as further comparative institutional analysis of their structures and processes. Their analysis leads to the conclusion that these organisations are embedded in and reflect the larger institutional framework of accountability in a country.

Hassan Ouda, based on Lüder's Contingency Model, undergoes statistical analyses in order to detect the significance of the differences of the transition barriers that can

preclude the transition to accrual accounting within the developed and developing countries, represented by The Netherlands and Egypt. Additionally he examines to what extent the transition barriers are correlated within both kinds of countries.

In Part 2 five country studies on reform processes are presented, finalising with a theoretical approach that supports a complementary view of accounting reforms implementation.

Adhikari Pawan and *Frode Mellemvik* delineate how the notion of accrual accounting evolved and has been abandoned (ideology change) in Nepalese Central Government accounting, highlighting the consensus among regulatory agencies, international organisations and donor countries that cash-based accounting is the acknowledged departing point for streamlining.

Wojciech Nowak updates a former contingency approach to public sector accounting in Poland to explain recent changes triggered by the 1998 Public Finance Act. The modified model is also used as a tool for analysing public sector accounting systems convergence. The development of public sector accounting is generally seen within a social action system.

Rakoto Ollarilanto, based on Lüder's contingency model, examines the reasons why the accrual accounting is still unknown by Malagasy municipalities in spite of its official enactment in 2005. The study links the recognition of the accrual model to the actors' interactions within Central Government and municipalities and to the accounting organisation.

Konstantin Timoshenko focuses on the reconstruction, in favour of accruals, of accounting and financial reporting at the Russian Central Government level. The paper increases the knowledge about Russian public sector accounting in times of change. Tracing the emergence of a new version of accounting norms, the study suggests that the most recent accounting initiatives may be classified as a symbol of legitimacy, intended to bolster an image of Russia as a more 'progressive' and 'modern' country.

Luminita Ionescu addresses the reform program for the public sector accounting system implemented by the Romanian Government, in which moving from cash accounting to accrual-based accounting is a major project. The key steps are highlighted and changes interpreted, namely regarding institutional reform, weakness of public sector accounting, program budgeting and the public sector accounting reform for European integration.

Sébastien Rocher presents the strengths of Action-Network Theory (ANT) in studying the implementation of governmental accounting reforms, additionally discussing how this approach could help to bring a complementary view of accounting reforms in the public sector at an international level. His paper emphasises a constructivist instead of a positive orientation of accounting reform.

Part 3 includes four country studies on local government issues, such as agents of change, relative efficiency, contingent liabilities and service charters.

Paul Windels and *Johan Christiaens* examine the importance of different agents of change in the adoption of public sector accrual accounting, drawing their study on institutional theory. An accounting index is applied to a large sample of Flemish local governments to analyse the level of adoption of the altered accounting requirements. The impact of a number of prominent agents is empirically tested on the level of adoption in a cross-sectional way.

Pedro Camões, Susana Jorge, João Carvalho and Maria José Fernandes assess the efficiency of Portuguese Continental municipalities using a methodology of frontier analysis in order to provide a relative efficiency indicator, i.e., a ranking ordering the municipalities. The sensitivity of the efficiency score is tested as well.

Helge Mauland and Ailin Aastvedt, focusing on Norwegian Local Government accounts, investigate whether it is possible to report long-term liabilities such as provisions and contingent liabilities in a modified cash accounting system. They particularly discuss the possibility and necessity of including social benefits into the accounts, arguing that incorporating uncertain and contingent liabilities into modified cash accounting regime is troublesome and long-term uncertain liabilities cannot meaningfully be included into a modified accrual accounting regime.

Vicente Montesinos and Isabel Brusca present the Spanish experience regarding the implementation of Citizen's (service) Charters in Local Government, additionally comparing this with the initiatives carried out both in other European Continental and in Anglo-Saxon countries. Using a questionnaire, they have found out that although a management tool available, Service Charters are not very widespread amongst Spanish local entities yet.

Part 4 gathers five studies related to financial reporting (both individual and consolidated), information users and accountability. Comparisons with IPSASs are also considered in two papers, while one paper particularly addresses education institutions.

Luca Anselmi and Simone Lazzini undergo a study to understand the perception of usefulness of IPSASs as a mean to increase public accountability and disclosure in Italian local authorities. They assess the actual diffusion level suggesting methodologies that might improve the value of information and accountability in the system of accounting surveys of public administrations.

Giuseppe Grossi and Torbjörn Tagesson critically analyse similarities and differences in the approach to consolidated financial statements in standards issued by the International Public Sector Accounting Standards Board (IPSASB) and the Swedish Council for Municipal Accounting (SCMA). The analysis is based on data from documentary studies and interviews and shows that the two standard-setters approach the problem of consolidation quite differently.

Aldo Pavan and Francesca Lemme, focusing on a few American and Italian governmental disclosure practices, investigate whether and to what extent governments that are communicatively oriented to their citizens, may be assumed as politically accountable to them. They search for a possible theoretical overlap between the communication theory, the theory of agency and the concept of accountability, while from a pragmatic standpoint they focus on the contents of the financial information conveyed by means of official documents.

Kiyoshi Yamamoto conducted a survey for members of parliament in Central Government and Councillors in Local Government of Japan, in order to study their personal preference and attitudes to the government financial and performance information, namely how they use financial reporting for policy-making. The research also discusses the driving forces that promote the usefulness or utility for the financial reporting in Government.

Jens Heiling develops some recommendations on how financial reporting systems of public higher education institutions in Germany should be designed, focusing on

the financial reporting of public colleges and universities. His approach follows a case study based international comparison between The United States and Germany.

Part 5 relates to performance and management accounting.

Patrícia Gomes, Sílvia Mendes and João Carvalho study performance measurement of police public services, considering their complexity, diverse objectives and stakeholders. Based on a nationwide survey of all police chiefs of the Portuguese police force, they find that employee performance measurement is the main form of measurement. They also propose a strategic map for the Portuguese police service.

Rita Cheng, Kenneth Smith and Ola Smith examine voluntary performance reporting by the 50 States in the USA in two large Departments: Transportation and Corrections. Using an archival methodology, they contribute to the accounting research by providing evidence on both the level and drivers of voluntary governmental performance reporting.

Salme Näsi, Pasi Leppänen and Pentti Meklin, based on a case study, examine the consequences of the increasing use of different internal market models and profit and investment centre structures in Finnish municipalities, from the transparency and controllability of costs point of view.

Part 6 addresses special topics related to public sector accounting, namely social security consolidated accounts, budgeting and auditing.

Evelyne Lande, Sandrine Boulerne and Fatima Jaouan study the impact of the choice of an event date of recognition on financial information, and particularly on its reliability and relevance for decision making. They focus on the French Social Security System consolidated accounts, using a financial simulation to measure the impact of different dates of recognition on the profit and loss account and discussing policy implications of changes in this date.

Johan de Kruijf compares both the availability to the general public and the contents of budgetary documents between two contexts. The study is restricted to the German State (*Land*) of North Rhine Westphalia and The Netherlands to control for differences between German States. Computing disclosure scores, the paper shows that availability of information to the general public is generally improving. On the issue availability of performance information, there still are opportunities for improvement.

Belén González, Antonio López and Roberto García analyse the instruments used by Supreme Audit Institutions (SAIs) in evaluating the impact of their activity and the extent to which impact is adopted. They undertake a comparative study based on the different auditing models adopted by a group of EU countries' SAIs and by the European Court of Auditors, showing that 'Recommendation follow-up' is the instrument most widely-used.

ACKNOWLEDGEMENTS

There are a few people that I am thankful to, since without them this book would not have been possible. I would like to thank:

- The authors for their contributions and dedication in improving their manuscripts;
- The CIGAR Scientific Committee for their refereeing, namely Aad Bac (Tilburg University), Dietrich Budäeus (University of Hamburg), Eugenio Caperchione (University of Modena), Evelyne Lande (IAE de Poitiers), Frode Mellemvik (University of Bodø), James Chan (University of Illinois – Chicago), Jean-Claude Scheid (CNAM Paris), Klaus Lüder (Germany Postgraduate School of Administrative Sciences), Norvald Monsen (Norwegian School of Economics and Business Administration), Riccardo Mussari (University of Siena), Rowan Jones (University of Birmingham), Salme Näsi (University of Tampere) and Vicente Montesinos (University of Valencia);
- The 11th CIGAR Biennial Conference Secretariat, namely José Miguel Nunes, but also Bruno Nunes, Pedro Rodrigues, Margarida Santos and Gabriela Verdier;
- A special thank you also to Dr. Maria João Padez de Castro, from the Imprensa da Universidade de Coimbra (Coimbra University Press), for her commitment in turning the publication of this book into an important international contribution from the University of Coimbra in Portugal.

Coimbra, June 2008

Susana Margarida Faustino Jorge
Chair of the 11th CIGAR Biennial Conference

(Página deixada propositadamente em branco)

LIST OF CONTRIBUTORS

Adhikari Pawan	<i>Bodo Graduate School of Business, Norway</i>
Ailin Aastvedt	<i>Telemark Research Institute, Norway</i>
Aldo Pavan	<i>University of Cagliari, Italy</i>
Antonio López	<i>University of Oviedo, Spain</i>
Belén González	<i>University of Oviedo, Spain</i>
Elisabetta Reginato	<i>University of Cagliari, Italy</i>
Evelyne Lande	<i>IAE of Poitiers, France</i>
Fatima Jaouan	<i>ACOSS, France</i>
Francesca Lemme	<i>University of Cagliari, Italy</i>
Frode Mellemvik	<i>Bodo Graduate School of Business, Norway</i>
Giuseppe Grossi	<i>University of Siena, Italy</i>
Hassan Ouda	<i>EurNet Consultancy, Rotterdam, The Netherlands</i>
Helge Mauland	<i>University of Stavanger, Norway</i>
Isabel Brusca	<i>University of Zaragoza, Spain</i>
James Chan	<i>University of Illinois, Chicago, USA</i>
Jens Heiling	<i>Ernst & Young AG, Stuttgart, Germany</i>
João Carvalho	<i>University of Minho, Braga, Portugal</i>
Johan Christiaens	<i>Ghent University, Belgium</i>
Johan de Kruijf	<i>University of Twente, Enschede, The Netherlands</i>
John Neilson	<i>Curtin University of Technology, Australia</i>
Kenneth Smith	<i>Willamette University, USA</i>
Kiyoshi Yamamoto	<i>University of Tokyo, Japan</i>
Konstantin Timoshenko	<i>Bodo Graduate School of Business, Norway</i>
Lasse Oulasvirta	<i>University of Tampere, Finland</i>
Luca Anselmi	<i>University of Pisa, Italy</i>
Luminita Ionescu	<i>University Spiru Haret, Bucharest, Romania</i>
Maria José Fernandes	<i>Polytechnic Institute of Cávado and Ave, Barcelos, Portugal</i>
Norvald Monsen	<i>Norwegian School of Economics and Business Administration, Bergen, Norway</i>
Ola Smith	<i>Western Michigan University, USA</i>
Pasi Leppänen	<i>University of Tampere, Finland</i>
Patrícia Gomes	<i>Polytechnic Institute of Cávado and Ave, Barcelos, Portugal</i>

Paul Windels	<i>Ghent University, Belgium</i>
Pedro Camões	<i>University of Minho, Braga, Portugal</i>
Pentti Meklin	<i>University of Tampere, Finland</i>
Rakoto Oliarilanto	<i>IAE of Poitiers, France</i>
Rita Cheng	<i>University of Wisconsin, Milwaukee, USA</i>
Roberto García	<i>University of Oviedo, Spain</i>
Salme Näsi	<i>University of Tampere, Finland</i>
Sandrine Boulerne	<i>IUT of Poitiers, France</i>
Sébastien Rocher	<i>IAE of Poitiers, France</i>
Sílvia Mendes	<i>University of Minho, Braga, Portugal</i>
Simone Lazzini	<i>University of Pisa, Italy</i>
Susana Jorge	<i>University of Coimbra, Portugal</i>
Torbjörn Tagesson	<i>Kristianstad University, Sweden</i>
Vicente Montesinos	<i>University of Valencia, Spain</i>
Wojciech Nowak	<i>University of Lodz, Poland</i>
Xu Yunxiao	<i>Peking University, China</i>
Zhang Qi	<i>Zhongnan University of Economics and Law, China</i>

– PART 1 –

COMPARATIVE INTERNATIONAL STUDIES

(Página deixada propositadamente em branco)

LOCAL GOVERNMENT ACCOUNTABILITY IN EUROPEAN CONTINENTAL AND ANGLO-SAXON COUNTRIES: AN INTERNATIONAL COMPARISON

Introduction

International literature has attempted to define the concept of accountability whose meaning is different according to the referential context (Gray and Jenkins, 1993; Mulgan, 2000; Pezzani, 2000; Sinclair, 1995; Stewart, 1984; Valotti, 2000) and whose theoretical bases can be found in the agency theory (Mayston, 1993). Accountability involves two parts: a principal – accountee – and an agent – accountant. The principal has the right to call upon the agent to give account of his actions; the accountant has the duty to act in the accountee's interest, to present account of his execution, and to give him the required information to be rewarded or sanctioned (Mulgan, 2000). This is the original meaning of accountability that includes the concept of responsibility (Uhr, 1999). There is no accountability without responsibility; the person that has been appointed to a position of responsibility takes an obligation of accountability not only with respect to the appointing authority, but also to a range of stakeholders with interests in his activities.

Talking about accountability in the public sector means to determine *who* is accountable, to *whom*, *how*, for *which* actions and results, and at last *what* the tools for rewarding and punishing the accountant's behaviour are (Fearon, 1999; Behn, 2001).

Most OECD countries' public sector reforms, developed since the 1980s (Hood, 1995; Pollit and Bouckaert, 2000), have changed the meaning and the contents of governmental accountability. In fact, governments have to be accountable, both in detail and comprehensively, for the use of public resources and for the results achieved.

This paper will be organised into six further sections. The next one will provide the concept of accountability in the public sector and how it is discharged through the accounting system. The second section will explain the research question and the adopted methods. The third and the fourth sections will focus on a comparative analysis among European Continental and Anglo-Saxon countries' institutional features and accountability codes, and will enquire into the likely relationship between them. The fifth section will consider the available literature on the Italian local government

accounting practices in order to assess the likely gap between them and the regulations. The final section will discuss, together with an assessment of the limitations, the results of the analysis and will draw some conclusions.

1. Public Sector accountability relationships and codes

In a democratic system accountability relationships involve citizens and elected officials on one side, elected officials and executives on the other. Elected officials are in an agency relationship with their electors – *political or external accountability* (Sinclair, 1995; Stewart, 1984) –, who, however, are limited in their capacity to judge what politicians usually do, and may offer rewards or impose sanctions through the ballot box.

Likewise executives are in an agency relation with the elected officials – *managerial or internal accountability* (Sinclair, 1995; Stewart, 1984). The latter determine the goals, check up on results, and exercise the power to appoint and to revoke the agents, according to the principle of separation between political decision making and public management. Executives manage resources, and are accountable for the goals achieved. In this second kind of agency relation, elected officials have a greater number of rewarding and punishing tools to control executives than voters have towards them (Ferejohn, 1999).

The examined relationships are based on the principle of the highest internal and external transparency, and imply the identification of the accountors and the accountees who are the local government main stakeholders (Ongaro, 2003, Pavan and Reginato, 2005). Among them it may be possible to distinguish external and internal groups. The former include citizens – as taxpayers and consumers of public services –, business and voluntary organizations – as service users, local authority partners or competitors in delivering services –, upper levels of government, oversight bodies, and investors. The latter include institutional bodies, political groups, public managers and public employees (Borgonovi and Annessi Pessina, 2000; Boyne *et al.*, 2002).

The effective operation of these different accountability relationships and their evolution, according to the public sector reform, influence the information provided and thus the features of the accounting systems whose changes are studied by the New Public Financial Management – NPFM – (Guthrie *et al.*, 1999). In particular the NPFM represents the shift from a bureaucratic and formal management model, focusing on the compliance with laws and regulations, to a managerial one, focusing on efficiency and effectiveness, on outputs and outcomes. For each single phase of this shift we can determine a consistent accountability code that better satisfies citizens' information needs (GASB, 1987; IFAC, 2000) – Table 1. This accountability code model derives from a new review of the available literature on the information required for accountability purposes and on the relating accounting tools (Boyne *et al.*, 2002; Gray and Jenkins, 1993; Stewart, 1984).

In a bureaucratic model, the financial accountability code, which focuses on the compliance with the budget and with laws and regulations, prevails. The information provided regards the amount and quality of tax collection and public expenditure, and the compliance with the spending authorization. The accounting system is on a cash and obligation basis in order to control the monetary flows.

Table 1 – Accountability codes and accounting tools

Accountability Codes	Information	Accounting Tools
Financial accountability	Tax collection Public expenditure Compliance with spending authorization	Cash and obligation accounting Compliance with proceedings
Managerial accountability	Programs Outputs Cost and quality of services Efficiency Public net assets and their changes Financial position Respect of the intergenerational equity principle	Accrual accounting Accrual budget Management accounting Management control Performance measurement based on outputs and efficiency
Professional accountability	Outcomes Effectiveness	Strategic planning and controlling Popular reports Performance measurement based on outcomes and effectiveness

When the relations between elected officials and citizens, between assemblies and governments, and between the latter and executives place more emphasis on results and efficiency, the financial accountability code is no longer suitable. The traditional public sector accounting system shows its lacks because it does not provide information about the public net assets and their changes during a period of time, about the level, composition and dynamics of debts and financial assets, and about the correlation between outputs and resources. In particular such correlation is relevant to know how much public action costs and who and when must pay for it. As for this last point we talk about the intergenerational equity principle according to which the generation that uses assets and benefits from facilities should pay for them. This principle should be assessed if the accounting system ensured that every liability, even if only estimated, is timely accounted and disclosed (GASB, 1987; Jones and Pendlebury, 2000: 202; Pavan, 2003: 17).

Having in mind these needs, managerial accountability points out the executives' responsibility for the use of public resources and for the results achieved. Stakeholders require information: a) about programs through which objects are settled; b) about outputs; c) about the cost and quality of the supplied services; d) about the efficiency achieved; e) about the debts and the financial asset level, composition and dynamics; f) about the intergenerational equity principle observance. This kind of information can be produced through accrual accounting, management accounting, management control and performance measurement information system.

In order to ensure that the relations among stakeholders are based on the principle of the highest transparency and responsibility, the results can be expressed in both terms of output and outcome. Accordingly, the professional accountability code emerges. Its accounting tools are strategic planning and controlling, popular reports, performance measurement based on outcomes and effectiveness.

Not all situations clearly show a prevailing accountability code but, from time to time, new features appear that do not replace the previous ones but integrate them.

2. Research question and methods

The purpose of the paper is to analyse, through a comparative approach, the public management reform¹ effects on the local government accountability codes of some European continental countries – Italy, France and Germany –, and Anglo-Saxon ones – United States and United Kingdom.

The need for a revision of the local government accounting systems has come as a result of the NPFM reform. The success of the revision depends on the presence of some key factors that could influence the evolution of the reform process. These factors are represented for example by the legal system of a country and its administrative culture² – from now on called institutional features. The institutional features together with the public sector organisation, the renewal *stimuli*, the reform process approach and management, the specific objectives and the actual users of the public sector accounting system, are considered in this study as the countries' contextual features and they are used to explain why in each country the reform pace, tools, and achieved results are different (Brusca and Condor, 2002; Pollit and Bouckaert, 2000; Vela and Fuertes, 2000). The contextual features represent some of the most meaningful elements of Lüder's and Pollit and Bouckaert's models.

Over the last decades the above models have been used in comparative studies concerning government accounting systems in different countries. These studies have allowed to determine the common features of the reform process and its causes, and have tried to explain the reasons that have led each country to a specific accounting system (Caperchione and Mussari, 2000; Chan and Xiaoyue, 2002; Lüder and Jones, 2003). The first construct is Lüder's Contingency Model which aims at assessing the contextual condition conduciveness to the government accounting reform implementation (Lüder, 2002a). During the years the Contingency Model has undergone a complete revision (Vela and Fuertes, 2000). The new one, called Financial Management Reform Process Model – FMR –, is here integrated with Pollit-Bouckaert's model. The latter describes the forces that have a significant effect on the public management reform and those that oppose to it (Pollit and Bouckaert, 2000).

According to the different institutional features, comparative studies usually divide the analysed countries into two groups: the Anglo-Saxon countries – e.g. Australia, New Zealand, United States, United Kingdom – and the European continental ones – e.g. Italy, France, Germany, Spain (Benito and Brusca, 2004; Brusca and Condor, 2002; Torres and Pina, 2003a).

¹ The term reform is used in this study to indicate the institutional and accounting changes that local governments have undergone on the waves of NPM ideas.

² Administrative culture is defined as the expectations that the people working within the organisation have about what is normal and acceptable (Pollit and Bouckaert, 2000)

The first group includes those countries whose legal systems are based on common law wherein legal dictates are fewer and not very detailed, and the accounting rules are influenced by the professional bodies. Their administrative culture is grounded in the public interest model where the state has a diminished role in the society and higher civil servants have often a business education (Pollit and Bouckaert, 2000).

The second group includes those countries whose legal systems are based on civil law characterized by a more legalistic and regulatory style. Accounting regulations have a legal character and there is a more detailed description of the accounting information content which aims at ensuring compliance with the principles established in the legal framework. In these countries the *Rechtsstaat* administrative culture model prevails. This means that the state has a central role in the society and its main tasks are the promulgation and the application of laws. Most of the higher civil servants have a legal background and their major concern is the compliance with the rules (Pollit and Bouckaert, 2000).

As the NPFM presents features coming from the Anglo-Saxon environment (Caperchione, 2006; Pollit and Bouckaert, 2000), the study also enquires the hypothesis of a direct correlation between the accountability codes and the institutional features.

With regard to the choice of the countries to compare, three belong to the European continental group – Italy, France and Germany –, and two belong to the Anglo-Saxon one – United States and United Kingdom. Among the European continental group France, Germany and Italy have a strong legalistic tradition in common (Kickert, 2005). In addition France and Italy share a ‘Napoleonic’ origin which can account for some significant commonalities in the development of their public sector accounting reform (Kickert, 2005; Mussari and Steccolini, 2006).

Among the Anglo-Saxon group the United States’ public sector reform analysis is usually regarded as particularly interesting since the implementation of the US public management model showed a surprising capacity to spread the NPM ideas (Benito and Brusca, 2004; Caperchione, 2000; Pozzoli, 2005), while in the United Kingdom the NPM inspired reforms have been developed faster than in any other Western European country (Pollit and Bouckaert, 2000; Torres and Pina, 2004).

At last in all these countries there has been a devolution³ process which has brought to a decentralized public sector organization and local governments have been the driving force for the accounting system reform (Budäus *et al.*, 2003; Chan, 2002; Lande and Scheid, 2003; Jones, 2003; Pollit and Bouckaert, 2000; Reborá, 1999).

The study is based on a comparative approach pointing out the analysed countries’ local government accounting rules relating to budgeting, book-keeping, and financial reporting, in order to assess their accountability codes.

In the European Continental countries budgeting and accounting are legal matters with strict rules; Italian local government accounting system is regulated by the Consolidation Act of Local Government⁴ – Testo Unico Enti Locali, from now on called

³ Devolution is commonly understood to be the transfer to a subordinate elected body, on a geographical basis, of functions previously exercised by the national parliament. It typically involves considerably autonomy in resources and policy implementation. (OECD, 1997; Rhodes, 2000).

⁴ Legislative Decree n. 267/2000.

TUEL –; the French one by the law ATR 1992 and the M14 – *Instruction budgétaire et comptable* –; the German one mainly by Local Governments Acts – *Gemeindeordnungen* – and by Municipal Budgetary Acts of 1972-1974 – *Gemeindehaushaltsverordnungen*.

On the contrary in Anglo-Saxon countries, although public sector accounting is subjected to corresponding legislation, it is strongly influenced by the accounting professional bodies that issue some voluntary guidelines (Brusca and Condor, 2002). As regards the United States, Governmental Accounting Standards Board – GASB⁵ – documents are usually chosen as a reference in state and local government accounting standards (Benito and Brusca, 2004; Brusca and Condor, 2002; Chan and Jianfa, 2005; Torres and Pina, 2003b). Even though each US state can enact its own accounting regulations, the American Institute of Chartered Public Accountants⁶ – AICPA – recognizes GASB standard nation-wide applicability (Allen, 2002). In case of conflict between state and local government legal requirements and GASB principles, the latter prevails (Caperchione, 2000: 159; Chan and Jianfa, 2005: 19-20; Pozzoli, 2005: 204).

In the United Kingdom at local level the law still only provides a skeletal framework for accounting and financial reporting (Jones, 2003). The Chartered Institute of Public Finance and Accountancy – CIPFA⁷ – and the Local Authority (Scotland) Accounts Advisory Committee – LASAAC – have jointly issued the “Code of Practice on Local Authority Accounting in the United Kingdom” which is recognized by the Accounting Standards Board – ASB⁸ – as a “Statement of Recommended practice” – SORP⁹ (Chan and Jianfa, 2005). Code prescriptions are in the form of recommendations that may not be followed.

At last, as there could be a distinction between changes required by regulations and their actual implementations, after having compared the countries at the rule level, the research considers the available literature on the Italian local government accounting practices (Anessi Pessina and Caccia, 2000; Anessi Pessina and Steccolini, 2001; Anessi Pessina and Steccolini, 2005; Buccoliero *et al.*, 2005; De Matteis and Preite, 2005; Marcuccio and Steccolini, 2005; Mazzara, 2003; Steccolini, 2004).

⁵ The GASB was born in 1984 as an operating entity of the Financial Accounting Foundation (FAF) to establish financial accounting and reporting standards for state and local governmental entities. Board members are appointed by FAF Trustees and they are assisted by a professional staff drawn from government, public accounting, and academy.

⁶ The AICPA is the professional association of US auditors.

⁷ The CIPFA is one of the main professional accounting bodies in the United Kingdom, and many of its members are local government accountants.

⁸ The ASB is the body prescribed by law for issuing accounting standards for most UK companies.

⁹ SORP's provisions are updated where professional or statutory developments make it appropriate.

3. Compared countries' contextual features

This section focuses on a comparative analysis among the European Continental and the Anglo-Saxon countries' contextual features.

3.1. European Continental countries

3.1.1. Italy

The civil law pervades the Italian legal system as well as the public sector administration, and the administrative culture is traditionally grounded in the *Rechtsstaat* model. Although most of the higher civil servants have a juridical education, they have positively hailed the NPM principles allowing a reform of the logics of public administration (Caperchione, 2000; Ongaro, 2002). The reform process began in the early 1990s and the main effects were: a shift towards the separation of political decision making and public management, an attempt to introduce a managerial culture focused on results and services to citizens and the civil service 'privatisation' in order to improve accountability (Pavan *et al.*, 2006). Thus Italy can be seen as a latecomer in comparison with the leading NPM reformers such as the United Kingdom that, as it will be said below, began its reform process ten years before.

The Italian institutional framework is composed of a central state, regions, provinces and municipalities; the latter two represent the forms of local governments. Albeit Italy is recognised as a unitary state, a reform has been undertaken in order to enhance devolution (Raimondi, 2003: 54). These process started in 1990 by means of law 142/90 and then was strengthened in 1997 by the so-called "Bassanini reform" and in 2001 by a constitutional reform¹⁰. The result was a radical reshaping of the institutional setting, though its final effects are still unclear; local governments were assigned enhanced powers and responsibilities (Anessi Pessina and Steccolini, 2005; Mussari, 2005; Ongaro, 2006). Their greater autonomy together with the direct election of the mayor and of the province president brought about a new concept of accountability (Pezzani, 2005). This is no longer intended as a mere compliance with rules and procedures – financial code – but as the need to give account to the citizenry, in the first place, of how results are achieved and resources are used – managerial code.

The reform was triggered by different factors: a) the public finance crisis and a chain of financial scandals that ended up in the 'clean hands' inquest; b) the Maastricht Treaty which establishes the foundations of the European monetary union boosting the restoration of public finances; c) the progressive reduction of public intervention in the economy and the resulting increase in the citizenry demand for higher quality services (Mussari, 2005; Pavan and Reginato, 2004).

The Italian approach to NPM has taken place by law and has been based on a top-down approach (Caperchione, 2000; Anessi Pessina and Steccolini, 2005). As it

¹⁰ Constitutional Law, 18 October 2001, no 3 – "Amendments to the Title five of the second part of the Constitution".

will be better explained below, the accounting information system seems to aim just at the authorisation observance, and is mainly targeted on internal stakeholders (Steccolini, 2004).

3.1.2. France

The French legal system is based on civil law and its *Rechtsstaat* administrative culture arises from the Napoleonic administration model based on the state interventionism – *dirigisme* – in all aspects of the nation socio-economic life (Clark, 1998; Cole and Jones, 2005; Pollit and Bouckaert, 2000).

France is traditionally a unitary state which presents several levels of local government authority: regions, departments, municipalities and inter-municipalities. The municipality level is the most important according to its number – more than 36,000. Most of them have less than 10,000 inhabitants and are grouped in inter-municipalities to provide public services to their citizens.

Its administrative centralization was symbolized, until 1982, by the prefectural system. The prefect – a civil servant from the Ministry of Interior – exercised a comprehensive control – *tutelle* – over the decisions of locally elected officials (Clark, 1998: 99; Wollmann, 2004: 656). Since the beginning of the 1980s, this centralized and hierarchical administrative system was subjected to a variety of pressures to change such as: a) the European integration; b) the influence of NPM principles; c) the fiscal crises and budget retrenchments; d) the rising of corruption cases that contributed to the citizen's lack of trust on elected officials (Cole and Jones, 2005: 570; Kickert, 2005: 544; Pollit and Bouckaert, 2000).

In 1982 the French Parliament adopted the law n. 213 – *Loi Deferre* – which transferred activities and some financial resources, such as management and construction of school or social expenses, to local governments that greatly expanded their autonomy and authority. The prefect's prior control was replaced with an *a-posteriori* legality review to verify if the budget requirements are respected (Lande and Scheid, 2003; Wollmann, 2004).

French administrative reform is characterized by an increased focus on clients, on improving the quality and the efficiency of public service provision, and on strengthening governmental responsibility and accountability. The performance management programmes are initiated from the central level through legal instruments, mainly circular, which are less constraining than laws or decrees. The purpose of the reforms is not to impose detailed and prescriptive changes from the top, but to allow the local level to take part in the reforms. As the actual content of the reform is to a large extent determined at the local level, the approach can be described as a bottom-up one within a central framework (OECD, 1997; Pollit and Bouckaert, 2000). As it will be better explained below, although the public sector accounting standards were influenced by the business sector, the objectives of the financial information are mainly the budgetary control of resources, and its potential users are internal ones.

3.1.3. Germany

Germany is a federal republic and a parliamentary democracy whose legal system is based on civil law. A distinctive element of the German administration model is its strong legal orientation that makes it a *Rechtsstaat*, or a state where the constitution together with laws and regulations are the exclusive source of administrative actions (Kickert, 2005; Lüder, 2002b; Pollit and Bouckaert, 2000; Wollmann, 2002). Higher civil servants are predominantly lawyers and must be in basic political agreement with the political leadership (Goetz, 1997).

Local government – *Gemeinden* – is the lowest in the three government levels within Germany; the other two are: the federal – *Bund* – and the state level – *Länder* .

The third level, the local authorities, is subdivided into three city-states – Berlin, Bremen and Hamburg – counties and municipalities (Budäus *et al.*, 2003). According to the Federal Constitution, municipalities have the autonomy, within the frame of law, to decide on local matters – the right of local self-government (Lüder, 2002b; Reichard, 2003). They are governed by an elected council and by a mayor who since the early 1990s is directly elected and can be recalled by local referendum (Wollmann, 2004).

The introduction of the New Steering Model – NSM – as a German variant of the NPM started at the local level only in the early 1990s. Thus Germany, just like Italy, can be seen as a late reformer (Reichard, 2003: 349; Ridder *et al.*, 2005: 444). Financial and citizen pressure, the growing responsibilities and service portfolios forced local government to think about new measures for increasing efficiency (Lüder, 2002b; Reichard, 2003). There was no pressure from the state or the federal level to introduce the NSM; it was a voluntary process driven by local government – bottom up approach (Pollit and Bouckaert, 2000; Reichard, 2003; Ridder *et al.*, 2005; Wollmann, 2000).

One of the main driving reform forces was the *Kommunale Gemeinschaftsstelle für Verwaltungsvereinfachung* – KGSt – the largest local government association in Germany. It designed the NSM and disseminated its conceptual ideas through publications, seminars, own consultancy company, networking with municipalities, and so on (Lüder, 2005; Reichard, 2003; Ridder *et al.*, 2005; Wollmann, 2000). Traditional local budgeting and accounting system is cash-based and compliance-oriented; it aims at meeting the council budgetary control needs, and neglects external stakeholders (Lüder, 2002b; Reichard, 2003). Thus the NSM model, based on managerial approach, has required new system focused on output budgeting and management accounting (Ridder *et al.*, 2005).

These reform ideas began to be tested, and tests are still ongoing, in medium and large size municipalities in the early 1990s. They carried out pilot projects under the experimentation clauses¹¹ provided by the Municipal Budgetary Acts (Lüder, 2002b: 232; Pollit and Bouckaert, 2000; Reichard, 2003: 349).

¹¹ This amendment permits local governments to apply, for a limited period of time, budgeting and accounting approaches other than the ones provided for by legislation.

3.2. Anglo-Saxon countries

3.2.1. United Kingdom

The United Kingdom is a constitutional monarchy and a unitary state whose legal system is based on common law and whose administrative culture is related to the public interest model. Most of civil servants have not a specific educational background, except for local governments where they have business education. They are apolitical, but are responsible to the Prime Minister and the Cabinet (Jones, 2003; Ongaro, 2006; Pollit and Bouckaert, 2000). In the accounting field there is an emphasis on the informative aspect of the annual accounts rather than to the compliance with rules. Professional accounting bodies' influence has favoured the innovation carried out in the local accounting system much earlier than in other sectors (Brusca and Condor, 2002, Hepworth, 2002).

Local government system is different in the UK four nations; Scotland, Wales and Northern Ireland have a uniform order of unitary authorities, referred to as counties or districts. The most complex system is in England, where in some rural areas there are a two level local authorities: county councils and district councils. In other areas there are also metropolitan boroughs, which are similar to unitary authorities. At last the London city is governed by 33 boroughs and a Greater London Authority (Giroux *et al.*, 2002; Jones, 2003). Local level major responsibilities include the areas of education, housing, social services, planning, police, fire, environmental health and transport (Giroux *et al.*, 2002; Chow *et al.*, 2005).

In addition significant local government institutional differences exist, and they have been confirmed and strengthened since 1998 through the Acts of Devolution. This Acts created the Scottish Parliament, the Welsh Assembly, and the Northern Ireland Assembly and endowed them with legislative power in local government institutional arrangement (Wollmann, 2004; Chow *et al.*, 2005). No devolution process involved England (Ongaro, 2006).

The United Kingdom has been regarded as a leading reformer for the past two decades, and the introduction of NPM principles was as relevant at local level as elsewhere in the public sector (Pollit and Bouckaert, 2000; Goddard, 2005). In the early 1980s the Local Government Finance Act gave the Audit Commission the power to control local governments and to promote studies about what is know colloquially as “*value for money*”. It is a system for measuring and improving local authorities economy, efficiency and effectiveness – the well-known three E’s – through benchmarking technique. The approach to performance management began in 1991, during the Conservative governments, through the Citizen’s Charter which provided standards for customer service and required local authorities to measure their performance. In 1992 the Audit Commission was granted to produce annually a standard set of performance indicators and to give instructions about the publication of information for facilitating standards performance comparisons (Giroux *et al.*, 2002; OECD, 1997; Sanderson, 2001). The election of a Labour government in 1997 produced broader proposals for ‘modernizing government’ through the introduction of the Best Value Regime which came into operation for all local authorities in April 2000 (Chow *et al.*, 2005; Sanderson, 2001). It required councils to prepare and publish annual performance

plans – BVPP – reporting past and future targets in terms of local performance indicators – PIs – (Wollmann, 2004; Boyne, 2000; Martin, 2000).

The main drivers of the reform were economic with the anxieties about the national economic performance, the public finance crisis created by public sector organization undisciplined expenditure and the general desire to improve public services efficiency through the introduction of private sector management approaches – *Corporate management* (Ezzmel and Willmott, 1993; Hepworth, 2002; Rhodes, 2000).

The reform has been comprehensive, constant and centrally guided – top down approach (OECD, 1997: 98; Pollit and Bouckaert, 2000: 354; Sanderson, 2001: 298). The Cabinet Office and the Treasury were key players and have sought to promote the local sector ‘modernization’ through a process of persuasion and exhortation. Only for the introduction of the Best Value regime local authorities played an active role in designing and launching pilot initiatives (Martin, 2000). A major reform implication has been the introduction of new accountability framework, new management systems and processes, and new accounting practices and procedures (Jackson and Lapsley, 2003).

According to the SORP: “the purpose of a local authority’s published statement of accounts is to give electors, members of authority, employees and other interested parties clear information about the authority’s finances – its service cost and assets and liabilities at year-end” (CIPFA, 2004: 5). In addition, as it will be better explained later, local governments are required to publish a set of performance indicators that are useful for assessing their efficiency and effectiveness.

3.2.2. United States

The US legal system is based on the common law with an administrative culture related to the public interest model. Most of the higher civil servants have business education (Pollit and Bouckaert, 2000).

The United States of America consists of 50 states with a significant administrative and financial autonomy (Chan, 2002). Three different governing bodies can be identified: the federal government, the state, and the local government. Local governments, in turn, are divided into county government, city government or municipalities, township and village government, other local governments¹² (U.S. Department of Commerce Economics and Statistics Administration, 2005). The city directly serves the needs of the people, providing everything from police and fire protection to sanitary codes, health regulations, education, public transportation, and housing (Giroux *et al.*, 2002).

The public sector accounting reform in the United States has passed through three stages. The first stage dates back to the 1920s and was influenced by the new role assumed by local governments called to respond to the needs of an expanding community as a result of the industrialization. The second stage developed after the

¹² Other local governments include school districts and special districts which are entities created to provide specific services.

1929 crisis while the third has started in the 1970s when accountability towards external stakeholders was credited an increased relevance.

A major role during this stage was played by the GASB¹³ whose standards represent the core of US GAAP – Generally Accepted Accounting Principles – for state and local governments even though they are not explicitly recognized by governments, as it is the case for the standards issued for the private sector by the Financial Accounting Standards Boards – FASB (Ruppel, 2001).

Presently, The GASB plays a relevant guiding role; its statements allow to improve standards of financial accounting and help users to get information to assess the financial position and accountability of their governments (Allen, 2002; IFAC, 2006).

The reform has been carried out through a bottom-up approach and experimentation processes. In fact government defines the purpose of the reform and indicates some pilot entities for the experimentation. When the first results are achieved, Exposure Drafts are issued followed on at once by Concept Statements.

The first statement issued by the GASB is the Concept Statement n° 1, Objectives of Financial Reporting, which establishes the objectives of general purpose external financial reporting – GPEFR – by state and local governmental entities and applies to both governmental-type and business-type activities. Financial reporting aims at comparing financial results with the legally adopted budget, but also at assessing financial condition and results of operations and at assisting in evaluating efficiency and effectiveness. The Statement also identifies three groups of primary users of external state and local governmental financial reports: the citizenry, legislative and oversight bodies, investors and creditors.

In 1994 the GASB issued the Concept Statement n. 2, Service Efforts and Accomplishments Reporting – SEA – focused on providing more complete information about governmental entities' performance to assist users in assessing the economy, the efficiency and effectiveness of services provided. SEA information include measures of service efforts – input indicators –, measures of service accomplishment – output and outcome indicators –, and efficiency and effectiveness indicators.

On April 2005 the Concept Statement No. 3, Communication Methods in General Purpose External Financial Reports That Contain Basic Financial Statements, was issued. This statement clarifies the relationships between the documents presented within the framework of the general purpose external financial reports and provides a conceptual basis for selecting communication methods to present items of information within general purpose external financial reports that contain basic financial statements.

3.3. A summary of the compared countries' contextual features

The contextual features of the European continental and Anglo-Saxon countries are summarised in Table 2. Among these features the institutional ones could influence the specific objectives and the actual users of the public sector accounting system and thus the development of the accountability codes.

¹³ See footnote 5.

Table 2 – The contextual features

		European Continental Countries			Anglo-Saxon Countries	
		I	F	G	UK	US
Legal system	Civil law	✓	✓	✓		
	Common law				✓	✓
Administrative culture	Rechtsstaat	✓	✓	✓		
	Public interest				✓	✓
Public sector organization	Centralized					
	Decentralized	✓	✓	✓	✓	✓
Renewal stimuli	Financial crises	✓	✓	✓	✓	✓
	Financial scandals	✓	✓			
	Pressure from citizens	✓	✓	✓		✓
	Professional bodies' influence				✓	✓
Reform process approach	Top-down	✓			✓	
	Bottom-up		✓	✓		✓
Reform process management	Rules and regulations	✓	✓	✓		
	Recommendations, guidelines				✓	✓
	Experimentation processes		✓	✓	✓*	✓
Objectives of public sector accounting system	Comparing actual financial results with the legally adopted budget	✓	✓	✓		✓
	Assessing financial condition and results of operations				✓	✓
	Assisting in evaluating efficiency and effectiveness				✓	✓
Users of public sector accounting system	Internal	✓	✓	✓	✓	✓
	External				✓	✓

Notes: I = Italy, F = France, G = Germany

* Only for the BVPP introduction.

4. Local government accountability codes in the analysed countries

This section focuses on a comparative analysis amongst the accounting regulations in Italy, France, Germany, United Kingdom and the United States. Moreover it describes, for each country, the reform of the information system carried out at the local government level and also provides an assessment of the compared countries' accountability codes, pointing out the likely links between them and the contextual features, with particular regard to the institutional ones.

4.1. European continental countries

4.1.1. Italy

The new accountability framework introduced by the reform implied a deep change of the accounting tools and a shift from a bureaucratic perspective – financial code

– to a service-based one – managerial code. Such a change began in 1995 through the legislative decree 77/95 later incorporated in the TUEL, and now supported by the accounting standards issued by the Commission for local government finance and accounting¹⁴.

Italian local governments adopt a budgeting and accounting system on an obligation basis. The annual budget has a central role and has both political and authorizing functions. As it classifies expenditures by services – accounting unit corresponding to organizational unit – it fulfils also an organisational function. Expenditures are also classified by programs¹⁵ in an apposite summarizing section.

The medium term planning documents are the forecasting and programmatic report – RPP –¹⁶ and the multi-year budget which are attached to the annual budget.

In order to define the clearer demarcation between responsibilities for policy making and management, a planning document has been introduced, namely the Executive Management Plan – PEG¹⁷. In this plan, drawn up before the beginning of the new fiscal year by the cabinet, the management objectives are set and assigned together with the resources needed. These objectives represent the agreement between the political body and the organizational counterpart. The PEG is therefore an executives' accountability instrument.

According to the TUEL, local governments draw up the operating statement and the balance sheet using data from the budgetary accounting, by means of a reconciliation statement. They are also allowed, by option, to have two different accounting systems with different basis of accounting: the obligation and the accrual ones; the latter can use double entry book-keeping.

The compulsory reporting documents are: the budgetary statement, the operating statement, the balance sheet; a report drawn up by the cabinet concerning the service efforts and accomplishment, the auditing board report, the list of the uncollected assessments and unpaid expenditures.

The budgetary statement demonstrates the comparison between the budget and the actual results for the year in order to prove the compliance of the second ones with the budget appropriations. The operating statement is a summarizing document containing information about resource consumption, taxes collected and grants received. Its bottom line explains the net assets modification at the year end. The figures showed are determined on an accrual basis by means of a reconciliation statement.

All the Italian public sector accounting regulations have provided for the balance sheet, that includes local government assets and liabilities except for the deferred ones. Its figures derive from inventories and the budgetary accounting. The TUEL also provides for a performance measurements report showing several indicators, particularly on financial position, efficiency and effectiveness.

¹⁴ Osservatorio per la finanza e la contabilità degli enti locali.

¹⁵ The term program indicates a set of activities related to actions necessary for the established purposes.

¹⁶ Relazione Previsionale e Programmatica.

¹⁷ Piano Esecutivo di gestione.

Provinces and municipalities with more than 20.000 inhabitants are obliged to publish a summary of their balance sheet at least in one national newspaper, two local newspapers and one magazine; this obligation is purely formal as no sanctions are provided for non-fulfilment.

It is finally worth to mention that the TUEL, besides the accounting and administrative audits, provides for the implementation of management and strategic control functions.

The Italian local government information system seems to be mostly directed towards the comparison between actual financial results with the legally adopted budget (Caperchione, 2003). The budgetary statement is the most important financial statement and is prepared to comply with the very detailed legal requirements. It is mainly directed to internal stakeholders such as councillors and executive members and public managers.

Hence it is possible to argue that, at the normative level, Italian local government are moving toward the managerial code, while most of the features of the professional one such as citizen oriented information and the results expressed in outcome terms, still miss – Table 3.

4.1.2. France

Since local government role expanded, it became essential to provide local officials with an accounting framework adequate to their responsibilities and to the financial resources involved. The new accounting system was focused on an accrual basis and had to be based on compliance with the principles and rules of the PCG 82 – Plan Comptable Général – that is the chart of accounts used by French private sector enterprises.

In 1990, on the initiative of the central government, a committee of modernization was created to draw up a local government accounting system reform project that involved a lot of small municipalities which tested the chart of accounts between 1993 and 1996. In 1994 the legislator adopted the M14 – *Instruction budgétaire et comptable* – that established the new compulsory accounting system rules for all municipalities beginning from 1 January 1997¹⁸.

As regards the budgeting the main documents are the Preliminary Budget – *budget primitif* – and the Additional Budget – *budget supplémentaire*. The former defines and authorizes all the revenues and all the expenditures that a local government can collect and spend for the fiscal year (Bidart and Moraud 1999). The latter modifies the former for major adjustments and can also include the results of the previous fiscal year.

Budget presentation and adoption are different according to the local government size. All local governments present and vote their budget by nature, and those with more than 3,500 inhabitants present them also by function. Local governments with

¹⁸ Regions and departments will change their accounting system to be aligned with the municipalities one by 2006.

more than 10,000 inhabitants can choose a vote by nature or by function at the beginning of the elected term – six years for municipalities.

In France the public management accounting system reform aims at unifying the method of recording transactions to provide information for the budget and the accounts. Such system is called the “monist” system and is based on compliance with the PCG. The “monist” system adopts the following principles (Adhemar and Varielle 2002; Lande and Scheid, 2003):

- a single budget and accounting classification;
- execution is based on accrual accounting. However local government budget will not be completely comparable to accrual-based budget since accruals is only recognized at the year-end;
- depreciations and provisions are taken into account either in the budget or in the accounting statements; depreciations and provisions must be first recorded in budget documents to authorize their registration in accounting statements¹⁹;
- debt is included in the budget presentation in order to identify its amount and increase²⁰.

Another French public sector accounting characteristic is the principle of separation between the orderer and the public accountant – *principe de séparation des ordonnateurs et des comptables*. The former, the Mayor in the municipalities, orders revenue collection and expenditure payment, and holds the accounting on a single-entry bookkeeping basis. The latter, who is a Ministry of Finance’s civil servant, carries out financial transactions and handles public money. He holds the accounting on a double-entry book-keeping, and is personally liable for all irregularities or omissions he might commit in the exercise of his functions. Both the orderer and the accountant are required to account for orders and payments, and each accounting must check the other.

Thus, two sets of accounts are held simultaneously by the Mayor and the public accountant. The Mayor draws up the budgetary statement – *compte administrative* – that is held on single-entry book-keeping, and records the execution of budget operations .

The public accountant draws up the management statement that includes (Bidart and Moraud 1999): the budgetary statement that has to match exactly the Mayor’s one; the trial balance; the operating statement and the balance sheet.

The operating statement points out the accounting income divided into: operating income; net interests; non-operating income.

The balance sheet in compliance with PCG 82 records assets and liabilities, and it is often not presented to the elected assembly because his attention is more focused on the annual cash flows than on the patrimonial situation (Lande and Scheid, 2003: 263).

The public accountant can also produce different financial analyses using a software provided by the Ministry of Finance.

¹⁹ The recognition of depreciations and provisions is depended on budget credits; if budget credits are not enough, accounting statement cannot recognize these commitments. Thus the link between budget and accounting documents shows its limits in the case budget credit lack.

²⁰ Municipalities with less than 3,500 inhabitants can apply a simplified accounting system: they are not obliged to apply accrual concepts and depreciation of assets, or to record provisions except in the case of differed repayment debts

In order to assess the French local government accountability codes we can analyse the information provided by their accounting documents, and their accounting tools – Table 3. The conducted analysis points out all the features of the financial accountability code together with some features of the managerial one. Historically accounting and report functions were to check budget authorization. The information provided thus regarded the amount and quality of tax collection and public expenditure, and the compliance with the spending authorization.

Through the M14 municipalities have improved their financial information because financial statements provide information about the public net assets and their changes during a period of time, about the level, composition and dynamics of debts and financial assets, and about the respect of intergenerational equity principle. This last kind of information is produced through the obligation to record provisions for deferred loan repayments either in the budget and in the accounting statements²¹.

The new accounting system does not provide information about programs, outputs and outcomes, efficiency and effectiveness. The lack of management accounting does not permit to have any kind of information about the resources used in providing services. Moreover no management control system is implemented as there are no tools for measuring performance.

According to the law ATR 1992²² municipalities with more than 3,500 inhabitants are obliged to make their budget available to citizens fifteen days after their approval. As regards the accounting information less attention is paid to external users who are mainly auditors (Caperchione, 2000; 96). Current financial information is determined by legal aspects rather than by economic or financial ones. Thus it is not relevant for external users such as creditors (Lande and Scheid, 2003: 263).

The accounting system reform is still in progress and the next steps regard the improvement of the financial statement presentation and the drawing of a consolidated accounting document.

4.1.3. Germany

Given the federal system in Germany all municipalities affairs, including budgeting and accounting matters, fall under the *Land* Ministry of Interior's jurisdiction and the states are free to decide the accounting standards to prescribe at the local level. (Lüder, 2002b; Ridder *et al.*, 2005). At present local government budgeting and accounting legal framework is based on the Local Governments Acts – *Gemeindeordnungen* – and on the Municipal Budgetary Acts of 1972-1974 (Budäus *et al.*, 2003). Throughout the years this legislation, which was the result of the first budgetary and accounting reform after World War II, has undergone many changes that have involved legal amendments. Among them the most relevant has been the 'experimentation clause' which permits

²¹ According to the mandatory budget equilibrium, the creation of such provisions is recorded as a current expense and must be financed through a current revenue such as tax increase. In this way the capital repayment of a loan in the future is charged today as a current expense and financed by a tax increase.

²² Law n. 92 125 1992 of the Administration Territoriale de la République.

local governments to carry out pilot projects aimed at introducing new accounting and budgeting systems. These systems can replace those provided by legislation for a limited period of time.

The local budget is prepared by professional officers and has to be approved by the *Land* Ministry of Interior. It contains payment, commitment and borrowing authorisations and estimated revenues; figures are classified by functions and objects. It has to be formally balanced, and is divided into an operating and capital budget; the former has to show a surplus. Currently the budget only provides information about the amount of tax collection and public expenditure, but does not contain information about political programs nor about outputs and outcomes to be achieved (Budäus *et al.*, 2003).

With regard to the accounting system principles, financial statements are kept on a modified cash basis. This means that all revenues and expenditures are recorded twice, when they become due and when they are collected or paid. At the end of the fiscal year cash payable and collectible are shown in the financial statements. Transactions are recorded through the single-entry bookkeeping method called “cameralistic”²³ which displays only monetary values.

The local government financial statements are:

- the statement of cash position, that shows the balance of total receipts and payments;
- the statement of budgetary result, that shows the compliance with the budget and whether the legal requirements for excess expenditures have been met.

The statement of assets and liabilities is only an incomplete annex containing just monetary assets and liabilities and their changes during the fiscal year. The minimum legal requirements are concerned with keeping inventories of all assets, while no operating statement is claimed (Budäus *et al.*, 2003; Lüder, 2002b).

Thus traditional cameral accounting does not provide information about local government’s net assets and their changes, about its financial position, about its cost services. Moreover local authorities do not know anything about their performance in terms of efficiency and effectiveness (Caperchione, 2000). According to these considerations it is possible to argue that German local government accountability code is still the financial one.

However in order to introduce NSM ideas since the 1990s local governments are experimenting an output and accrual based budgeting and accounting system – NKF. The reform driver was an “epistemic community” that mainly consist of scholars, the KGSt²⁴, consulting enterprises and a few practitioners. They all requested a new reporting model including a complete balance sheet, an operating statement and a cash flow statement (Budäus *et al.*, 2003; Lüder,2005).

²³ Cameralistic or cameral accounting is a special version of cash accounting primarily used in German-speaking countries and in some others that belong to the German public sector accounting sphere such as Belgium, the Netherlands, Norway and Finland.

²⁴ See § 4.1.3.

The co-ordination of the different reform approaches has been up to a Sub-committee on local government budget law which was set up by the Standing Conference of the *Land* Interior Ministers in 1998. The committee was charged with elaborating mandatory guidelines for the necessary amendments of *Land* budgeting and accounting law. To prepare legislation some German states – Hessen, Northrhine-Westfalia, Lower Saxony – arranged pilot projects aimed at evaluating the new accrual concepts²⁵. These states have already started the law-making process, the others will soon or later follow, even though they are not obliged to amend their law.

As soon as a *Land* has completed its legislation process, local governments are able to implement the new accounting and budgeting system. It can be estimated that this implementation date in all local governments will be no sooner than 2015 (Budäus *et al.*, 2003; Lüder, 2005; Ridder *et al.*, 2005; Ridder *et al.*, 2006).

4.2. Anglo-Saxon countries

4.2.1. United Kingdom

Even before the recent devolution processes United Kingdom allowed its local governments considerable autonomy in the accounting (Chan and Jianfa, 2005). It is difficult to generalize about UK local government budgeting and accounting; the law does not provide a fully-articulated set of principles. In contrast to central level, local governments have a professional accounting body, the CIPFA – that has taken an extensive role in making accounting policy. As it has been said above²⁶ CIPFA and LASAAC have jointly issued the SORP²⁷ which is a Code of Recommended Practice. This Code adopts, with suitable adjustments, the ASB's pronouncements; thus government accounting standards are adaptations of business ones. CIPFA requires its members to comply with relevant recommendations that are not mandatory. In fact if specific local authority statutory provisions required departures from the SORP, legislative requirements should be followed (CIPFA, 2004; Giroux *et al.*, 2002; Jones, 2003). However SORP is used in this study as local government accounting standards.

The SORP makes no reference to the budget, as there is also no legal definition of its form and content, and its publication and external audit are not mandatory (D'amore, 2005; Pozzoli, 2007). The only statutory requirements are that budget must be produced to determine the tax levy basis and the general fund budget – revenue budget – must be balanced (Giroux *et al.*, 2002). The Budget is divided into a revenue one, that covers one financial year, and a capital one, that can cover two, three or five-year period. In capital and revenue budgeting items are defined

²⁵ For details about German local governments pilot projects see: Budäus *et al.*, 2003; Lüder, 2005; Ridder *et al.*, 2005; Ridder *et al.*, 2006.

²⁶ See §3.

²⁷ The SORP applies formally in Great Britain to local authorities, police authorities, fire authorities, joint committees and joint boards of principal authorities and (in England and Wales) parish, town and community councils with budgeted income or gross income or expenditure of more than £ 500,000.

as receipts and payments adjusted for changes in working capital. Moreover revenue budgeting is based on the accounting profession's definition of the provided service cost, which includes charges for the use of capital assets. Thus the revenue budgeting basis is not straightforward. (Jones, 2003).

Each local government can determine how detailed its own budget should be; whether budget should be based on responsibility centres or on programmes; whether budget should be only in terms of input or in terms of inputs and outputs. Budget approval by politicians occurs typically in February²⁸. As at the local level there is no separation of legislative and executive powers, budget has not an authorizing function and its numbers are 'memorandum' items (Jones, 2003). However it is a tool to carry out the central government financial limits to local management. According to tax payers' information perspective local authorities are required to publish the Council Tax Leaflet which is a budget summary.

In addition to the budget each local governments is required to produce and publish an annual performance plan – BVPP. The plan is about what services the local government will deliver, how it will deliver them, what service standards are currently provided and can be expected. The document should provide information on inputs, outputs, efficiency, effectiveness, outcomes, cost and quality of services and customer satisfaction, by means of performance indicators (Boyne *et al.*, 2002; Jones, 2003). Such indicators are divided into five 'dimensions of performance': strategic objectives, cost-efficiency, service delivery outcomes, quality and fair access (Boyne, 2000). Performance indicator information should include comparison with previous years and other local governments. According to its content, BVPP is seen as a local government accountability mechanism to external and internal users (Boyne *et al.*, 2002; Jones, 2003; Martin, 2000). The plan is examined by external auditors whose role is to assess whether it is conform with statutory guidance. Local governments are obliged to publish a summary of their BVPP by means of local newspaper or newsletter.

In local government accounting a key role is played by the Chief Financial Officer – CFO – who is a local council official and to that extent is beholden to it. CFO's responsibilities are to determine the accounting system, to make sure that the system is observed, to determine the form of the accounts, and to prepare statements of accounts in compliance with SORP (Giroux *et al.*, 2002; Jones, 2003).

Financial reporting is on accrual basis, which is determined in reference to SORP (CIPFA, 2004: 9) and is about local government revenues, expenses, assets, liabilities and cash flows. Within it, however, there is a specific reporting, the consolidated revenue account, which is partially determined by accrual based figures and partly not. Whereas cash accounting is used in monthly budgetary reports, at the year-end receipts and payments are accrued (Giroux *et al.*, 2002).

Another central feature of local government information system is the use of fund accounting. Each local government financial reports are constructed as a series of funds, which means as a series of self-contained sets of accounts. Every fund has an income and expenditure account, balance sheet and cash flow statement. A consolidated

²⁸ The financial year begins April 1 and ends March 31.

financial statements are required and include all funds except the pension and the other trust ones.

The financial statements' producing and publishing for each local government as a whole have become a legal requirement since 1974. The law determines the statement form but almost nothing about measurement and disclosure issues that are accounting profession matters. In 1982 the local government auditor was required to issue a positive opinion on the annual statement of accounts²⁹.

The SORP "specifies the principles and practices of accounting required to prepare a statement of accounts which present fairly the financial position and transactions of a local authority and to prepare group financial statements where they have material interest in subsidiaries, associates or joint ventures" (CIPFA, 2004: 1).

According to the SORP and to the Accounts and Audit Regulations 2003 the main documents included in the state of accounts are³⁰:

- an explanatory foreword, that offers an easy guide to the most significant matters reported in the accounts;
- a statement of the accounting policies adopted, which explains the basis for the recognition, measurement and disclosure of transactions;
- a consolidated revenue account, that reports the annual net cost of the services for which the authority is responsible, and demonstrate how that cost is financed from general government grants and income from local taxes.
- a consolidated balance sheet, that includes the assets and liabilities of all authority activities, deferred liabilities included;
- a consolidated cash flow statement, that summarises the inflows and outflows of cash arising from local transactions
- group accounts
- notes to the accounts, that should add useful information to interpret the content of individual statements.

Comparative figure for the previous year should be given for all items in the statement of accounts and notes to the accounts, while budget numbers are not part of financial reporting.

The law requires the CFO to certify that the statement of accounts presents fairly the local authority's financial position. Concerning this the SORP recommends a statement of responsibilities of the local government itself and of the CFO.

As regards accountability codes – Table 4 – the major implication of UK public sector reform has been a shift in emphasis from the traditional stewardship role of accounting, in terms of compliance with rules – financial accountability –, to a new concept of it based on cost and performance measurement – managerial and professional accountability.

²⁹ Previously only exceptions to a clean opinion were reported.

³⁰ The other documents are: the housing revenue account; the collection fund; the statement of total movements in reserves; any other statements relating to each and every other fund in relation to which the body is required by any statutory provision to keep a separate account.

Estimates and final documents contain all the information included in Table 1 except for those relating to compliance with spending authorization since budget has not an authorizing function. Concerning accounting tools, cash and obligation accounting is commonly used but it is carried out in subsidiary accounting system and its figures are not included in the financial reporting (Jones, 2003: 999). Local government budget can not be defined accrual because its basis is cash plus changes in working capital, and the accrual accounting effect on it is at best implicit. In fact there is no projections of operating statement, balance sheet and cash flow statement at the budgeting stage (Lüder and Jones, 2003: 35). Managerial accountability tools such as management accounting and control have been introduced under the pressure to improve the service delivery efficiency.

The introduction of the Citizen's Charter and of the Best Value Regime have played a key role in enhancing professional accountability. It seems that together with accrual budget only popular reports still miss in local government accounting tools. In fact, according to Jones (2004: 317) "the publication of financial statements is only in the private interest of accountants and auditors: from their invisible hand the public interest emerges".

4.2.2. United States

The reform of US state and local government accounting systems was prompted by the issue, in 1999, of the GASB Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments, updated in 2001 with the issue of the GASB Statement No. 37.

The GASB 34 establishes only financial reporting standards. Budget standards are local government regulation matters, but the National Council on Governmental Accounting and the National Advisory Council on State and Local Budgeting³¹ issued some generally accepted budgeting principles – respectively the NCGA n. 10, State e Local Government Budgetary Reporting and the NACSLB Recommended Budget Practices.

Budget has an authorizing function and its presentation is by program. It is drawn up on cash and obligation basis even if some states and local governments are using the modified accrual basis instead of the cash basis budgeting expenditures (Chan, 2002). Citizens have the right to examine budget proposal and to attend and speak at public hearings on local government budget (Giroux *et al.*, 2002).

As regards book-keeping a characteristic of US public sector is the fund accounting. The NCGA defines a fund as "a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities and balances, and changes therein, which are segregated for the

³¹ The NCGA depended on Governmental Finance Officers Association – GFOA – and was replaced by the GASB starting from 1984. The NACSLB is formed by the GFOA and seven other mayor public interest groups.

purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.” (NCGA Statement No. 1).

For each public sector entity a fund accounting system kept on double-entry basis is established. There are three fund categories: governmental funds, proprietary funds, and fiduciary funds. The basis of accounting is modified accrual for governmental funds and full accrual for proprietary and fiduciary funds. In order to provide a comprehensive information about government activities as a whole, Statement n. 34 introduced the Government-wide financial statements drawn up on full accrual basis (IFAC, 2006: 14; Kravchuk and Voorhees, 2001).

The financial reporting documents are:

- management’s discussion and analysis, that should introduce the basic financial statement and provide an analytical overview of the government’s overall financial position and results of operations;
- basic financial statements, that should include: government-wide financial statements and fund financial statements;
- notes to the financial statements, that should communicate essential information for fair presentation of the financial statements;
- required supplementary information, that should include the required budgetary comparison information.

The government-wide financial statements consist of a statement of net assets and a statement of activities. The financial reporting document schemes established by the GASB are not mandatory but only recommended. As regards the statement of net assets the Statement n. 34 encourages governments to present the document in a format that should report the difference between assets and liabilities as net assets. Moreover assets and liabilities are presented in order of their relative liquidity.

The statement of activities should be presented in a format that reports the net income of government individual functions. Such format, typical of the management accounting, aims at assessing the financial burden of each governmental reporting function on its taxpayers. Governments should report all expenses and revenues by function/program.

Statement 34 also requires fund financial statements for governmental proprietary and fiduciary funds. Major funds are reported individually, while the other funds are grouped together. The differences between fund financial statements and government-wide financial statements are reconciled and reported in proper schedules.

In addition to those presentations budgetary comparison schedules are required. Thus the cash and obligation-based accounting, used to verify budget execution, joins accrual accounting.

In order to assess the US local government accountability code we can analyse the information provided by the accounting documents, and the accounting tools – Table 4. The conducted analysis points out that budgeting and reporting accounting documents provide all the information showed in Table 1. As regards the accounting tools the information system uses all the three accountability code tools except for accrual budget. Managerial code accounting tools such as accrual accounting and management accounting allow to know whether current-year revenues are sufficient to pay for current-year services – interperiod equity observance; whether government financial position is improved or deteriorated as a result of the yearly operations; the level of efficiency achieved (Kravchuk and Voorhees, 2001).

The professional code, characterized by performance measurement based on outcomes and effectiveness, has been introduced by the SEA (GASB, 1994). It focuses on financial and non-financial measures of inputs, outputs and outcomes that should be reported in a document separate from the comprehensive annual financial report. In 2003 GASB issued a special guide that describes a set of sixteen suggested criteria that state and local governments can use when preparing external reports on performance information: Reporting performance information: suggested criteria for effective communication (Fountain *et al.*, 2003). At last, in order to help users to better understand the information provided in the SEA reports, another guide was issued in 2005: Government Service Efforts and Accomplishments Performance Report: A Guide to Understanding (Epstein *et al.*, 2005).

4.3. A comparative analysis among European Continental and Anglo-Saxon countries' institutional features and accountability codes

Although some common renewal *stimuli*, represented by financial crises and pressure from citizens, the effects of the NPFM reform on the accountability codes are different in the compared countries – Tables 3 and 4.

Among the European continental countries Germany seems to be the lowest and most cautious reformer as its accountability code still remains the financial one. However pilot projects are carried out in form of running the new accounting system in parallel to the old one for a defined transition period. Italian and French local government accounting laws are moving instead towards the managerial code, even if in France the information provided focuses on the local government financial position rather than on service costs and efficiency. In all these countries however it seems that professional accountability code has not yet been considered as a priority objective of the information system.

On the contrary the analysed Anglo-Saxon countries seem to be focused on the accomplishment of the three accountability codes. Their accounting system satisfies all the information needs, except for the compliance with spending authorization in United Kingdom, where budget has not an authorizing function. With regard to accounting tools UK local governments use all the accounting tools except for popular reports and accrual budget; the latter still misses in the United States too.

The compared countries contextual features, particularly with regard to the institutional ones, could be relevant factors of the above-mentioned differences (Brusca and Condor, 2002; Caperchione, 2000). The European continental civil law system gives priority to the budget and to the legal control, while in the Anglo-Saxon common law system there is more emphasis on the information given by the reporting statement, with the focus on the content more than on the form.

Thus the former local government information system seems to be mostly directed towards the comparison between actual financial results with the legally adopted budget. The budgetary statement is the most important financial statement and is prepared to comply with the very detailed legal requirements. It is mainly directed to internal stakeholders. The latter gives priority to the balance sheet and the operating statement since the information system aims at presenting a true and fair view of the

economic result and financial position. Moreover the use of performance indicators is becoming a common practice in order to demonstrate to citizens the effectiveness and the outcomes of public administration actions.

Table 3 – European Continental countries’ accountability codes

Accountability Codes	Information	LGs’ accounting system			Accounting Tools	LGs’ accounting system		
		I	F	G		I	F	G
Financial accountability	Tax collection	Yes	Yes	Yes	Cash and obligation accounting	Yes	Yes	Yes
	Public expenditure	Yes	Yes	Yes	Compliance with proceedings	Yes	Yes	Yes
	Compliance with spending authorization	Yes	Yes	Yes				
Managerial accountability	Programs	Yes	No	No	Accrual accounting	Yes	Yes	No
	Outputs	Yes	No	No	Accrual budget	No	No(1)	No
	Cost and quality of services	Yes	No	No	Management accounting	Yes	No	No
	Efficiency	Yes	No	No	Management control	Yes	No	No
	Public net assets and their changes	Yes	Yes	No	Performance measurement based on outputs and efficiency	Yes	No	No
	Financial position	Yes	Yes	No				
	Respect of the intergenerational equity principle	No	Yes	No				
Professional accountability	Outcomes	No	No	No	Strategic planning and controlling	Yes	No	No
	Effectiveness	Yes	No	No	Popular reports	No	No	No
					Performance measurement based on outcomes and effectiveness	No(2)	No	No

Notes: I = Italy, F = France and G = Germany

(1) Even if depreciations and provisions are recorded in the budget, this document will not be completely comparable to accrual-based budget.

(2) Law requires effectiveness indicators but no outcome ones.

With reference to the administrative culture, the less flexible European Continental *Rechtsstaat* model was expected to be less conducive to the reform or at least to slow the reform process down (Lüder, 2002; Pollit and Bouckaert, 2000) in comparison

with the Anglo-Saxon public interest model. In particular, in the first the top civil servants' juridical education can influence the pace and costs of the reform process. A lack of business accounting skills may not only delay the implementation of the reforms but also lead to an increased level of resistance.

Table 4 – Anglo-Saxon countries' accountability codes

Accountability Codes	Information	LGs' accounting system		Accounting Tools	LGs' accounting system	
		UK	US		UK	US
Financial accountability	Tax collection	Yes	Yes	Cash and obligation accounting	Yes	Yes
	Public expenditure	Yes	Yes	Compliance with proceedings	Yes	Yes
	Compliance with spending authorization	No	Yes			
Managerial accountability	Programs	Yes(1)	Yes	Accrual accounting	Yes	Yes
	Outputs	Yes	Yes	Accrual budget	No(2)	No
	Cost and quality of services	Yes	Yes	Management accounting	Yes	Yes
	Efficiency	Yes	Yes	Management control	Yes	Yes
	Public net assets and their changes	Yes	Yes	Performance measurement based on outputs and efficiency	Yes	Yes
	Financial position	Yes	Yes			
	Respect of the intergenerational equity principle	Yes	Yes			
Professional accountability	Outcomes	Yes	Yes	Strategic planning and controlling	Yes	Yes
	Effectiveness	Yes	Yes	Popular reports	No	Yes
				Performance measurement based on outcomes and effectiveness	Yes	Yes

(1) Local governments are free to choose budget classification on responsibility centres or on programs.

(2) See § 5.2.1.

5. The reform of the Italian local government information system: the state of the art

In order to evaluate the real impact of the NPFM on accountability codes we need to analyse practices, that is to say to look beyond the mere production of documents and assess their content. Thus this section focuses on a review of existing empirical analysis concerning the Italian local government information system (Anessi Pessina and Caccia, 2000; Anessi Pessina and Steccolini, 2001; Buccoliero *et al.*, 2005; De Matteis and Preite, 2005; Mazzara, 2003). The studies considered for this review show that the prevailing accountability code is still the financial one. In fact, the information system: a) aims at ensuring the compliance with the annual budget and to formal procedures; b) only provides information about the public expenditure, its compliance with the spending authorization and the amount and nature of grants, and the taxes collected.

Although according to the TUEL in the planning documents expenditures are to be classified by programs, the conducted studies show that local governments find this task hard to realize and also that there is a weak connection linking the planning documents.

The same difficulties come up in the setting of objectives; it often happens that the objectives set are just tasks to carry out and they are expressed in terms of output rather than of outcome (Anessi Pessina and Caccia, 2000; Mazzara, 2003). Especially with regard to the PEG local governments have differently interpreted its role. Only few of them have intended it as a managerial budgeting tool. The others have introduced it formally or as tool to define managers' spending authorization (Anessi Pessina and Steccolini, 2005).

As to the financial reporting, the budgetary statement maintains its central role, the operating statement and the balance sheet are drawn by means of a reconciliation statement and just in a few cases the double entry book keeping is adopted (Buccoliero *et al.*, 2005; De Matteis and Preite, 2005; Mazzara 2003). These documents do not provide information about future liabilities due to current policies; formal mistakes and item omission worsen their reliability (Anessi Pessina and Steccolini, 2001; Mazzara, 2003). Moreover the management accounting is adopted only by half of the medium and large size local entities and data are derived from the obligation based accounting (Buccoliero *et al.*, 2005). The lack of a management accounting system on an accrual basis makes it impossible to provide information related to the cost of the services and the statement of quality standard for the services is often defied (Mazzara, 2003). Even the management control function has been introduced by a small number of entities.

The communication process is limited to the compliance with the regulations (Massaro, 1997); the internet diffusion has not furthered the reconsideration of the information provided in a more user friendly perspective. On the contrary the studies demonstrate, with the exception of a small number of entities, the unconcern of politicians for social disclosure (Steccolini, 2004).

Conclusions

In all the compared European Continental and Anglo-Saxon countries there has been a devolution process which has brought to a decentralized public sector organization and has made elected officials and executives more directly accountable to citizens for the use of public resources and for the results achieved. Accountability relationships have been developed and their effective operation and evolution, according to the public sector reform, have influenced the information provided and the accounting system tools, whose changes are studied by the NPFM. For each phase of the NPFM reform an accountability code, which includes specific information and accounting tools, has been determined. This study has aimed at analysing, through a comparative approach, the NPFM reform effects on the local government accountability codes and has enquired the hypothesis of their direct correlation with the institutional features.

Describing such topics is not an easy task. This is especially true when a comparative study is carried out at the normative level and includes countries wherein accounting regulations play a different role. Thus, care must be taken before drawing conclusions that have to be assessed according to the research limitations.

Given the limited space available, oversimplifications could have been used to describe the accountability code model and the local government accounting system of the compared countries. In addition with regard to Anglo-Saxon countries, the local government accounting system has been generalized even if law does not provide detailed principles and accounting professional bodies issue some voluntary guidelines.

But, together with a few countries' cases, a real limitation of this study is a lack of description and interpretation in terms of implementation processes. As the analysis of the Italian literature shows, there is a gap between accounting practices and laws and regulations. Empirical analyses find out that the prevailing accountability code is still the financial one, instead of the managerial one emerged at a normative level.

Even if this limitations do not allow us to generalise the research findings, we can at least strengthen the hypothesis of a direct correlation between the institutional features and the accountability code levels.

According to what has been discussed in the previous sections it seems that the analysed European continental countries, characterized by a legal system based on common law and a *Rechtsstaat* administrative culture, are in compliance with the financial accountability code and two of them – Italy and France – presents several features of the managerial one. In the analysed Anglo-Saxon countries the civil law system and the public interest administrative culture seem to coexist with all the three accountability codes. In sum it seems that the European Continental bureaucratic hierarchical environment, where everything which involves public administration is subject to norms, makes such countries late reformers in comparison with the leading Anglo-Saxon ones. It seems reasonable to assume that in the analysed European continental countries the institutional features seriously affect the rate at which reform processes happen. Consequently, in such contexts, the legalistic paradigm has not been completely broken down by the NPFM reform.

Additional research which provides empirical evidence would represent a useful 'test' of the validity of this study findings. In order to progress, in future studies we

would need to build a research network, so that local practices could be analysed by local researchers.

References

- Adhemar, P. and Varielle, L. (2002), *The Modernization of government accounting in France: the current situation, the issues, the outlook*, Occasional Paper, Public Sector Committee.
- AICPA (2000), Code of Professional Conduct, rule 203.01, April 30.
- Allen, T. L. (2002), *Public Accountability and Governmental Financial Reporting*, in Models of Public Budgeting and Accounting Reform, OECD Journal on budgeting, Volume 2/ Supplement 1, 11-31.
- Anessi Pessina, E. and Caccia, L. (2000), *Il disallineamento tra documenti contabili, struttura organizzativa e sistemi di gestione negli Enti Locali*, in Caperchione, E. e Pezzani, F. (edited by) Responsabilità e trasparenza nella gestione dell'ente locale, Egea, Milano.
- Anessi Pessina, E. and Steccolini, I. (2001), *La "contabilità economica" dell'ente locale: problemi teorici, soluzioni tecniche, riscontri empirici*, Azienda pubblica, n. 1, 89-116.
- Anessi Pessina, E. and Steccolini, I. (2005), *Evolutions and Limits of New Public Management – Inspired Budgeting Practices in Italian Local Governments*, in Public Budgeting & Finance, Summer.
- Anselmi, L. (2003), *Percorsi aziendali per le pubbliche amministrazioni*, Giappichelli, Torino.
- Anselmi, L. (2005), *Verso contabilità integrate per le amministrazioni pubbliche*, in Farneti, G. and Pozzoli, S. (edited by) Principi e sistemi contabili negli enti locali, Franco Angeli, Milano
- Behn, R. D. (2001), *Rethinking Democratic Accountability*, Brookings Institution Press, Washington D.C.
- Benito, B. and Brusca, I. (2004), *International Classification of Local Government Accounting Systems*, in Journal of Comparative Policy Analysis, Vol. 6, No 1, 57-80.
- Bidart, M.T. and Moraud, J. C. (1999), *M 14 La nouvelle comptabilité des communes*, Berger-Levrault.
- Boccaliero, L.; De Nardi, F.; Nasi, G. and Steccolini, I. (2005), *L'implementazione della contabilità economico-patrimoniale negli enti locali italiani: i risultati di un'indagine empirica*, Azienda pubblica n. 4, 591-614.
- Borgonovi, E. and Anessi Pessina, E., (2000), *Accounting and Accountability in Local Government*, in Caperchione, E. and Mussari, R. (eds.), *Comparative Issues in Local Government Accounting*, Boston: Kluwer Academic Publishers.
- Boyne, G. (2000), *External Regulation and Best Value in Local Government*, Public Money and Management July-September, 7-12.
- Boyne, G.; Gould-Williams, J.; Law, J. and Walker, R. (2002), *Plans, Performance Information and Accountability: the case of Best Value*, Public Administration Vol. 80, n. 4, 691-710.
- Brusca, I. and Condor, V. (2002), *Towards the harmonisation of Local Accounting System in the international context*, in Financial Accountability & Management, Vol. 18, n. 2, 129-162.
- Budäus, D.; Behn, C. and Adam, B. (2003), *Reforming governmental accounting and budgeting in Europe Chapter 4: Germany*, in (edited by) Lüder, K. and Jones, R., Frankfurt am Main, PricewaterhouseCoopers, Fachverlag Moderne Wirtschaft.
- Caperchione, E. (1999), *Caratteri di uniformità nelle riforme dei sistemi di contabilità pubblica di alcuni Paesi europei ed extra-europei*, Azienda Pubblica, n. 5, 559-581.
- Caperchione, E. (2000), *Sistemi informativo-contabili nella pubblica amministrazione*, Egea, Milano.
- Caperchione, E. (2006), *The New Public Management: a Perspective for Finance Practitioners*, FEE Public Sector Committee.
- Caperchione, E. and Mussari, R. (edited by) (2000), *Comparative Issues in Local Government Accounting*, Boston: Kluwer Academic Publishers.

- Chan, J. L. and Jianfa, Li (2005), *Government Accounting Standards in China, U.S. and U.K.*, in Bourmistrov, A. and Mellempvik, F. (eds.) *International Trends and Experiences in Government Accounting*, Cappelen Akademisk Forlag.
- Chan, J. L. (2002), *Government budget and accounting reforms in the United States*, in *Models of Public Budgeting and Accounting Reform*, OECD Journal on budgeting, Volume 2/ Supplement 1, 187-223.
- Chan, J. and Xiaoyue, C. (2002), *Models of Public Budgeting and Accounting*, OECD Journal on Budgeting, Vol. 2, Supplement 1, Paris, OECD.
- Chow, D.S.L.; Humphrey, C.G. and Miller, P.B. (2005), *Financial Management in the UK public sector: Historical Development, Current Issues and Controversies*, Guthrie J. et al. (eds.), *International public financial management reform: progress, contradictions, and challenges*, Information Age Publishing Inc.
- CIPFA, LASAAC (2004), *Code of Practice on Local Authority Accounting in the United Kingdom: a Statement of Recommended Practice*.
- Clark, D. (1998), *The Modernization of the French civil service: crises, change and continuity*, in *Public Administration*, Vol. 76, 97-115.
- Cole, A. and Jones, G. (2005), *Reshaping the State: Administrative Reform and New Public Management in France*, in *Governance: An international Journal of Policy, Administration, and Institutions*, Vol. 18, n.4, 567-588.
- D'Alessio, L. (1997), *La funzione del controllo interno negli enti locali*, Giappichelli, Torino.
- De Matteis, F. and Preite, D. (2005), *La contabilità economico-patrimoniale negli enti locali: l'esperienza dei piccoli Comuni leccesi*, *Azienda pubblica*, n. 4, 647-664.
- Epstein, P.; Fountain, J.; Campbell, W.; Patton, T. and Keaton, K. (2005), *Government Service Efforts and Accomplishments Performance Report: A Guide to Understanding*, GASB, Norwalk.
- Ezzamel, M. and Willmott, H. (1993), *Corporate Governance and financial accountability: Recent Reforms in the UK Public Sector*, in *Accounting, Auditing & Accountability Journal*, Vol. 6 n. 3, 109-132.
- Farneti, G. (2005), *I principi contabili per gli enti locali in Italia. Un commento*, in Farneti, G. and Pozzoli, S. (eds.) *Principi e sistemi contabili negli enti locali*, Franco Angeli, Milano.
- Fedele, P. and Ongaro, E. (2006), *Processi di devolution in Europa: una analisi comparativa delle esperienze di Regno Unito e Spagna*, in *Azienda pubblica*, n. 3, 527-541.
- Ferejohn, J. (1999), *Accountability and Authority: Toward a Theory of Political Accountability*, in (edited by) Przeworski, A., Stokes, S. C., Manin, B., *Democracy, Accountability, and Representation*, Cambridge University Press.
- Feron, J. D. (1999), *Electoral Accountability and the Control of Politicians: Selecting Good Types versus Sanctioning Poor Performance*, in Przeworski, A.; Stokes, S.C. and Manin, B. (eds.), *Democracy, Accountability, and Representation*, Cambridge University Press.
- Fountain, J.; Campbell, W.; Patton, T.; Epstein, P. and Cohn, M. (2003), *Reporting performance information: suggested criteria for effective communication*, GASB, Norwalk.
- GASB (1987), *Concept statement n. 1, Objectives of financial reporting*, Norwalk.
- GASB (1994), *Concept statement n° 2, Service efforts and accomplishment reporting*, Norwalk.
- GASB (1999), *Statement n. 34, Basic financial statements – and management's discussion and analysis – for state and local governments*, Norwalk.
- GASB (2001), *Statement n. 37, Basic financial statements – and management's discussion and analysis – for state and local governments: Omnibus – an amendment of Gasb Statement n. 21 e n. 34*, Norwalk.
- Giroux, G.; Jones, R. and Pendlebury, M. (2002), *Accounting and Auditing for Local Governments in the U.S. and the U.K.*, *Journal of Public Budgeting, Accounting & Financial Management*, Vol. 14, 1-26.
- Goddard, A. (2005), *Accounting and NPM in UK Local Government; Contribution towards Governance and Accountability*, *Financial Accountability & Management*, Vol. 21, n. 2, 91-218.
- Goetz, K. H. (1997), *Acquiring political craft: training grounds for top officials in the German core executive*, *Public Administration* Vol.75 Winter, 775.

- Gray, A. and Jenkins, B. (1993), *Codes of accountability in the new public sector*, in Accounting, Auditing & Accountability Journal, Vol. 6, n. 3, 52-67.
- Guarini, E. (2000), *L'informativa esterna sui risultati negli Enti Locali: contributi teorici ed evidenze empiriche in alcuni Paesi*, in Caperchione, E., Pezzani, F. (eds.) Responsabilità e trasparenza nella gestione dell'ente locale, Egea, Milano.
- Guthrie, J.; Olson, O. and Humphrey, C. (1999), *Debating developments in New public financial management: the limits of global theorizing and some new ways forward*, Financial Accountability & Management, 209-228.
- Hepworth (2002), *Government budgeting and accounting reform in the United Kingdom*, in Models of Public Budgeting and Accounting Reform, OECD Journal on budgeting, Volume 2/ Supplement 1.
- Hood, C. (1995), *"The new public management" in the 1980s: Variation on a Theme*, Accounting Organizations and Society. Vol. 20, 93-109.
- IFAC International Federation of Accountants (2006), *The Road to Accrual Accounting in the United States of America*, New York.
- IFAC Public Sector Committee (2000), *Study 11 – Government Financial Reporting, Accounting Issues and Practices*, International Federation of Accountants, New York.
- IMF (2000), *Report on the observance of standards and codes*.
- Jackson, A. and Lapsley, I. (2003), *The diffusion of accounting practices in the new "managerial" public sector*, in The International Journal of Public Sector Management, Vol. 16, n. 5, 359-372.
- Jones, R. (2003), *Reforming governmental accounting and budgeting in Europe Chapter 10: United Kingdom*, in Lüder, K. and Jones, R. (eds.), Frankfurt am Main, PricewaterhouseCoopers, Fachverlag Moderne Wirtschaft.
- Jones, R. and Pendlebury, M. (2000), *Public sector accounting*, Harlow, Pearson Education Limited.
- Kickert, W. J. M. (2005), *Distinctiveness in the study of Public Management in Europe: a historical-institutional analysis of France, Germany and Italy*, Public Management Review, Vol. 7, issue 4, 537-563.
- Kravchuk, R. S. and Voorhees, W. R., (2001), *The New Governmental Financial Reporting Model under GASB Statement No. 34: An Emphasis on Accountability*, Public Budgeting & Finance, Fall, 1-30.
- Lande, E. and Scheid, J.C. (2003), *Reforming governmental accounting and budgeting in Europe Chapter 3: France*, in Lüder, K. and Jones, R. (eds.), Frankfurt am Main, PricewaterhouseCoopers, Fachverlag Moderne Wirtschaft.
- Lüder, K. (2005), *The long way to accrual accounting in German governments*, in Mélanges en l'honneur du Professeur Jean-Claude Scheid, Comptabilité recherché comptable et profession comptable.
- Lüder, K. (2002b), *Government Budgeting and Accounting reform in Germany*, in Models of Public Budgeting and Accounting Reform, OECD Journal on budgeting, Volume 2/Supplement 1, 225-242.
- Lüder, K. (2002a), *Research in Comparative Governmental Accounting over the Last Decade: Achievements and Problems*, in Montesinos, V. and Vela, J. M. (eds.) Innovations in Governmental Accounting, Kluwer Academic Publishers, Boston.
- Lüder, K. and Jones, R. (eds.) (2003), *Reforming governmental accounting and budgeting in Europe*, Frankfurt am Main, PricewaterhouseCoopers, Fachverlag Moderne Wirtschaft.
- M14 (1994), *Instruction budgétaire et comptable relatives aux collectivités locales*.
- Martin, S. (2000), *Implementing Best Value: Local Public Services in transition*, in Public Administration Vol. 78, n. 1, 209-227.
- Mayston, D. (1993), *Principals, agents and the economics of accountability in the new public sector*, Accounting, Auditing & Accountability Journal, Vol 6, n. 3, 68-96.
- Mazzara, L. (2003), *Processi e strumenti di misurazione e risultati negli enti locali*, Giappichelli, Torino.
- Mulgan, R. (2000), *Accountability: an ever-expanding concept?* Public Administration, Vol. 78, no. 3, 555-573.
- Mussari, R. (2005), *Public sector Financial Management Reform in Italy*, in Guthrie, J. et al. (eds.), International public financial management reform: progress, contradictions, and challenges, Information Age Publishing Inc.

- Mussari, R. and Steccolini, I. (2006), *Using the Internet for Communicating results. A comparison of Local Government websites in France, Italy and Spain*, Public Money and Management, Vol 26, n. 3 June, 193-196.
- OECD (1997), *In search of results: performance management practices*, Paris PUMA/OECD.
- Ongaro, E. (2002), *La riforma del management pubblico in Italia*, in Pollit, C. and Bouckaert, G. (2002), *La riforma del management pubblico*, edizione italiana edited by E. Ongaro, Egea, Milano.
- Ongaro, E. (2003), *Problematiche emergenti di accountability nel contesto del decentramento e delle riforme del management pubblico*, in Pezzani, F. (eds.) *L'accountability delle amministrazioni pubbliche*, Egea, Milano.
- Ongaro, E. (2006), *The dynamics of devolution processes in legalistic countries: organizational change in the italian public sector*, in Public Administration, Vol. 84, No. 3, 737-770.
- Orlandini, P. (2001), *La gestione efficiente del comune*, Milano, Il Sole 24 Ore.
- Osservatorio per la finanza e la contabilità degli enti locali (2004), *I principi contabili per gli enti locali*, Ministero dell'interno, Roma.
- Pavan, A. (2003), *La contabilità di Stato tra necessità di governo e informazione agli elettori*, Azienda Pubblica, n. 1-2, 13-27.
- Pavan, A. and Reginato, E. (2004), *Programmazione e controllo nello stato e nelle altre amministrazioni pubbliche. Gestione per obiettivi e contabilità economica*, Milano, Giuffrè.
- Pavan, A. and Reginato, E. (2005), *Prospettive di accountability ed efficienza nello Stato italiano*, Milano, Giuffrè.
- Pavan, A.; Reginato, E. and Mudu, G. (2006), *Accounting Models and Devolution in the Italian Public Sector* in Pecunia review of the Faculty of Economics Leon University n. 2.
- Pezzani, F. (2000), *Introduzione: L'accountability negli enti locali*, in Caperchione, E. and Pezzani, F. (eds.) *Responsabilità e trasparenza nella gestione dell'ente locale*, Egea, Milano.
- Pezzani, F. (2005), *L'accountability: l'analisi del contesto e le esigenze*, in Pezzani F. (a cura di) *Logiche e strumenti di accountability per le Amministrazioni pubbliche*, Egea, Milano.
- Pollit, C. and Bouckaert, G. (2000), *Public management reform*, Oxford University Press.
- Pozzoli, M. (2005), *I principi contabili statunitensi per gli enti locali*, in Farneti, G. and Pozzoli, S. (eds.) *Principi e sistemi contabili negli enti locali*, Franco Angeli, Milano.
- Raimondi, C. (2003), *Il processo di decentramento e modernizzazione delle amministrazioni pubbliche nell'ultimo decennio: l'esigenza di coordinamento in un sistema complesso*, in Pezzani, F. (ed.) *L'accountability delle amministrazioni pubbliche*, Egea, Milano
- Rebora, G. (1999), *Un decennio di riforme*, Guerini e Associati, Milano.
- Reichard, C. (2003), *Local Public Management Reforms in Germany*, in Public Administration, Vol. 81, No 2, 345-363.
- Rhodes, R. A. W. (2000), *New Labour's Civil Service: Summing-up Joining-up*, The Political Quarterly Publishing, 151-166.
- Ridder, H. G.; Bruns, H. J. and Spier, F. (2005), *Analysis of Public Management change processes: the case of Local Government accounting reforms in Germany*, Public Administration, Vol. 83, No 2, 443-471.
- Ridder, H. G.; Bruns, H. J. and Spier, F. (2006), *Managing Implementation process: the role of public managers in the implementation of accrual accounting – evidence from six case studies in Germany*, Public Management Review, Vol. 8, issue 1, 87-118.
- Ruppel, W. (2001), *GAAP for governments*, Wiley, New York.
- Sinclair, A. (1995) *The chameleon of accountability: forms and discourses*, Accounting Organizations and Society Vol. 20 n. 2/3, 219-237.
- Steccolini, I. (2004), *Is the Annual Report an Accountability Medium? An empirical Investigation into Italian Local Governments*, Financial Accountability & Management, Vol. 20, n. 3, 327-350.
- Stewart, J. D. (1984), *The Role of information in Public Accountability*, in A. Hoopwood and C Tomkins (eds), *Issues in Public Sector Accounting*, Philip Allan Publishers Limited, London.
- Testo Unico delle Leggi sull'ordinamento degli Enti Locali - Dlgs n. 267/2000.

- Torres, L. and Pina, V. (2004), *Reshaping Public Administration: the Spanish Experience compared to the Uk*, Public Administration, Vol. 82, n. 2, 445-464.
- Torres, L. and Pina, V. (2003a), *Reshaping Public Sector Accounting: An International Comparative View*, in Canadian Journal of Administrative Sciences, University of Toronto Press, 334-350.
- Torres, L. and Pina, V. (2003b), *Local government financial reporting in the USA and Spain. A comparative Study*, *Revista Española de Financiación y Contabilidad*, Vol. 115, 153-183, Asociación Española de Contabilidad y Administración de Empresas. Madrid.
- U.S. Department of Commerce Economics and Statistics Administration (2005), *Individual State Descriptions*, Volume 1, Number 2, U.S. Census Bureau.
- Uhr, J. (1999), *Three accountability anxieties: a conclusion to the Symposium*, Australian Journal of Public Administration 58(1), 98-101.
- Valotti, G. (2000), *La riforma delle autonomie locali: dal sistema all'azienda*, Egea, Milano.
- Vela, J. M. and Fuertes, I. (2000), *Local Government Accounting in Europe: a Comparative Approach*, in Caperchione, E. and Mussari, R. (eds.), *Comparative Issues in Local Government Accounting*, Boston: Kluwer Academic Publishers.
- Wollmann, H. (2000), *Local Government modernization in Germany: between incrementalism and reform waves*, Public Administration Vol. 78, No. 4, 915-936.
- Wollmann, H. (2004), *Local government Reforms in Great Britain, Sweden, Germany and France: Between Multi-Function and Single-Purpose Organisations*, Local Government Studies, Vol. 30, n. 4, 639-665.

(Página deixada propositadamente em branco)

John Neilson

Zhang Qi

ACCOUNTABILITY REGIMES AND FINANCIAL REPORTING IN GOVERNMENT: A COMPARISON OF CHINA AND AUSTRALIA

Introduction

The governmental and public sector structures of countries around the world have evolved differently with many varying forms and structure of government now evident. These governmental structures can range from a centralist, authoritarian system with major government directions to a laissez-faire system with a small government structure and only minimal intervention by the government. A number of former British colonies have evolved a system of government with at least some basis of a 'Westminster' style of government. Some countries have evolved their governments and its responsibilities based on a presidential style of government where much of the authority and decision making is centred on a central president. Others have evolved a system whereby Parliament and its members are the source of power and authority.

Some systems of government within a country as a whole are controlled/directed from a central point and pervade all areas of the public sector throughout the country whilst other have developed a more devolved, 'federalist' structure where each tier of government is empowered with similar authorities and responsibilities.

Regardless of the manner in which governments have evolved, major processes of change have occurred in the public sector whereby public sector structures, responsibilities and reporting requirements etc have been subject to major reforms. Much of this reform commenced in Western countries in the mid 1980s but has now spread widely to embrace many countries with varying forms of government. These reforms have been given varying titles included New Public Management, Public Sector Financial Management Reforms etc but they have all been directed at improving the efficiency, effectiveness and accountability of governments and the public sector generally.

This paper undertakes a review of the evolution and current structure of the governments and public sectors of two quite diverse countries, those of China and Australia. China has evolved a centralist system of government resulting from a major revolution whereby the central government exerts major control over all levels of government. However Australia, a former British colony, has adopted a more 'federalist'

system of government based on a distinct allocation of responsibilities and powers between the three tiers of government – federal, state and local.

In addition the paper reviews the important public sector reforms which have occurred in both countries over the past two decades and discusses the impact of these reforms on the accountability, roles and financial reporting of the public sector. The period from the late 1980s to the start of the 21st century have been a period of major reforms to many aspects of the public sector throughout a considerable number of countries. These reforms include changes in the actual structure of the public sector as well as in its systems of governance, accountability and the budgeting and reporting of results.

Section 1 of this paper contains an overview of the government and public sector structure and important roles within China. The section which follows details the Australian governmental structure and its division into three tiers of Federal, State and Local government. Section 3 undertakes a review of the major reforms which have been implemented in the Public Sector of both countries whilst Section 4 reviews the changes made to the budgeting and financial reporting processes. The final section contains the summary of the paper with a comparison of the reforms and practices in each country.

1. Government and the Public Sector of China

The structure of the public sector in China is based on a ‘centralist’ model whereby decision making, authority and reporting stem from a ‘top down’ basis. In this centralist model, there are complex relationships existing within the government system and between the governments and People’s Congresses.

1.1. Central Level of Government

At the central level, the major relationships exist between the National People’s Congress and the State Council and between the State Council and its ministries or commissions.

1.1.1. National People’s Congress (NPC)

The National People’s Congress of the People’s Republic of China is the highest body of state power. Its permanent body is termed the Standing Committee of the National People’s Congress. The National People’s Congress and its Standing Committee exercise the legislative power of the state. The National People’s Congress, elected for a term of five years, is composed of deputies elected from the provinces, autonomous regions, municipalities directly under the Central Government and special administrative regions and of deputies elected from the armed forces.

The National People’s Congress has the power to remove from office a number of senior positions including the president and the vice president of the People’s

Republic of China; the premier, vice premiers, state councillors, ministers in charge of ministries or commissions, the auditor-general and the secretary-general of the State Council and the chairman of the Central Military Commission. In addition, the National People's Congress elects, and has the power to recall, members of its Standing Committee.

1.1.2. Central Government

The State Council, that is, the Central People's Government, of the People's Republic of China is composed of the premier, the vice premiers, the state councillors, the ministers in charge of ministries, the ministers in charge of commissions, the auditor-general and the secretary-general. The State Council is the highest body of state administration and is responsible to and reports on its work to the National People's Congress. The term of office of the State Council is the same as that of the National People's Congress.

The ministries and commissions are the integrants of the State Council, which can issue orders, directives and regulations within the jurisdiction of their respective departments and in accordance with the law and the administrative rules and regulations, decisions and orders issued by the State Council. Ministers in charge of ministries or commissions of the State Council are responsible for the work of their respective departments and they convene and preside over ministerial meetings or general and executive meetings of the commissions to discuss and decide on major issues in the work of their respective departments.

The State Council establishes an auditing body, the National Auditing Office (NAO), to supervise through auditing, the revenue and expenditure of all departments under the State Council and of the local governments at various levels, and the revenue and expenditure of all financial and monetary organizations, enterprises and institutions of the state. Under the direction of the premier of the State Council, the NAO assists the Auditor-General to independently exercise its power of supervision through auditing in accordance with the law, subject to no interference by any other administrative organ or any public organization or individual.

1.2. Local Level of Government

People's Congresses and People's Governments are established in provinces, municipalities directly under the Central Government, counties, cities, municipal districts, townships, ethnic townships and towns¹. In China, there are 34 local governments at the province level.

¹ In addition, six Special Economic Zones have been established in China including Shenzhen city, Shantou city, Zhuhai city, Xiamen city, Hainan province (the whole province), Pudong district of Shanghai city.

1.2.1. Local People's Congresses

Local people's congresses at various levels are local bodies of state power, which ensure the observance and implementation of the Constitution and the law and the administrative rules and regulations in their respective administrative areas. Within the limits of their authority as prescribed by law, the local Peoples Congresses adopt and issue resolutions and examine and decide on plans for local economic and cultural development and for the development of public services. Local People's Congresses at and above the county level examine and approve the plans for economic and social development and the budgets of their respective administrative areas and examine and approve reports on their implementation. They have the power to alter or annul decisions of their own standing committees.

Deputies to the People's Congresses of provinces, municipalities directly under the Central Government and cities divided into districts are elected by the People's Congresses at the next lower level, and they are subject to supervision by the units which elected them. Deputies to the People's Congresses of counties, cities not divided into districts, municipal districts, townships, ethnic townships and towns are elected directly by their constituencies, and they are subject to supervision by them. The term of office of local People's Congresses at the various levels is five years. The electoral units and constituencies, which elect deputies to local People's Congresses at various levels, have the power to recall the deputies according to procedures prescribed by law.

The people's congresses of provinces and municipalities directly under the Central Government and their standing committees may adopt local regulations, which must not contravene the Constitution and the law and the administrative rules and regulations, and they shall report such local regulations to the Standing Committee of the National People's Congress for the record.

Local People's Congresses at their respective levels elect, and have the power to recall, governors and deputy governors, or mayors and deputy mayors, or heads and deputy heads of counties, districts, townships and towns. Local People's Congresses at and above the county level elect, and have the power to recall, presidents of People's Courts and chief procurators of people's procuratorates at the corresponding level.

1.2.2. Local People's Governments

Local People's governments at various levels are the executive bodies of local bodies of state power as well as the local bodies of state administration at the corresponding levels, which are responsible and report on their work to the state administrative bodies at the next higher level and the people's congresses at the corresponding levels. Local People's Governments at various levels throughout the country are state administrative bodies under the unified leadership of the State Council and are subordinate to it.

Governors, mayors and heads of counties, districts, townships and towns assume overall responsibility for local People's Governments at various different levels. The term of office of local People's Governments at various levels is the same as that of the People's Congresses at the corresponding levels.

Local People's Governments at and above the county level, within the limits of their authority, as prescribed by law to conduct administrative work concerning the economy, education, science, culture, public health, physical culture, urban and rural development, finance, civil affairs, public security, ethnic affairs, judicial administration, supervision and family planning in their respective administrative areas; issue decisions and orders; appoint or remove administrative functionaries, train them, appraise their performance and reward or punish them (Constitution of People's Republic of China, 2004). People's Governments of townships, ethnic townships, and towns execute the resolutions of the people's congress at the corresponding level as well as the decisions and orders of the state administrative organs at the next higher level and conduct administrative work in their respective administrative areas.

Local People's Governments at and above the county level direct the work of their subordinate departments and of People's Governments at lower levels, and have the power to alter or annul decisions of their subordinate departments and of the People's Governments at lower levels.

Auditing bodies are established by local People's Governments at and above the county level. Local auditing bodies at various levels independently exercise their power of supervision through auditing in accordance with the law and are responsible to the people's government at the corresponding level and to the auditing body at the next higher level.

1.3. Power and Responsibility Relationships Within the Chinese Government

The structure of the Chinese governments is very special and involved and is based on a 'centralist' model whereby decision making, authority and reporting stems from a 'top down' basis. There is close relationship between central government and local governments. One local government usually reports on its work to both the People's Congress in the corresponding level and the government in next higher level. All local governments at the various levels fall under the unified leadership of the State Council and are subordinate to it. Therefore within the public sector of China, there are complex relationships among and between the various levels of government and People's Congresses.

The existence of these relationships within the China governments between firstly, the whole public and the elected people's congress, secondly, the people's congress and the government in respective level and thirdly, the government and the government in next lower level can be illustrated by reference to the Constitution of People's Republic of China.

An additional factor which influences the relationships within the China governments is that there is only one ruling party in China, the Chinese Communist Party (CCP). The CCP can nominate the main officials of government to People's Congresses and directly appoint the important officials of party, including the General Secretary, in the government who are the actual leaders of the government². In China, there are some

² For example, in most cities the mayors are always the vice-secretaries of corresponding local organizations of CCP.

minor non-communist parties who may be able to influence the government by delegating their members to the Chinese People's Political Consultative Conference (CPPCC).

2. Government and the Public Sector in Australia

The Australian system of government and structure of the public sector is based on a 'federalist' model whereby there are normally distinct divides between the roles of the three tiers of government, these being federal, state and local government. The powers of the federal and state governments only are set out in the Constitution of Australia

2.1. Federal Government and Public Sector

The Commonwealth of Australia which was established on 1 January 1901 consists of three aspects of government, these being the legislative, executive and judiciary, each of which is separate and distinct from the other. The Australian Constitution details the powers of each of the separate areas of government.

2.1.1. The Federal Executive Level

The Federal Executive tier of government is responsible for the day to day operations of the government and its various departments and agencies. Australia operates under a 'cabinet' style of government and the cabinet of ministers (which comprises senior ministers of the government) is the major decision making body of the government. (www.aph.gov.au/parl.htm, 12 Jan 07)

Each minister is responsible for one or more agencies of the federal government and has responsibility to the Parliament for the efficient running of these agencies. Government agencies are basically divided into departments (normally the major arms of government) such as education, defence, social security and foreign affairs or statutory authorities which are usually established by the Parliament and have a Board to oversee the operations of the agency. The statutory authority is still responsible for its activities to a Minister of the Parliament.

The Parliament, on the recommendation of the Prime Minister, appoints an Auditor-General to be the head of the Australian National Audit Office (ANAO) which is responsible for undertaking audits of all Federal government agencies. The Auditor-General prepares an annual report of the operations of the ANAO and its audits and submits this to the Federal Parliament. The ANAO has no responsibility or authority to undertake audits of state or local governments.

2.1.2. Federal Judicature

The Australian Constitution provides for the establishment of the highest court in Australia, the High Court of Australia and also for other courts that the Federal Parliament

may wish to create. The High Court judges are all appointed by the Governor-General of Australia after advice from the Federal Executive Council. The basic function of the High Court is to interpret and apply the laws of Australia. The High Court of Australia is the highest appellate court in Australia and also has responsibility to rule in the case of disputes in relation to any federal election and the declaration of the result. Other courts of the Federal Government include the Federal Court and the Family Court of Australia.

2.2. The State Governments and Public Sector

The six state governments and public sector closely mirror that of the Federal government and Parliament in that they have three levels of the public sector, the legislative, executive and the judiciary.

2.2.1. State Public Sector Systems

With the exception of Queensland (which only has one House of Parliament) the six state parliaments mirror the operations and structure of the Federal Parliament. They have two Houses of Parliament (upper and lower), compulsory elections for all citizens over 18 and have ministers appointed from the party or coalition of parties with the majority in the lower house. Some states eg New South Wales, Victoria have scheduled lower house elections each three years and some eg Western Australia have elections scheduled each four years. In the six state Parliaments the leader of the government is termed the Premier.

As with the Federal government, ministers are appointed to be the Parliamentary head of an agency or agencies and are also responsible to the Parliament for the operations of their agencies.

In lieu of the Governor-General, each state appoints a Governor who has similar powers on a state basis to those of the Governor-General, with some minor variations between states. As with the federal system, the Governor must sign Acts of Parliament before they become law. The Governor is appointed by the Parliament on recommendation of the State Executive Council.

Each state has a Supreme Court as well as a series of other courts (eg District Courts, Magistrates Courts) with the Supreme Court of each state being the highest appellate court of each state. Decisions of the state Supreme Courts may be appealed to the High Court of Australia.

Each State Parliament also appoints an Auditor –General to be head of the Auditor-General’s Office (AGO) which has responsibility to undertake audits of all state government funded departments and other agencies.

2.3. Local Government

The operations and responsibilities of local governments, of which there are over 700, are not specified in the Australian Constitution and each state has enacted laws

relating to local government structure, role and responsibilities within their particular state. All local government authorities are subject to the specified laws of each state and have generally have no responsibility for laws in other states and the Federal Government. State governments have extensive powers in regard to local government authorities including the power to dismiss the elected council. Local governments have responsibility for the provision of a wide range of services including the construction and maintenance local roads and footpaths, recreation, aged care, rubbish collection and environmental services.

Local governments are a specified area of a state with detailed boundaries determined in consultation with each State government. Local government authorities are termed by different names e.g. shire, town, city, district council, generally depending on the size of their population. They can range in size in both population and area with some local government authorities exceeding 150,000 square kilometres in area.

Each local government authority is controlled by an elected council with each member of the council being elected by citizens 18 years and over. Voting varies in each state with some states having compulsory voting (e.g. Victoria) and other voluntary voting (e.g. Western Australia). Council members are elected for various periods of time, usually three of four years, depending on the State.

Each elected council appoints the Chief Executive Officer and other required senior members of the local authority and these in turn appoint the other necessary staff required to effectively run the day to day operations. Councils can enact By-Laws for the area of their local authority but are not actually able to enact laws – these are the province of each State Parliament.

The Council of each local authority is required to appoint an independent auditor (not the Auditor-General) who has responsibility to audit the authority and provide an report to the Council. Councils are required to lodge copies of their annual budget and annual reports with the appropriate department of the State Government (e.g. Department of Local Government).

2.4. Inter-Governmental Relations

Even though there are distinct structures in place for the various tiers of government in Australia, there are formal and informal mechanisms in place to enable interaction between each tier. Each year the prime minister and the six state premiers hold what is termed a Premiers Conference, a meeting aimed at detailing Federal-State financial relations.

Since 1992 the Council of Australian Governments was established and is the peak inter-governmental forum in Australia (www.aspc.gov.au/about/exppsreform3.htm). It consists of representatives from each tier of government and basically is the main arm for the initiation, development and monitoring of policy reforms which are of national significance.

3. Reforms in the Chinese and Australian Public Sector

The public sector in both China and Australia has undergone major reforms in a number of important areas including accountability, governance and financial budgeting

and reporting. The following section is an overview of the important changes which have occurred and those which various levels of the public sector are still undertaking.

3.1. Public Sector Reforms in China

In China, five important reforms have occurred in the government system since 1982 and these are key drives in the development of public accountability within the government system and also governmental accounting and financial reporting. An efficient and effective government system based on law, limited government and open government are regarded as the important purposes of the reforms of the China government system (Mu, 2003). These major reforms have included the following :

- The 1982 Reduction in the Number of Organizations and Staffing in the Central Government
- Initial 1988 Reform: The First Pace of Change in Government Functions
- The 1993 Reforms: Meeting the Needs of the Developing Market Economy
- The 1998 Reforms: Building an Efficient and Effective Government
- The 2003 Reforms: Separation of Decision-Making, Implementation and Supervision

3.1.1. Reduction in the Number of Organizations and Staffing Within the Central Government

In 1981, there were 100 entities, e.g. ministries or commissions, of the State Council of China - this was the greatest number of entities within the central government system since the People's Republic of China was established in 1949. It was found that a large and often inefficient government system did not meet the requirements of developing the social and economic needs of an expanding China and the size of government system had to be reduced.

In March 1982, the 22nd session of the fifth National People's Congress approved "The Resolution to Reform the Organizations in State Council" which reduced the number of organizations and staff within the State Council. In this reform, the number of entities within the State Council was reduced from 100 to 61 and the number of staff in all entities was reduced from 51,000 to 30,000.

3.1.2. Initial 1988 Reform: The First Pace of Change in Government Functions

After the first reform of the government system of 1982, the number of branches and staff again increased greatly. As an outcome of this increase the first session of the seventh National People's Congress launched the second reform of the government system in April 1988.

The reforms of 1988 were directed at the administration departments which were closely related to the reform of the economic system in China. The reforms main purpose was to make changes to the functions of government. The government began

to emphasize the function of macro economic control and indirect management instead of micro-cosmic and direct management.

The reforms were commenced initially in the central government and then moved in a step by step fashion to local government. As a result of the reforms, four ministries or commissions were deleted and staff of the State Council was reduced by over 9,700. These changes to the structure and function of government were regarded as an important purpose of the reform for the first time – this reform, greatly influenced the later reform movement.

3.1.3. The 1993 Reforms: Meeting the Requirement of a Developing Market Economy

Reforms to build the market economy system in China were proposed in the 14th session of Chinese Communist Party with the first session of the 8th National People's Congress deciding again to reform the organization system of the State Council. The focus of the reform in 1993 was to separate enterprise-type from administrative organizations and to strengthen macro-economic control and supervision. The previous functions of government of directly examining and approving the operation of enterprises were reduced in these reforms. After the reform, the number of branches of the State Council was reduced from 86 to 59.

3.1.4. The 1998 Reforms: Building an Efficient and Effective Government

The first session of the ninth National People's Congress carried out the fourth set of reforms of the organization system of State Council in March 1998. The general goal of these reforms was to build efficient and effective government administration systems and to improve the civil servant system.

The most important purpose of the reform was a move to change the function of government into social administration and to improve the public service. There were three parts to this reform namely (1) changing the structure of the government system and reducing the size of government; (2) adapting the authority of government and avoiding authority overlapping among several governments; (3) strengthening the construction of democracy and law.

After these reforms, the number of all the branches of the State Council was again reduced from 40 to 29. From 1998 to 2002, the reform of the government system was carried out throughout all levels of the government – from central government to local government with the result that to June 2002, there was a reduction of 1.15 million government staff. The 1998 reform was a much larger reform than the previous three.

3.1.5. The 2003 Reforms: Separation of Decision-Making, Implementation and Supervision

In March 2003, the first session of the 10th National People's Congress undertook the fifth major reform of the organization system of the State Council. This reform,

loosely based on the 1998 reforms, was distinctly different from the former one. The social environment in 2003 changed substantially as a result of following aspects: (1) China became one of the members of WTO in 2001; (2) the 16th session of Chinese Communist Party shaped the time table of the development of country in following 20 years. Democratization and legalization in China resulted in more in-depth reforms in the public management system rather than the previous reform which were really only in the organizations structure and staff numbers of the government system. The reform of State Council in 2003 was the first major step of the whole reform process of political system of China.

Within these reforms, the existing model of administrative management systems was improved to meet the requirements of the new political system of China. The most important result of the reform was to establish an administrative system based on the separation of decision-making, implementation and supervision. The supervision aspect included those both within and external to the government system including both the supervision of People's Congresses and of the supervision People's Political Consultative Conference. Another important result of these reforms was the establishment of a new public finance system within China. The new model of government control of the administrative system only included macro economic control, market supervision, social management and the supply of public goods.

3.2. Reforms in the Australian Government System

The reforms within the Australian government system have occurred on an irregular basis over the past two decades and have often been dependent on the political persuasion of the governments elected to power by the electors. With Australia being a federation consisting of six states and a federal government, along with the various state-based local government structures, reforms introduced, for example, into one state government do not always flow through to other states. For example, Western Australia requires performance indicators prepared by state government agencies to be subject to audit by the Auditor General of Western Australia. However, this requirement has not been taken up by other state governments. The following quote from the Australian Public Service Commission (2003) summarises the changes and reforms within the Australian government system:

“Successive Australian governments have implemented reforms in the financial, public service and workplace relations fields with the aim of achieving a performance culture within the public sector and of improving the responsiveness of the public sector to the needs of government and the community.” (www.aspc.gov.au/about/expssreform8.htm)

An important reform of the overall Australian public sector occurred through the adoption of a process termed the New Public Management (NPM) program which was a process of change originating from the United Kingdom. NPM is basically a process of 'managerialism' (Guthrie and English, 1997) whereby the public sector adopts private sector management techniques (Parker and Gould, 1999). Within NPM

concepts of performance, economy, efficiency and effectiveness have replaced the less measurable and very detailed aspects previously adopted by the public sector (Brignall and Modell, 2000).

A study by David *et al.* (1986) claimed the concept of managerialism includes five important characteristics, these being:

- Greater managerial autonomy through delegation and devolution of ministerial authority
- Clear, consistent objectives
- Performance evaluation
- Rewards and sanctions
- Competitive neutrality for commercial authorities

These important changes in the Australian public sector with the adoption of accountability, transparency, NPM and reporting reforms means that “public sector management has transformed from being administrators and custodians of resources to being accountable managers empowered with greater delegated authority” (Parker and Gould, 1999: 110). With the adoption of NPM and other major public sector reforms, Australia has become one of the world leaders in public sector reform and accountability.

An important change progressively implemented into the public sector was the requirements for government agencies to establish and achieve specified performance criteria or performance indicators. This concept has been termed by a number of names including Performance Based Budgeting in Western Australia. Performance indicators. Performance indicators are normally seen as a numerical measure of achievement that is easy to collect and use. In theory, they can only be derived for items over which an organisation has control. However in reality entities do not have absolute control over everything and therefore control is actually a matter of whether there is enough control for your purpose (Bullen, 2003).

A definition of performance indicators from the United Kingdom Office of Public Management is:

“A performance indicator defines the measurement of a piece of important and useful information about the performance of an program expressed as a percentage, index, rate or other comparison which is monitored at regular intervals and is compared to one or more criterion” (Bullen, 2003: 7).

By definition performance indicators must be about performance rather than the activities undertaken or the level of workload. Occasionally activities and performance are directly related, as for example, the number of people vaccinated is a good indicator of both the performance achieved (people vaccinated) and the activities undertaken by medical staff (the number of injections given). However, outcomes and activities are often not so directly related (Bullen, 2003).

A number of researchers have suggested that government performance needs to measure economy, efficiency and effectiveness (for example, Kloot, 1999) Economy is defined as acquiring resources in appropriate quantity and at least cost whilst efficiency is defined as maximizing output for a given set of inputs, or minimizing inputs for

a required output. Together, economy and efficiency are consistent with notions of financial accountability of both federal and state government.

A further reform introduced by all state governments and the federal government has been in the area of budgets where funds are allocated on a program or similar basis with specified outcomes from the program. This was a major change from the previous budget system where funds were allocated to a particular agency on a 'minute' budget allocation process. In this process funds were specifically allocated by type of expenditure e.g. salaries, stationery, repairs and maintenance etc, and agencies were not permitted to exceed their budgets on a particular item.

Under the program (or functional area) budgeting methods funds are allocated by Parliament to a particular program and the government agency is expected to operate within the budget and achieve its specified outcomes.

4. Financial Reporting Systems of the Public Sector

Since the 1980s major reforms of the reporting practices of the public sector have occurred in both China and Australia. As detailed above China was also undertaking a fundamental reform of its public sector structure and accountability and required reporting practices to reflect these changes. In addition since China was admitted to the World Trade Organisation (WTO) further major reforms have occurred within the Chinese public sector to reflect the change to a more market driven economy. Australia has also undergone reforms to the reporting practices with these being undertaken as a result of calls for greater and more transparent accountability and also better and more efficient and effective use of public funds.

The following section details the major financial reporting changes which have occurred in China and Australia over the past two decades.

4.1. Financial Reporting Reforms in China

Within China, there are close relationships between the evolution of governmental accounting and reporting requirements and the reforms of the government system. The two major changes in governmental accounting and reporting requirements happened in 1998 and 2006.

4.1.1. The 1998 Changes of Governmental Accounting and Reporting Requirement

Previously in China, the governmental accounting system was composed of general budget accounting for public finance, executive entity accounting, institution accounting, treasury accounting, tax collection accounting and infrastructure accounting. In 1998 the Ministry of Finance enacted four new public sector accounting regulations which reformed the government system and assisted the development of the market economy system. These new regulations were:

- Regulation of General Budget Accounting for Public Finance
- Regulation of Executive Entity Accounting
- Accounting Standards for Institutions (draft)
- Regulation of Institution Accounting

Although the regulations for the reform of the public sector accounting system played an important role in the reform of government system, there were some limitations in the accounting requirement system of 1998.

Firstly, after 1998, there was a major change in the budget accounting environment in China. This change was due to a series of budget management reforms being adopted, including departmental budgets, separation between government revenue and expenditure, government procurement, and establishment of only one account for the Treasury. All these reforms of the budget management system had major influences on the budget accounting system of 1998. Secondly, the budget accounting system did not meet the new public finance requirements. Thirdly, the regulations for general budget accounting of public finance, executive entity accounting and institutional accounting required three different types of accounts and financial statements. This posed a problem for users of public sectors' accounting information as they were unable to obtain comparable information from the different financial statements.

Fourthly, the budget accounting system only supplied information about the budget implementation, which cannot meet the needs of users. Fifthly, the budget accounting system was useful only to internal governmental users, not to external users out of the government financial reports.

4.1.2. The 2006 Changes to Governmental Accounting and Reporting Requirement

In February 2006, the Ministry of Finance of China enacted a scheme for the reform of *classifications of revenue and expenditure of government*. This reform was aimed at meeting the requirement of transformation of the government sector and the establishment of a new public finance system.

The improved classification system of revenue and expenditure of government was composed of three major parts including revenue classification, expenditure classification based on function and nature and expenditure classification based on economic nature.

4.2. Financial Reporting Reforms in the Australia Public Sector

During the 1990s, all tiers of the public sector in Australia (Federal, State and Local) commenced the process of reforming their accounting and reporting practices to conform with changing trends around the world. The aim of the financial management reforms were to (www.apsc.gov.au/about/exppsreform8.htm):

- Put the public sector on a more business-like footing
- Foster a more competitive environment
- Shift the focus from complying with rules to managing for results
- Plan, budget and report on an accruals, outcomes and outputs basis

The reforms were introduced at varying times in different tiers of the public sector and the introduction was dependent on the legislative process of the individual governments. These changes included the introduction of accrual accounting, which required the recording and reporting of all assets and liabilities along with revenue and expenses, accrual-based budgeting and the preparation of full forward estimates. A later reform has been the greater recognition and overview of risk management by government entities.

As a result of these reforms, for example, all public sector agencies at federal, state and local government levels are required to prepare financial reports on the accrual accounting basis, as per the private sector. These changes involved major implications for the public sector including the identification of all assets, including those of a heritage or infrastructure nature, recording and valuation of assets, the identification of all liabilities including those relating to employees entitlements e.g. leave and superannuation entitlements and developing higher levels of financial capabilities amongst staff. The identification and valuing of public sector assets, including examples such as land under roads and cultural collections, has proven to be the source of great debate amongst both supporters and opponents of assets valuation. However, the process of identification and valuation is continuing so that all assets are recorded on the state and national asset registers.

Within Australian all agencies within the public sector are required to report not only on the basis of the appropriate accounting standards but they must also conform with various public sector reporting regulations. For example the Western Australian state legislation is termed the Financial Accounting and Audit Act (FAAA) and the local government regulations are termed the Local Government Financial Management Regulations. The various legislations require the inclusion of additional information within the public sector financial reports to provide further information of the government agency to users of the reports.

One of the major differences between the public sector and the private sector is that the majority of public sector entities do not operate on the basis of profit but provide services to the community on the basis of allocations of budget funding. In order to provide further meaningful information to users, many government agencies in Australia have now introduced a more integrated form of financial reporting for their budgets and annual financial reports. This integrated reporting now often includes some form of performance reporting using various types of performance indicators including those detailing workload, cost, outputs and the newer indicators of effectiveness and efficiency (Mucciarone and Neilson, 2006).

Summary

Government accounting and financial reporting aims to protect and manage public money and discharge accountability (Chan, 2003). This paper reviews the accountability and structure of government and the public sector in both China and Australia and found considerable differences in the foundations of the current governmental structure and also in the manner in which these structures have evolved. China is a country with a population in excess of 1.3 billion with a history which can be traced back

several thousand years through the long period of emperors to a federal government to the current central government system. China has evolved, via a major revolution, to a system whereby the Central government has strong power and influence over the decision making and accountability of all lower level governments whether they are at province, city or rural level. In addition the Chinese Communist Party also has major control and influence over all levels of government including the Central government in Beijing. The central decision making body of China is the National Peoples Congress with deputies elected from throughout the country.

In contrast Australia is a relatively new county having being settled by British settlers in 1788 thus with a history of just over 200 years. Australia was then explored and settled on a piecemeal system so that by federation in 1901 there were six colonies who came together to form the Commonwealth of Australia. The Australian federal government system is based on a structure of one federal government, six state governments and a large number of state-based local governments. Each of the three tiers of government (Federal, State and Local) are basically independent structures with elections held independently for each tier on a regular time period. Responsibilities for the provision of services are specified by the Australian Constitution for the federal and state governments and by state legislation for local governments.

Within both countries, major reform processes have taken place in order to make the public sector more accountable, transparent and able to provide improved reporting systems and processes. The Central government in China has undertaken five important reforms since 1982 in a drive to improve accountability, governmental processes, budgeting and financial reporting. These have occurred in 1982, 1988, 1993, 1998 and 2003 with the last reform in 2003 being of major importance to the decision-making and structure of the public sector. This was partly driven by China's membership of the WTO in 2001 and a desire to bring China's public management system to a more modern and useful system (Qi, 2007b). The reforms have been an important catalyst in driving public sector change in China and have resulted in the separation of decision-making, implementation and supervision within the Central-based government (Qi, 2007b).

Public sector reforms in Australia, based on a federalist model, have been more piecemeal and have often relied on the political will of the government in power at the time reforms are introduced. These reforms have been introduced at varying times in all tiers of the public sector (Federal, State and Local) and have generally resulted in a more transparent and accountable form of government. At the present time different tiers of the public sector are at differing stages of the reform process with the local government sector tending to be the last tier to commence the reforms many of which are imposed by the federal and state government levels.

In the area of financial reporting reforms, both China and Australia, over the past 20 years, have undertaken reforms in the area of financial accounting and reporting to conform with changing world trends. China has undertaken two major changes (in 1998 and 2006) which have included revisions to the methods of budgeting and the clarification of revenue and expenditure by all levels of government. These changes have been made in order to provide more useful information to both internal and, importantly, external users. China however has continued to base its current reports

on the cash system and the public sector has not fully embraced the accrual system of accounting (Qi, 2007a).

Australia has undertaken major reforms to the contents and formats of public sector financial reports commencing with a move to accrual accounting and reporting and the implementation of specific accounting standards for the public sector. These changes have moved on and now Australia has adopted the Australian equivalents of the International Financial Reporting Standards. In addition both federal and most state governments have implemented or are moving towards implementing further reforms including accrual-based budgeting, performance reporting and three year budget projections.

In summary even though the systems of government and structure of the public sector in both China and Australia are distinctly different (Central system versus Federal system), they have both moved to make the government structures and public sector more transparent and accountable and are continuing to implement reforms to increase efficiency and effectiveness of government services.

References

- Australian Parliament, Parliament of Australia – An Overview at www.aph.gov.au/parl.htm (11 Jan 2007).
- Australian Public Service Commission, Available at www.apsc.gov.au/about/exppsreform8.htm (23 January 2007).
- Brignall, S. and Modell, S. (2000), An Institutional Perspective on Performance Measurement and Management in the New Public Sector, *Management Accounting Research*, Vol. 11, No. 3, 281-306.
- Bullen, P. (2003), *Performance Indicators*, Available: [<http://www.map1.com.au/A1A.htm>] (3 September 2003).
- Central Government of China at http://www.gov.cn/test/2005-06/15/content_18253.htm (12 January 2007).
- Constitution of the People's Republic of China, 2004.
- Davis, G., Weller, P. and Lewis, C. (1989), *Corporate Management in Australian Government*, Macmillan, Sydney.
- Department of Foreign Affairs and Trade at www.dfat.gov.au/facts/sys gov.html (11 January 2007).
- Department of the Prime Minister and Cabinet, [www.dpmc.gov.au/guidelines/executive handbook/2functions.cfm](http://www.dpmc.gov.au/guidelines/executive%20handbook/2functions.cfm) (11 January 2007).
- Economic Zones of China at <http://zhidao.baidu.com/question/5368429.html?si=1>.
- Guthrie, J. and English, L. (1997), Performance Information and Program Evaluation in the Australian Public Sector, *Journal of Public Sector Management*, vol. 10, no. 3.
- Chan, James (2003), *Government Accounting: an Assessment of Theory, Purposes and Standards*. Public Money & Management, 1.
- Kloot, L. (1999), Performance Measurement and Accountability in Victorian Local Government, *International Journal of Public Sector Management*, Vol. 12, No. 7, 565-584 .
- Mu Qiao (2003), *Unscramble New Government*, History of Chinese Communist Party Press.
- Mucciarone, M. and Neilson, J. (2006), *Performance Disclosures by Australian Government Entities*, Working Paper, School of Accounting, Curtin University of Technology.
- Parker, L. and Gould, G. (1999), Changing Public Sector Accountability: Critiquing New Directions, *Accounting Forum*, Vol .23, No 2, 109-136.
- Qi, Zhang (2007a), *Accounting Sector and Users of Accounting Information in China Government*, Journal of Finance and Accounting (China), December.
- Qi, Zhang (2007b), *Several Qualification China Governmental Accounting System Have to Satisfy before Reform Happen*, Journal of Finance and Accounting (China), October.

- Qi, Zhang (2006a), *Apply Accrual Basis to Government Accounting Moderately: Factors and Enlightenments*, Journal of Finance and Accounting (China), September.
- Qi, Zhang (2006b), *To Establish a Performance Measurement Oriented Government Accounting System*, Accounting Research (China), April.

Norvald Monsen

Lasse Oulasvirta

EVOLUTION OF NATIONAL GOVERNMENT ACCOUNTING: A COMPARATIVE STUDY OF FINLAND AND NORWAY

Introduction

Historically, management and control in governmental organizations have differed from the corresponding processes in business enterprises, summarized brilliantly by Rudolf Johns:

“One must distinguish sharply between the *business sector* on the one hand and the *governmental sector* on the other. In both sectors one incurs *expenditures/expenses* in order to produce products and services, that is, to carry out *activities*. The value of the products/services should always be higher than the value of that which one has to give up in order to be able to produce the products/services. An *income struggle* thus is found in both sectors. The respective income statements are, however, very different. In the governmental sector it is only possible to prepare a *financial income statement*, in the business sector a *performance income statement*. Within the governmental sector (the state, municipalities, counties, state governments etc.), one offers services in order to carry out *public tasks*. These services are not sold. If at all payments are claimed for these services, it is in the form of *fees* and not *prices*. These fees have only little or no connection to the *expenses* incurred to produce the services. The expenses are not covered by prices, but rather in another way, mainly through *taxation*. In a certain year the taxes collected are not identical to the amount used for producing the services. Societal and financial considerations and possibilities determine the size of and relationship between revenues and expenditures.” (Johns, 1951: 5; translated from German, italics in the original)

As a result of this situation, financial accounts and performance accounts have been prepared in the governmental and business sectors, respectively. The term *financial accounts* refers to an accounting model focusing on the total cash effect of the revenues and expenditures (i.e., immediate cash inflows and later cash inflows (accounts receivable) as well as immediate cash outflows and later cash outflows (liabilities). When focusing only on the immediate cash effect of the revenues and expenditures, the term *cash accounts* will be used. Moreover, the revenues and expenditures may also have another effect, namely a possible performance result effect. The revenues

will have a positive effect on the performance result of the accounting period in question, if they are earned during the period (revenues earned). If not, they represent revenues deferred. The expenditures will have a negative effect on the performance result of the accounting period in question if they are incurred during this period (expenses incurred). If not, they represent deferred expenses/capitalized expenditures. An accounting model focusing on the performance result effect of the revenues and expenditures is referred to by the term *performance accounts*.

In governmental sectors around the world, financial accounts have traditionally been prepared. For example, if we turn our attention to the continental European countries, particularly the German speaking countries (Austria, Germany and Switzerland; Buschor, 1994), we will find that financial accounts in the form of cameral accounting have been used since the beginning of the 14th century (see e.g., Walb, 1926). And if we turn our attention to Anglo-Saxon countries, we will find that financial accounts in the form of fund accounting are prepared in the US and UK (see e.g. Freeman *et al.*, 2006; Jones and Pendlebury, 1996).

In later years, management and control in governmental organizations have become more similar to management and control in business organizations. The terms New Public Management (NPM) and New Public Financial Management (NPFM) have been used to describe this international development (see e.g., OECD, 1993; Hood, 1995; Olson *et al.*, 1998), and according to Hood (1995), changes in public sector (governmental) accounting were central to this development. Moreover, an extensive international study (Lüder and Jones, 2003), focusing explicitly on governmental accounting reforms in 9 European countries (Finland, France, Germany, Italy, The Netherlands, Spain, Sweden, Switzerland and the United Kingdom) as well as the European Commission, reveals that this accounting reform consists of introducing accrual accounting in governmental organizations.

Another international comparative study (Brusca and Candor, 2000) concludes that it is especially in Anglo-Saxon countries where the accrual criterion predominates in public sector accounting, while Continental European countries still are in the process of converting to accrual accounting. Typically, the latter countries have so far adopted modified cash or modified accrual systems instead of complete or full accrual systems. There may be various reasons for this situation, including the following ones: First, Continental European countries can be classified as 'civil law countries' as opposed to Anglo-Saxon-countries, which generally belong to the group of 'common law countries' (see e.g. Lüder, 1990). In the former group of countries, the law system plays a much more important role than in the latter group of countries. Hence, law regulations and concepts in Continental European countries have a stronger influence on public sector accounting systems and concepts, than what the case is in Anglo-Saxon countries. Second, in Continental European countries the budget with its focus on the financial development (revenues and expenditures) has always been very important, resulting in a very strong link between budgeting and accounting (see the discussion about cameral accounting below). This situation with a strong money focus in the budget, combined with a strong law tradition, probably helps to explain why Continental European countries have so far not replaced their financial accounts (focusing on revenues and expenditures) with full accrual or performance accounts (focusing on revenues earned and expenses incurred). On the other hand,

in Anglo-Saxon countries (common law countries), where the law and budgetary systems have not been so strong as in Continental European countries (civil law countries), it has been easier to change the accounting system, introducing full accrual accounting. In fact, in some of these countries, the accounting system has influenced the budgetary system, and not vice versa (Brusca and Condor, 2002).

It is true that the terms 'performance accounts' and 'the merchant's double-entry bookkeeping method' are hardly used, but rather the term 'accrual accounting'. In this paper, however, it is important to be more precise than simply refer to this international development by the term 'accrual accounting'. This is due to the fact that accrual accounting information also could be prepared for governmental organizations by using a special version of the cameralist's single-entry bookkeeping method (see below for further details). Inspired by Chan (2003), and following Monsen (2006), the term 'commercial accrual accounting' will therefore be used when referring to an accounting model, using the merchant's double-entry bookkeeping method to prepare performance accounts containing accrual accounting information.

In order to learn more about the development of governmental accounting around the world, it would be of interest to focus on one or more specific countries, aiming at analytical generalization (Yin, 1984). As opposed to statistical generalization, where the purpose is to generalize the results to the entire population, the purpose of analytical (theoretical) generalization, is to "generate theories formulated for an based on specific social situations, which have been studied empirically. Such theories can then be used by people involved in similar situations, when they are trying to improve their understanding of their own reality" (Brunsson, 1985: 11).

Based on this reasoning, the purpose of the paper is to present a comparative study of the development of national government accounting in two specific countries, namely Finland and Norway. These countries are particularly interesting to study, because historically their national government accounting systems have been strongly influenced by the cameral accounting theory. And both of the countries are trying to follow the international development towards the introduction of commercial accrual accounting in the national government sectors. Moreover, with its analysis and understanding of the Finnish and Norwegian developments, including the concepts generated and the suggestions for further improvement, the study is offered to readers for possible use when they want to understand and develop their own governmental accounting systems. In particular, by not only using commercial accrual accounting, focusing on the performance development (revenues earned and expenses incurred), as framework for analysis, but also cameral accounting, focusing on the financial (money) development (revenues and expenditures), and emphasizing money management, budgetary control and payment control, the paper aims at broadening the current international discussions about governmental accounting developments.

Accounting developments can be studied at different levels, including theoretical level (accounting theories), regulatory level (accounting laws, standards and recommendations) and practical level (accounting practice) (see e.g., Monsen and Wallace, 1995). The paper will, however, be limited to the two first levels, focusing on studying the influences of cameral accounting and commercial accrual accounting (theoretical level) on the evolution of national government accounting regulations in Finland and Norway (regulatory level, representing empiricism in the terminology of Brunsson above).

The paper is structured as follows: the next section presents a comparison of commercial accounting and cameral accounting, establishing a theoretical platform for the later analysis. Thereafter, the developments of National Government accounting in Finland and Norway, respectively, are presented, followed first by a discussion of these developments, before a concluding section ends the paper.

1. Commercial vs cameral accounting

Historically, single-entry bookkeeping of cash transactions was the bookkeeping method used in commercial (business) accounting (see e.g., Lee, 1986: introduction), implying that cash accounts were prepared. In the thirteenth century, however, the merchant's double-entry bookkeeping method emerged in response to the needs of businessmen in Italy (Kam, 1990: 29), and Luca Pacioli's book *Summa de Arithmetica Geometrica Proportioni et Proportionalita* (Review of Arithmetic, Geometry and Proportions) in 1494 was the first book on double-entry bookkeeping to be published (see e.g., Kam, 1990: 19). Hence, in the business sector, the preparation of cash accounts by using the single-entry bookkeeping method was replaced by the preparation of performance (accrual) accounts, using the merchant's double-entry bookkeeping method:

“Accrual basis means a basis of accounting under which transactions and other events are recognised when they occur (and not only when cash or its equivalent is received or paid). Therefore, transactions and events are recorded in the accounting records and recognised in the financial statements of the periods to which they relate. The elements recognised under accrual accounting are assets, liabilities, revenues and expenses.” (IPSAS 1; reprinted in CEC 2003: 1029)

According to Walb (1926) it is the dual and more informative presentation of the performance result (via the payment and activity sides, as reported in the balance sheet and the income statement, respectively), which is the advantage of using merchant's double-entry bookkeeping compared to using (systematic) single-entry bookkeeping viewed from a performance point of view. This implies that there is a direct link between the income and balance sheet statements, which in the Norwegian literature is referred to as the “kongruensprinsipp” (English translation: congruence principle; see e.g., Kinsersdal, 1998: 315). Furthermore, cash transactions without an effect on the performance result (e.g., receipt of new external loans) are reported on the debit and credit sides of the balance sheet only (and not in the income statement), implying that the balance sheet reports total assets, liabilities and equity as of the balance sheet date.

Ijiri (1967) focuses on two other dimensions of the double-entry bookkeeping method instead of the dual result presentation (via the payment and activity sides): the essence of double-entry is that every increment is causally related to a decrement¹,

¹ Ijiri calls this causal double-entry as a distinction to classificational double-entry (Ijiri, 1975: 81).

and the significant contribution of double-entry over single-entry is that the present financial status of a firm is fully accounted for by past events (Ijiri, 1982: 9). As of a given date, the assets and liabilities describe the present position of an enterprise, and the capital accounts, including income (i.e., the performance result), can be seen as a summary of past events. If past events have been properly accounted for, then the cumulative past should equal the present. In single-entry bookkeeping the present status is represented by a list of assets and liabilities, but double-entry compels an accounting of the present by an appropriate set of capital accounts that captures the past events that led to the present position. Thus, according to Kam (1990: 37), accountability is the essence of double-entry.

If we turn our attention to cameral accounting, we will learn that the expression 'cameralistics' originates from *camara*, which is the term used for the covered wagons which the warriors used to pull after themselves with their war money. This expression was also used about a vault and about everything that had a roof with a vault above itself. Thus, in this connection the Latin word 'camara' denoted the place where the master stored his treasures, and the German expression 'Kammer' referred to the room where those persons, who were responsible for administering the revenues, used to assemble. For that reason, the expression 'cameralistics' and 'cameral accounting' are closely linked both to money and revenue as well as their administration since the earliest time (Walb, 1926: 209).

This means that we find different focuses within commercial accrual accounting and cameral accounting. While commercial accounting today focuses on the performance (accrual) development at the expense of the financial (money) development (see also Monsen, 2001), the money focus has always been at the heart of cameral accounting. Moreover, today there exist two main groups of cameral accounting, namely administrative cameralistics and enterprise cameralistics (see e.g., Monsen, 2002, for an overview of the historical development of cameral accounting). *Administrative cameralistics* were developed for use by the core part of a governmental organization, which is primarily financed by tax revenues. The main objectives of this original and core version of cameral accounting are money management, budgetary control and payment control. In other words, administrative cameralistics should help to control that public (tax) revenues are managed (money management) within the boundaries of a politically adopted budget (budgetary control). Furthermore, there is a general rule in the governmental sector saying that no cash can be received or paid by an organizational unit without receiving a previous or simultaneous payment instruction from another organizational unit having this competence (payment control). The cameral account, with its four columns on the revenue and expenditure sides, has been specifically designed to help carry out this important form of control (see e.g., Monsen, 2002, for further details).

As opposed to commercial accrual accounting, which uses the principle of double-entry bookkeeping, cameral accounting uses the principle of single-entry bookkeeping. In fact, administrative cameralistics use a developed version of single-entry bookkeeping, which can be referred to as *the single-entry bookkeeping method of administrative cameralistics*. While the merchant's single-entry bookkeeping forms the basis of cash accounts, showing immediate cash inflows and outflows, the single-entry bookkeeping of administrative cameralistics forms the basis of financial accounts, showing total

revenues and expenditures (i.e., immediate cash inflows and outflows as well as later cash inflows (accounts receivable) and later cash outflows (liabilities)) (see Monsen, 2002, for further details).

Over time, an increasing number of governmental organizations established their own enterprises (e.g., electricity companies), which were more similar to business enterprises (being market financed) than to the core governmental organization (being budget financed). As a result, a developed version of cameral accounting was worked out, with the objective of providing the same type of information for the governmental enterprises as what was prepared when using the merchant's double-entry bookkeeping method, namely accrual accounting information. *Enterprise cameralistics* is the term used when referring to this particular version of cameral accounting.

Enterprise cameralistics use a developed version of systematic single-entry bookkeeping, which can be referred to as *the systematic single-entry bookkeeping method of enterprise cameralistics*. As distinct from the merchant's systematic single-entry bookkeeping, which allows the preparation of the performance result via the payment side (balance sheet) only (see e.g. Kosiol, 1967), use of the systematic single-entry bookkeeping method of enterprise cameralistics allows the preparation of the performance result via both the payment side (as a part of an integrated balance sheet) and the activity side (income statement). Hence, the performance result is reported in precisely the same two informative ways as it is reported when using the merchant's double-entry bookkeeping method. The systematic single-entry bookkeeping method of enterprise cameralistics thus forms the basis of *modified financial accounts/performance accounts* (see Monsen, 2002, for further details).

In summary, both commercial and cameral accounting has evolved throughout history. Within commercial accounting, the principle of single-entry bookkeeping was replaced by the principle of double-entry bookkeeping, replacing the money (cash) focus with a performance (accrual) focus. On the other hand, cameral accounting has developed its money (cash) focus within administrative cameralistics (adding later cash flows in the form of accounts receivables and liabilities to immediate cash flows), and supplementing the money focus with a performance focus, containing accrual accounting information, within enterprise cameralistics.

2. National Government accounting in Finland

2.1. Historical development until 1998

When Finland still was a Grand Duchy of the Russian empire with her own legislative body, a statute was given on the 3. May 1899, expressing that state accounting entities must arrange their bookkeeping according to a double-entry Italian bookkeeping method and that the book closure of the state must include the balances of funds, the revenues and expenditures according to the budget and some appendices, including the position of state cash reserves, authorized deferral budget revenues and deferral budget expenditures and a list of transferable appropriations (§48). The bookkeeping was cash based, but it also included financial accounts like accounts receivable and accounts payable. Authorized deferral budget revenues and

deferral budget expenditures were registered so that a budget revenue entry was carried out for the budget year although the cash inflow came during the following year and a budget expenditure entry was carried out for the budget year although the cash outflow happened during the following year. These entries were allowed only for rigorous transactions authorized in the budget and these future revenues and expenses had to be followed with special deferral accounts.

Finland gained its independence on the 6. December 1917 and the Constitution of 1919 secured the budget power of the Parliament by, among other things, abolishing the system of separate funds and by bringing one uniform budget to parliamentary decision making. The bookkeeping, which used the principle of double-entry, had the function of controlling budget implementation and management of cash movements and reserves. Furthermore, the statute of 1899, which specified the main principles of national government accounting, were followed also after the independence in government accounting. In particular, the law of government budgeting and accounting of 1931 stated that the government book closure must include a budget closing account that follows up the budget and will show to what extent realized revenues and expenditures have been smaller or larger than the corresponding budget figures (§8). The government financial statements had to include the position of state cash reserves and a summary of transferrable appropriations.

The basic budget and accounting principles survived with some amendments. The government proposal for the new budget act (act proposal 108, parliamentary session 1987) stated that the regulations concerning national government bookkeeping were taken from the previous law (the law of government budgeting and accounting of 1931). This new national budget act of 1988 (423/1988) and the budget statute (424/1988) stipulated that national government bookkeeping should follow good bookkeeping practice and that the accounts should allow a detailed follow-up of budget sub-items (§15). It also stipulated that government enterprises must use commercial accrual accounting (i.e., commercial double-entry bookkeeping). The budget entities' book closure had to include (1) the budget accounts and a comparison with the budget items and sub-items (appropriations and revenue estimates) and (2) the administrative balance sheet (§18). According to the budget statute (§43), the national government bookkeeping had to be double-entry bookkeeping, which had to be used, if possible, on a daily basis.

So, the financial statements when using the administrative double-entry bookkeeping method included a budget realization statement, showing budgeted and accounting revenues and expenditures and a non-comprehensive balance sheet, referred to as administrative balance sheet (*hallinnollinen tase*). This particular balance sheet contained financial accounts showing liquid assets (cash deposit and accounts receivable) on the debit side as well as liabilities (accounts payable and short-term debt) on the credit side. Long-term fixed, intangible assets as well as long-term liabilities were missing from this balance sheet, and these missing parts were considered as the main deficiency of the balance sheet (VM 1994, Liite 6.,16).

In summary, the main objectives of National Government accounting in Finland have from the start been money management, control of public money and budget implementation in the accountable budget entities. Furthermore, the principle of double-entry bookkeeping has always been used in Finnish National Government

accounting, and the particular bookkeeping method used can be referred to as 'Finnish administrative double-entry bookkeeping' (*hallinnollinen kirjanpito*).

2.2. Accounting reform of 1998

As pointed out in the introduction, management and control in governmental organizations have become more similar to management and control in business organizations. Influenced by this international development, the coalition cabinet, lead by prime minister Harri Holkeri, started a comprehensive public sector reform in Finland. This reform implied, among other things, that a considerable amount of budget entities were transformed from the core part of the state administration to public utilities and state-owned companies. The budgeting model was changed from focusing on the required resources and inputs (budgeted expenditures) to focusing more on output, i.e., what the budget entities have achieved with the appropriations. This new model was in Finland referred to as a result budgeting model. Moreover, the major part of the budgeting entities became net budget entities, implying that they became responsible also for the difference between realized budget expenditures and revenues. This change should motivate them to become active in collecting revenues. Also, use of commercial double-entry bookkeeping with its two financial statements, that is, one statement showing revenues earned, expenses incurred and the performance result and the other statement representing a comprehensive balance sheet, was seen as important new steering means to increase efficiency in the public administration.

The process of renewing the national government bookkeeping method began in 1991 in the Ministry of Finance. On the 3. November 1994, the Ministry handed over the work with the preparation of the accounting reform to the *Valtiokonttori* – Treasury office. In March 1996 the new bookkeeping model, including the new financial statements, was ready. On the 8. July 1996, the Government Bookkeeping Board presented a positive opinion of this new model. Thereafter, the new legislation was prepared according to this new model in 1996-1997, some pilot budget entities tried the new model in 1997. The national budget act of 1988 (423/1988) and the budget statute (424/1988) were renewed considerably. The amended law statute came into power on the 1. January 1998. The reform required a considerable preparation work in accounting and budget entities; a lot of training, changes in IT-systems and programmes and an inventory of all government assets. The first comprehensive balance sheet for national government was prepared at 31.12.1995 (VM 1994, Valtiokonttori 7.10.1996, Valtiokonttori 23.8.1996).

According to the official documents, the commercial accrual bookkeeping reform was proposed because the administrative double-entry bookkeeping model did not give enough information for the new steering and budgeting model. According to the *Talousarviosäädöstyöryhmä* (the Budget Act Committee established by the Ministry of Finance in 1992), commercial accrual accounting and new financial statements are needed to give information about the financial performance of the budget entities. Linked to this was also a change in the charging policy that required more cost accounting information for pricing government goods sold. Commercial accrual accounting, which registers all assets and calculates depreciation cost of long-term

assets, gives information for management accounting and enhances cost consciousness in using fixed assets. One argument was also better comparability of government accounting entities with local government and private sectors (VM 1993, 17-19.). Also, the annual report was renewed to fit the steering and budgeting by the result model. Before 1998 the reports were too heterogeneous and lacked a stable and uniform way of reporting how the accountable government entities had performed (VM 1994, Liite 2).

2.3. Current Finnish National accounting system

The reform of 1998 meant a shift from administrative double-entry bookkeeping to a dual accounting system consisting of two parts. The new part was a commercial double-entry bookkeeping part, which made it possible to present performance accounts in the form of an income statement (statement of profit and loss) and a comprehensive balance sheet. The other part in the national government bookkeeping system consists of single-entry budgetary bookkeeping, prolonging the budgetary control function of the previous administrative double-entry bookkeeping. By help of the single-entry budgetary bookkeeping method, a statement of budget accounts is prepared and compared to the budget appropriations and the budget revenue estimates. The Finnish national government bookkeeping can thus since 1998 be described as a dual system that combines two different bookkeeping methods of single-entry bookkeeping (budgetary bookkeeping) and double-entry bookkeeping (commercial accrual accounting).

Central Government Treasury merges the ledgers of all the about 120 accounting entities to a consolidated central government financial statement. This contains the accounts of all government budget entities, but not government funds, government enterprises and state owned companies, all of which prepare their own financial statements.

The present book closure model of national government bookkeeping in Finland consists of three basic calculations:

- 1) A Statement of revenues earned and expenses incurred (performance accounts). Budget entities do not strive for profits and that is one reason why the reformers did not want to name the statement as profit and loss statement, but rather revenues earned-expenses incurred statement. Moreover, the pattern of this statement differs from the Finnish enterprise profit and loss statement.
- 2) A balance sheet that is now comprehensive, including all assets and all liabilities.
- 3) An annual statement of budget accomplishment (budget outturn). This follows the same pattern as before 1998.

Besides these calculations, once a month all budget entities must do a check of accuracy between commercial double-entry and budgetary single-entry bookkeeping. Because budgetary accounting is single-entry bookkeeping, the technical check of faultlessness is made by comparing the cumulative sum of budgetary accounts to the cumulative sum of balance sheet financial accounts, which in a way construct the debit/credit counterparts of budget account entries.

In addition to these statements the budget entity book closure consists of a lengthy list of appendices and of an annual written report. The consolidated book closure of the whole national budget economy consists also of a cash flow statement – separate budget entities are not obliged to prepare a cash flow statement.

3. National Government accounting in Norway

3.1. Development until 1924

National Government budgeting and accounting in Norway is rooted in the Constitution of 1814. Here the King was given executive power, the Parliament legislative and appropriative power and the judicial system judiciary power (division of powers). Even though the Parliament according to §75 in the Constitution was given the authority over the national government's finances, the Constitution does not give the Parliament unlimited power over budgeting and finances. And the development of the budgeting and accounting system during the first hundred years was closely connected with the constitutional struggle between the King and the Parliament. In 1884 the parliamentary system was introduced, and the position of the Parliament in relation to the executive power was substantially strengthened.

In the beginning the budgetary system was characterized by funds, directly financing various public tasks and activities. Separate accounts were prepared for these funds and a total overview of the national government's revenues and expenditures was not prepared. Historically, single-entry bookkeeping of revenues and expenditures were carried out. However, an Order in Council of 8. September 1879 required the use of double-entry bookkeeping in national government accounting from the beginning of 1879. And in 1901 *Statens Budgett- og Regnskapskomite av 1896* (SBR1896 - Budgeting and accounting committee of 1896) presented its report on national government accounting, specifying that the national government accounting should control the budgetary appropriations (budgetary accounting) as well as control the money transactions (cash accounting).

3.2. *Statens Budgett - og Regnskapskomite av 1924*

On the 10. March 1924, the Ministry of Finance appointed *Statens Budgett - og Regnskapskomite av 1924* (SBR1924 - Budgeting and accounting committee of 1924) with the commission to give an evaluation of possible changes of national government budgeting and accounting in Norway. The committee presented a number of reports during the 1920s, including a report about national government accounting (in 1925; SBR1925).

The committee starts explaining the national government accounting system by referring to the budget. It ascertains that there is a strong link between the budget and the accounts, because the budgetary appropriations are to be controlled by help of the accounts. Furthermore, SBR1924 refers to the introduction of double-entry bookkeeping in national government accounting in 1879, but ascertains that the use of this principle deviates from its use within commercial accrual accounting. In the

latter case, revenues earned and expenses incurred are entered in the accounts, and an income statement account with an integrated comprehensive balance sheet account is prepared (i.e., performance accounts are prepared). On the other hand, national government accounting in Norway represents financial (cash) accounts, without an integrated comprehensive balance sheet account.

While SBR1896 argued for extending the use of the principle of current dues (i.e., bookkeeping of revenues and expenditures), SBR1924 disagreed with this, and argued for introducing the cash principle (i.e., bookkeeping of cash inflows and outflows) in national government accounting. This argument was motivated by a desire to create an accounting system which gives a fast and reliable financial overview (SBR1925, p. 16).

3.3. Appropriation guidelines

The Parliament has adopted the ‘appropriation guidelines’ (*bevilgningsreglement*), which regulates how to prepare the budget and the accounts of the national government. The first version of the appropriation guidelines was adopted in 1928, strongly based on the main principles suggested by SBR1924. And later versions have largely prolonged these principles. In the following, the main principles in the appropriation guidelines will be explained.

The principle of annuality is found in §7. It states that an appropriation is at disposal during the budgetary period, which today follows the calendar year. Unspent appropriated resources at the end of the year cannot any longer be used, unless it is explicitly stated that they are transferable. In 1985 the Parliament adopted a softening-up of this rule by introducing a general permission to transfer until 5 per cent of the appropriation for an operating item to the following period.

The cash principle is presented in §14 and requires that an expenditure should be reported in the accounts when it is paid in cash, while a revenue should be entered in the accounts when it is received in cash. This principle was introduced in national government accounting in 1924 based on the recommendation by SBR1924, and has been incorporated in the appropriation guidelines since its first version was adopted in 1928. Even though this rule formally applies to the accounts, there has never been any doubt that the budget also should be prepared in accordance with this principle (Trålin *et al.*, 1998, p. 3). Gradually, however, some exceptions to the cash principle have been introduced, implying that the appropriation guidelines today contains a modified cash principle.

The gross principle follows from §4, second subsection. It specifies that even though expenditures and revenues refer to the same activity, the Parliament votes expenditures and revenues separately on different chapters, and they should be separately entered in the accounts.

The principle of comprehensiveness is found in §4, first subsection. According to this principle, the budget should cover the total cash expenditures and cash revenues of the national government during the budgetary period, to the extent that they can be forecasted when the budget is being adopted. The principle contributes to give the best possible total overview of the finances of the national government during the

budgetary process every autumn, and reduces the need for additional appropriations during the budgetary year.

3.4. Current accounting system

SBR1924 pointed out that use of the principle of double-entry bookkeeping in national government accounting in Norway deviates from use of this principle in commercial accrual accounting. In the former accounting system, cash revenues (cash inflows) and cash expenditures (cash outflows) are entered in the accounts, as opposed to revenues earned and expenses incurred in the latter system.

A special account has been created within National Government accounting in Norway, 'Account for balance displacements' (*Konto for forskyvning i balansen*). It is used when certain transactions are entered in the accounts in order to apply the principle of double-entry bookkeeping and simultaneously follow the special accounting rules, which require the preparation of financial (cash) accounts as opposed to performance accounts. When closing the accounts, the following two financial statements are prepared: 'Appropriation account' (*Bevilgningsregnskap*) and 'Capital account' (*Kapitalregnskap*). The first statement reports the cash revenues (cash inflows) and cash expenditures (cash outflows), which are compared with the corresponding budgetary amounts (budgetary control). The second statement is the balance sheet account, primarily containing cash/bank accounts, and not accounts receivable, liabilities or capitalized investments (cp. use of the cash principle). These statements are quite similar to the statements that the Finnish national government prepared before the reform of 1998.

The 'Account for balance displacements' is not only used for entering certain transactions in the accounts during the accounting year. It also has a task to perform when closing the accounts at the end of the year. The 'Appropriation account' is namely closed against the 'Account for balance displacements', which again is closed against the 'Closing account' (*Avslutningskonto*). The latter account appears as a part of the 'Capital account'.

In summary, national government accounting in Norway represents financial (cash) accounts, focusing on the bookkeeping of cash inflows and outflows by help of a special application of the principle of double-entry bookkeeping. In order to be able to use this particular bookkeeping method, a special account, 'Account for balance displacements', has been created. It is used both for the bookkeeping of certain transactions and as a closing account for the 'Appropriation account'. The latter account represents the main financial statement by reporting the cash inflows and outflows, allowing for a comparison of accounting and budgetary cash inflows and outflows (budgetary control). In addition to the 'Appropriation account', a financial (cash) balance sheet with the name of 'Capital account' is also prepared.

3.5. Reform process in progress

By an Order in Council of 14. September 2001, a committee was appointed to evaluate the bookkeeping principles used in national government budgeting and

accounting. The report of the committee was presented in 2003 (NOU 2003:06), arguing that national government accounting in Norway in the future should be based on the principle of accrual accounting, as opposed to continued use of the cash principle. In particular, the motivation for this is the fact that expenses of the governmental activity would be reported, and the balance sheet would give a more systematic and more comprehensive overview of assets and liabilities than the case is when using the principle of cash accounting. Moreover, an overview of cash inflows and outflows would be available in a cash flow statement. Such a statement is to be prepared in addition to the income and balance sheet statements, which are the two financial statements prepared within commercial accrual accounting.

The committee points out that it may be suitable to depart from the business accounting framework, when preparing norms and guidelines for national government accounting. According to the committee, such an approach has been applied in some countries having introduced commercial accrual accounting in the governmental sector. However, due to the fact that the national government in many areas deviates from business enterprises, the committee underlines that it is necessary to adjust the business accounting rules to become useful for the national government. Furthermore, according to the committee, accrual budgeting can be introduced without changing the budgetary decisions of the Parliament. This is due to the fact that the information, on which the current appropriation decisions build, also will be included in the new system. An accrual budget should namely be supplemented with a cash flow statement, implying that the appropriation decisions in the budget still can be based on cash flows.

The committee also refers to the international development (see the introduction to this paper) when motivating the replacement of the cash principle with the accrual principle. In this connection it is pointed out that in some of these countries the development has been motivated by weak governmental finances and the need for a more efficient governmental sector. The Norwegian national government at the present time has, however, budgetary surpluses. The pressure to increase the efficiency in the governmental sector is therefore weaker in Norway than in many other countries. Nevertheless, the committee underlines that the advantage of a more efficient use of financial resources is as great in Norway as in other countries. And it is precisely the possibility of a more efficient use of resources, which can motivate a change to accrual accounting. Among other things, the committee argues that use of the accrual principle will provide a basis for comparing costs between different governmental activities as well as between activities in the governmental and business sectors, where such comparisons can be undertaken.

Based on these recommendations, in December 2003 the Parliament decided to introduce commercial accrual accounting in ten selected government departments, referred to as 'pilot units'. In the first phase of this project one aims at developing accounting standards based on the accrual principle as well as using these standards in the pilot units for the fiscal year 2005. However, the government has expressed strong scepticism to introducing the accrual principle in the budget, primarily due to the use of the budget as an important instrument in the fiscal policy (ARN:4, 1999, p. 38). It has therefore been decided to continue using the current budgetary procedure, focusing on cash inflows and outflows (the cash principle).

In summary, the main motivation for the introduction of the accrual principle in Norwegian National Government accounting, is a desire for reporting better cost information in general as well as a wish to establish a better platform on which to base cost analyses of different activities. Another objective is to prepare a comprehensive overview of assets and liabilities belonging to the national government. It is of a special interest to observe that the pilot project of introducing commercial accrual accounting should not result in a new management procedure. As pointed out, the budgetary appropriations of the Parliament should continue to be based on the cash principle, and all government departments, including the pilot units, must continue to use the cash principle in their official accounts.

4. Discussion

National Government accounting in Finland and Norway has been strongly influenced by the cameral accounting theory. In particular, their objectives correspond to the financial objectives of administrative cameralistics, namely money management, control of public (tax) revenues, budgetary control and payment control. Nevertheless, the principle of double-entry bookkeeping and the commercial account (debit and credit sides) have been introduced both in Finland (1899) and in Norway (1879), as opposed to using the principle of single-entry bookkeeping and the cameral account (revenue and expenditure sides). As a result, specific versions of double-entry bookkeeping have been developed for use in national government accounting both in Finland and Norway. Because these special double-entry bookkeeping methods combine cameral financial accounting thinking and commercial accrual accounting thinking, representing two independent and principally different accounting theories (Walb, 1926: 208), they are complicated and difficult to understand.

In such a situation, it is no surprise that pressures for change are positively regarded. And if this pressure is international, being supported by the international accounting profession, changes are even more likely to occur. It is therefore very demanding to argue against such a worldwide international development towards commercial accrual accounting, and especially if you lack another theoretical accounting framework to base your argumentation on. In particular, a special committee of IFAC, the global organization of the accountancy profession, The International Public Sector Accounting Standards Board (IPSASB) started in the beginning of 2000 to prepare accounting standards for the public sector. Many standards have already been released (standards are available from IFAC's home page, <http://www.ifac.org/PublicSector/>), and they were translated to the public sector from the IAS/IFRS commercial accrual based standards for business companies. This development can be regarded as a pressure for national governments to move from cash based and other government accounting systems to so-called full accrual accounting. During 2005 and 2006, the Government Accounting Board (*Valtion kirjanpitolautakunta*) in Finland considered these IPSAS standards, but the Board's preliminary conclusion is to be very critical towards these standards, because a proper framework taking into consideration the special reporting and information requirements of governmental organizations is lacking. Furthermore, in Norway, a pilot project has recently been started, entering on the road towards

commercial accrual accounting, even though it is underlined that the management of the financial resources of the government still should be based on a financial budget and not be based on the new commercial accrual based financial statements.

We believe that the scepticism towards the introduction of commercial accrual accounting in governmental organizations is sound. This scepticism is related to the special commercial accrual accounting theory that IPSAS standards represents. This accounting theory emphasizes asset valuation and fair values and was especially developed for big listed international companies, intended to satisfy the information needs of capital investors. It was not developed for governmental organizations, which are different from, and have other objectives than, business companies (Wynne, 2002). While commercial accrual accounting in the form of commercial double-entry bookkeeping was developed to satisfy the needs for performance information in business companies, cameral accounting in the form of the single-entry bookkeeping method of administrative cameralistics was developed for use in governmental organizations, aiming at satisfying the cameral financial objectives (money management, control of public (tax) money, budgetary control and payment control). Hence, another accounting framework than the commercial one exists, and it has historically influenced governmental accounting in many countries. According to Monsen (2002), cameral accounting has also a potential for influencing future governmental accounting.

As pointed out earlier in this paper, in later years management and control of public sector organizations have changed towards management and control in business organizations (cp. NPM, NPFM). And given this development, arguments for the introduction of accrual accounting information have been presented (see e.g., Hood, 1995), resulting in an international trend towards using commercial accrual accounting (commercial double-entry bookkeeping) in governmental organizations (see e.g., Lüder and Jones, 2003; Brusca and Condor, 2002). This is an observable development we do not question; what could be questioned, however, is if this is a desirable development or not (see e.g. Olson *et al.*, 1998). We believe that IPSAS standards are not a good basis for international governmental accounting harmonization. They do not have a proper financial framework for public sector (governmental) accounting and do not emphasize budgetary information strongly enough to be suitable, for example, for Finnish and Norwegian public sector accounting needs.

When reading the international governmental accounting literature, one may get the impression that the introduction of accrual accounting information in governmental organizations is a relatively new phenomenon, triggered by the developments towards NPM and NPFM which started in the latter part of the 1970s and the first part of the 1980s. This is not the case, however. For example, the preparation of accrual accounting information by governmental organizations has been discussed earlier in the German literature (see particularly, Walb, 1926; Johns, 1951; Wysocki, 1965; Mülhaupt, 1997). In particular, as early as 1926, Ernst Walb proved that by using a developed version of cameral accounting (i.e., enterprise cameralistics), it is possible to prepare precisely the same type of information as the one prepared when using commercial double-entry bookkeeping (i.e., accrual accounting information). Hence, it is not necessary to introduce commercial double-entry bookkeeping in order to prepare accrual accounting information for governmental organizations.

Moreover, if we nevertheless want to use double-entry bookkeeping, as it has been done in Finnish and Norwegian national government accounting, it does not have to be full accrual accounting, but could be modified cash or modified accrual accounting, taking into consideration the special information needs and requirements of governmental organizations.

Conclusions

Today there exist strong international pressures for introducing commercial double-entry bookkeeping in governmental organizations, aiming at preparing accrual accounting information. When reading the international governmental accounting literature, we learn about advantages of using commercial accrual accounting, particularly the reporting of cost information and comprehensive balance sheet accounts, containing assets, liabilities and equity. But we do not learn much about what type of information we might lose, like information for money management and information for financial budgetary control. This danger of losing important information is probable if we let a commercial accrual accounting model shape the budgeting models, and if we compel the budgetary information to a subordinate position compared to financial accounting statements.

In recent years, however, we can observe that some researchers have started to criticize this introduction of NPM and NPFM, where commercial accrual accounting plays a vital role, in the governmental sector. Given this development, more emphasis should also be given to discussions of governmental accounting, and commercial accrual accounting should not be considered as the only accounting framework to use in governmental organizations. Hence, in this paper another accounting model than the commercial accrual one has also been used as a framework, namely cameral accounting. As we learned from the empirical study of national government accounting in Finland, commercial accrual accounting was taken into use, but it was reconciled to the budget accounting model, making it possible to take into account the specific information needs of governmental accounting, including information needs for controlling the use of public (tax) revenues and budgetary control. The Norwegian study confirmed these needs, because here it was underlined that the experimentation with the introduction of commercial accrual accounting information should not have any influence on how to manage the public (tax) revenues, which should still be controlled by a financial budget.

Our studies of Finland and Norway indicate that there is still a strong need for financial (money) information and budget outturn information in governmental organizations. At the same time, however, there is a strong international pressure for changing from a money focus to a performance focus in the form of commercial accrual accounting. This may shape in an appropriate way budgetary models and presentation of budgetary information at the least from the point of view of Continental European tradition, which so far has emphasized that budgetary information needs should influence accounting and not vice versa. Stopping such a strong trend – or at least not joining in – requires good argumentation, like the possibility of referring to a financial (money) accounting theory as an alternative to a performance (accrual)

accounting theory. We therefore want to offer the financial cameral accounting theory (administrative cameralistics) for use in the discussions about how to improve governmental accounting. The fact that cameral accounting in its developed version (enterprise cameralistics) allows the preparation of accrual accounting information as a supplement to financial (money) accounting information, is another argument for also considering using cameral accounting as a framework in governmental organizations. Also, a governmental double-entry bookkeeping model could be developed, which co-opt more to the cameral framework than to the commercial accrual accounting framework developed for listed business companies. The current Finnish and Norwegian national governmental accounting models are examples hereof.

References

- Arbeidsnotat nr. 4 (ARN:4) (1999), Sammenlignende analyse av statlig økonomistyring og økonomiregelverket i Norge, Sverige og Danmark, Finansavdelingen.
- Bingen, H. (1990), *Statsbudsjettet og budsjettbehandlingen i Stortinget*, Stortinget.
- Brunsson, N. (1985), *The Irrational Organization. Irrationality as a Basis for Organizational Action and Change*, John Wiley & Sons, New York.
- Brusca, I. and Condor, V. (2002), Towards the harmonisation of local accounting systems in the international context, *Financial Accountability & Management*, 18 (2) 129-162.
- Buschor, E. (1994), Introduction: From Advanced Public Accounting via Performance Measurement to New Public Management, in Buschor, E. and Schedler, K. (eds.), *Perspectives on Performance Measurement and Public Sector Accounting*, Paul Haupt Publishers, Berne, Stuttgart, Vienna.
- Chan, J. L. (2003), Government Accounting: An Assessment of Theory, Purposes and Standards, *Public Money and Management*, Vol. 23, No.1, 13-20.
- Commission of the European Communities (CEC) (2003), Modernisation of the Accounting System of the European Communities, in Lüder, K. and Jones, R. (eds.), *Reforming Governmental Accounting and Budgeting in Europe* (Frankfurt am Main: Fachverlag Moderne Wirtschaft.
- Freeman, R. J.; Shoulders, C. D and Allison, G. S. (2006), *Governmental and Nonprofit Accounting. Theory and Practice*, 8th edn., New Jersey: Prentice Hall.
- Hood, C. (1995), The "New Public Management" in the 1980s: Variations on a Theme, *Accounting, Organizations and Society*, Vol. 20, No. 2/3, 93-109.
- Ijiri, Y. (1967), *The Foundations of Accounting Measurement*, Prentice Hall.
- Ijiri, Y. (1975), *SAR No. 10, Theory of Accounting Measurement*, American Accounting Association.
- Ijiri, Y. (1982), *SAR No. 18, Triple-Entry Bookkeeping and Income Momentum*, American Accounting Association.
- Johns, R. (1951), *Kameralistik. Grundlagen einer erwerbswirtschaftlichen Rechnung im Kameralstil*, Wiesbaden: Betriebswirtschaftlicher Verlag Dr. Th. Gabeler.
- Jones, R. and Pendlebury, M. (1996), *Public Sector Accounting*, 4th edn., London: Pitman, London.
- Kam, V. (1990), *Accounting Theory*, New York: John Wiley & Sons.
- Kinserdal, A. (1998), *Finansregnskap med analyse. Del I*, Oslo: Cappelen Akademisk Forlag.
- Kosiol, E. (1967), *Buchhaltung und Bilanz*, Berlin: Walter de Gruyter & Co.
- Lee, T. A. (1986), *Towards a Theory and Practice of Cash Flow Accounting* (New York and London: Garland Publishing, Inc.
- Lüder, K. (1990), Governmental accounting in West European Countries: with special reference to the Federal republic of Germany, in Chan, J. L. and Jones, R. H. (eds.), *Governmental Accounting and Auditing. International Comparisons*, London and New York: Routledge, 82-104.

- Lüder, K. and Jones, R (eds) (2003), *Reforming Governmental Accounting in Europe*, Frankfurt am Main: Fachverlag Moderne Wirtschaft.
- Monsen, N. (2001), Cameral accounting and cash flow reporting: some implications for use of the direct or indirect method, *The European Accounting Review*, 10(4), 705-724.
- Monsen, N. (2002), The case for cameral accounting, *Financial Accountability & Management*, Vol. 18, No. 1, 39-72.
- Monsen, N. and Wallace, W. A. (1995), Evolving financial reporting practices: a comparative study of the Nordic Countries harmonization efforts, *Contemporary Accounting Research*, 11(2), 973-997.
- Mülhaupt, L. (1987), *Theorie und Praxis des öffentlichen Rechnungswesens in der Bundesrepublik Deutschland*, Baden-Baden, Nomos Verlagsgesellschaft.
- Norges offentlige utredninger (NOU) 2003: 6: *Hva koster det? Bedre budsjettering og regnskapsføring i staten*, Finansdepartementet.
- OECD (1993): Accounting for what !: The value of accrual accounting to the public sector. Puma (Public Management); Occasional Papers, Oecd, Paris.
- Oettle, K. (1990), Cameralistics, in Grochla, E. and Gaugler, E. (eds.), *Handbook of German Business Management* (Berlin: C.E. Poeschel Verlag Stuttgart, 1990).
- Olson, O.; Guthrie, J. and Humphrey, C. (eds.) (1998), *Global Warning: Debating International Developments in New Public Financial Management*, Oslo: Cappelen Akademisk Forlag.
- Skrivelse fra Statsrevisionen angående Indførelse av det dobbelte Bogholderi ved det offentlige regnskapsvesen* (Dokument nr. 70 fra Budgettkomiteen, 1876) (SK1876).
- Statens Budgett- og Regnskapskomite, *Innstilling I: Statsbudgettet* (Finans- og Tolldepartementet, 1924) (BR1924).
- Statens Budgett- og Regnskapskomite, *Innstilling II: Statsregnskapet* (Finans- og Tolldepartementet, 1925) (BR1925).
- Trålim, V.; Axelsen, G. and Meland, C. (1998), *Bevilgningsreglementet 70 år. Historikk og hovedprinsipper, arbeidsnotat nr. 2*, Finansdepartementet.
- Valtiokonttori (7.10.1996), Valtion kirjanpito uudistuksen mukaiset sisältövaatimukset valtion kirjanpidossa käytettävälle atk-järjestelmille (State Treasury in Finland, The bookkeeping reform and its requirements to IT-systems, 7.10.1996. Helsinki, 1996.
- Valtiokonttori (23.8.1996), Valtion varojen ja verojen inventointi 31.12.1995 (State Treasury in Finland, The inventory of government assets and taxes, 23.8.1996). Helsinki, 1996.
- VM (valtiovarainministeriö) 1993: Talousarviosäädöstöryhmän muistio, 1993:19 (Ministry of Finance, Memorandum of the budget regulation working group). Helsinki, 1993.
- VM (valtiovarainministeriö) 1994: Virastojen kirjanpito hankkeen loppuraportti (Ministry of Finance, Final report of the government agencies' bookkeeping project). Valtiovarainministeriön työryhmämuistioita 1994:2. Helsinki, 1994.
- VM (valtiovarainministeriö) 1994: Virastojen kirjanpito hankkeen loppuraportti (Ministry of Finance, Final report of the government agencies' bookkeeping project, Annex 2.), Liite 2: Mikä on toimintakertomus? Valtiovarainministeriön työryhmämuistioita 1994:2. Helsinki, 1994.
- VM (valtiovarainministeriö) 1994: Virastojen kirjanpito hankkeen loppuraportti (Ministry of Finance, Final report of the government agencies' bookkeeping project, Annex 6.), Liite 6: Muut liitteet. Valtiovarainministeriön työryhmämuistioita 1994:2. Helsinki, 1994.
- Walb, E. (1926), *Die Erfolgsrechnung privater und öffentlicher Betriebe. Eine Grundlegung*, Berlin: Industriverlag Spaeth & Linde.
- Wynne, A. (2003), Do private sector financial statements provide a suitable model for public sector accounts? Paper presented at the European Group of Public Administration annual conference on "Public Law and Modernizing State" in Oeiras, Portugal.
- Wysocki, K. (1965), *Kameralistisches Rechnungswesen*, Stuttgart: C.E. Poeschel Verlag.
- Yin, R. K. (1984), *Case Study Research. Design and Methods*, Beverly Hills: Sage Publications.

James Chan

Xu Yunxiao

SETTING GOVERNMENT ACCOUNTING STANDARDS: A COMPARATIVE INSTITUTIONAL ANALYSIS OF CHINA AND THE UNITED STATES

Introduction

Institutional analysis is a relatively neglected area of research in accounting, and comparative institutional analysis (CompIA) is an even more overlooked area within comparative international government accounting research (CIGAR). This is puzzling because institutions do matter in several important ways: they decide who sets accounting rules, how those rules are set, and how many rules are produced. It should be noted that we are using the term “institution” in the traditional sense of “organization” as in political institutions (Rhodes *et al.*, 2006), instead of the “the rules of the game in a society... the humanly devised constraints that shape human interaction” as used in new institutional economics (North, 1990: 3-4; quoted in Aoki, 2001: 5).

Institutions tend to operate in the non-market sphere of society (e.g. political institutions) and devote to particular purposes (e.g. institutions of higher learning). This paper focuses on the organizations that have been created to set government accounting rules. These rules are variously called standards, principles, and regulations. They all serve to constrain the discretion of government accountants and auditors in order to promote greater uniformity and comparability in accounting and financial reporting. One might ask: Since governments already possess political autonomy and legal authority, why would they be willing to comply with the accounting rules set by someone else? Are some governments more willing than the others to do so? This paper will attempt to answer these questions by hypothesizing that countries with different political ideology and government structures would have dissimilar government accounting standard-setting institutions. We have chosen China and the United States for making this international comparison, since these countries are different politically in many ways.

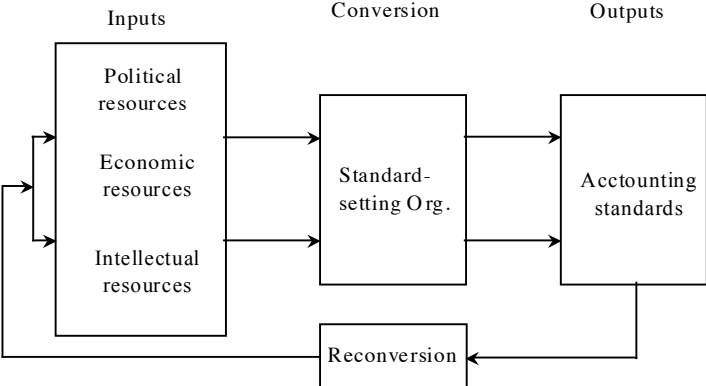
This paper is structured as follows. Section 1 will sketch a theory that posits that the viability of government accounting standard-setting organizations depends on their ability to produce outputs to attract inputs from their stakeholders. This theory guides the description in Section 2 of the China Accounting Standards Committee (CASC),

and the Federal Accounting Standards Advisory Board (FASAB) and Governmental Accounting Standards Board (GASB) in The United States. Section 3 will compare and contrast these organizations and attempt to explain their differences.

1. A Theory of Government Accounting Standards Boards

A government accounting standard-setting organization may be viewed in a system framework (Easton, 1966; Katz and Kahn, 1966). It uses a variety of inputs to produce outputs (Exhibit 1). These inputs include the political resources, economic resources, and intellectual resources identified in Exhibit 2. Its deliberation processes convert certain ideas into standards. If these standards are favorably received and are implemented by government accountants and enforced by auditors, they generate additional resources for another cycle of operations.

Exhibit 1 – A Standards Board as a System



The systems approach identifies the crucial inputs that an organization needs to survive. It also emphasizes the critical importance of ‘reconversion’ – the process by which the products of standard-setting institutions motivate its stakeholders to continue to contribute their political, financial and intellectual resources so that it can operate as a going concern. As organization theorist Herbert Simon (1945) points out, these stakeholders must receive sufficient inducements to be willing to continue their contributions. We will therefore analyze the political, economic and social relationships in the context of government accounting and financial reporting, so that we can identify the types of contributions and inducements.

Using the concepts introduced in this section, the next section will describe the government accounting standard-setting organizations in China and the United States.

Exhibit 2 – Elements of Institutional Analysis

Systems Approach	Institutional Analysis of Government Accounting Standards Boards
Political resources	<ul style="list-style-type: none"> • Legal authority • Professional authoritativeness • Endorsement of influential persons
Economic resources	<ul style="list-style-type: none"> • Financial resources • Human resources: members, staff and contributors to research and technical activities • Infrastructure and administrative support
Intellectual resources	<ul style="list-style-type: none"> • Contextual knowledge of responses to proposed standards • Technical knowledge of the extent to which proposed standards meet objectives
Conversion	<ul style="list-style-type: none"> • Research and technical activities to generate alternatives • Deliberation of the merits of alternatives • Due process of soliciting comments on alternatives • Consensus formation and voting
Outputs	<ul style="list-style-type: none"> • Documents containing standards and related materials • Practice guidance and educational materials
Reconversion	<ul style="list-style-type: none"> • Marketing of standards through public discourse • Acceptance, endorsement of standards • Use of standards in designing and modifying systems • Use of standards in preparing financial reports • Use of standards in auditing financial statements

2. Institutional Profiles of Three Standards Boards

The government accounting standard-setting bodies in China and the United States are, respectively, the China Accounting Standards Committee (CASC), and the Federal Accounting Standards Advisory Board (FASAB) and Governmental Accounting Standards Board (GASB). The following institutional profiles cover each board’s mission, domain and authority, its financial and human resources, its standard-setting process, and activities and products.

2.1. China Accounting Standards Committee (CASC)

In China government accounting standard setting refers to the drafting of implementation regulations for the relevant statutes, namely the Budget Law (effective 1995) and the Accounting Law as amended (effective in 1985). Neither of these laws mentions “government accounting” as such, as this term was only recently introduced to China. Its closest analogy in China is general budget accounting used by the Ministry of Finance and provincial and local finance bureaus to monitor budget execution.

The authority of setting government accounting standards in China belongs exclusively to the Ministry of Finance, but the process has become more open and

participatory in recent years. In the mid-1990s, the Budgeting Department in the Ministry of Finance undertook a project to revise budget accounting regulations, which are still in effect. In the spring of 2003, the China Accounting Standards Committee (CASC) was reorganized and expanded, and a group of advisors was appointed. The CASC now consists of three “professional committees” (the term is more accurately understood as “specialization committees”) dealing with Accounting Theory, Accounting for Business Enterprises, and Accounting for Government and Nonprofit Organizations. The GNPAPC consists of a half dozen senior officials of the Ministry of Finance, National Audit Office and the State Tax Administration. It is assisted a 16-person advisory group, whose members serve two-year terms. They are drawn mostly from the Treasury, Budgeting and Accounting Regulation Departments in the Ministry of Finance itself, with additional representation of provincial finance bureaus, other Central Government departments and the academe.

The charter of the CASC makes clear that it is “under” the Ministry of Finance and “is the advisory body for setting Chinese accounting standards” (CASC, 2003: 3). The staff of the Ministry of Finance is responsible for drafting accounting standards for comments by the CASC. Since the adoption of the standards requires the administrative approval of the leadership group of the Ministry of Finance, this group in effect functions as the standard-setting body. The leadership group consists of the Minister, Vice Ministers and Assistant Ministers. Some of the Vice Ministers and Assistant Ministers oversee the departments that conduct research and develop government accounting standards: the Budgeting Department, the Accounting Regulation Department, and the Treasury Department. In each of these departments, there is a System Division whose staff actually does the necessary research and technical activities. To our knowledge, currently (Spring 2007), the Treasury Department takes the leading role in issuing guidance for government accounting *system specifications*, while the Accounting Regulation Department works on the conceptual issues related to government accounting *standards*.

The GNPAPC was structured to include the institutional interests both inside and outside of the Ministry of Finance. Within the Ministry of Finance, the scope of the Accounting Regulatory Department has been broadened to encompass government accounting, even though the department traditionally (and currently) is mainly concerned with business enterprise accounting. It therefore became necessary for the staff in the System Division of the department to acquire new knowledge in government accounting. By virtue of its cash management function, the Treasury Department in effect operates the government’s expenditure accounting systems. A new position of Chief Accountant was created two years ago to emphasize the importance of the accounting function. Due to its operational function, the Treasury Department naturally tends to emphasize the practical aspects of government accounting. Ideally, these two departments’ respective conceptual and practical orientations complement each other, but they may also complicate coordination. It is interesting to note that the Budget Department, which for many years was responsible for developing systems requirements for general budget accounting, is not directly represented on the CASC/GNPAPC. Its absence is puzzling, because an important function of a government’s accounting system is to support and evaluate budget performance.

The representation of the State Tax Administration (STA) on the CASC/GNPAPC recognizes the importance of revenue in government finance, and the STA provides

revenue data for the government financial management information system. The high-level representation of the National Audit Administration (NAA) is also noteworthy. The NAA recently created so-called “audit storms” in China by publicizing the results of its investigations into the frauds, waste and abuse in government. Weaknesses in accounting and financial control contributed, directly or indirectly, to the occurrence of these problems. So the NAA would clearly benefit from improvements in accounting systems.

The role of the CASC/GNPAPC is to provide guidance in standard setting and to comment and approve standards proposed by the staff of the Ministry of Finance for submission to the leadership group of the ministry for final approval. The committee’s contribution therefore lies in giving the Ministry of Finance an accurate assessment of the reception of the proposed standards by government departments. Its endorsement would increase the credibility of the proposed standards subject to the final approval of the leadership group of the Ministry of Finance. The high-level external participation may even increase the acceptance of the ministry’s standards in government-wide implementation.

While the CASC/GNPAPC is advisory to the leadership group of the Ministry of Finance, the larger advisory group is intended to assist the professional staff of the Accounting Regulation Departments and the Treasury Department. This working advisory group includes senior staff members of relevant Central Government departments, provincial finance bureaus, and all the academics having a reputation in government accounting research. As each of these departments has only a handful of staff personnel working on government accounting matters, this working advisory group can provide the necessary technical assistance by doing background research. It is in this spirit that the CASC/GNPAPC commissioned, financed and published a collection of research reports. In this way, the dominance of the Ministry of Finance is balanced by a high degree of participation by other ‘technocrats’ and academics.

The work plan of the CASC indicated that government subsidies and other revenues would cover the expenses of research projects, various meetings and allowances for members of the committee. We are unable to estimate the amounts of financial resources devoted to government accounting standard setting in China. The activity is part-time, even for the professional staff of the Ministry of Finance. The commissioned research projects received only modest amounts of financial assistance, which do not adequately reflect the time and efforts devoted by the Ministry of Finance staff members, the members of the CASC/GNPAPC and of the advisory group. Unfortunately, we have no data to make an estimate of the time and effort.

The CASC has a four-stage process of setting accounting standards: initiating a new project, preparing an exposure draft, soliciting public comments, and releasing a standard. The Accounting Regulation Department is responsible for drafting standards. Specifically the System Division sets up a drafting team and invites others to participate as appropriate. The drafting process involves the preparation of discussion papers, exposure drafts, draft standards and draft standards for review.

In recognition of the substantial need for development and reform, a number of research projects were commissioned in 2004 and have been published (CASC, 2005). The monograph covers several major topics in government accounting: conceptual framework, financial reporting, structure of government accounting standards, and performance evaluation.

Through visits, international conferences, and publications, the staff of the Ministry of Finance are quite familiar with the latest developments at the International Public Sector Accounting Standards (IPSAS) Board, in the United States and Europe. The applicability of accrual accounting to China has been explored (Lou, 2002b). China is now represented on the IPSAS Board. Virtually all the IPSAS, and American GASB and FASAB standards have been translated into Chinese. So are the Euro-CIGAR research report and the papers presented at the 9th biennial CIGAR conference.

While considerable in-depth and comparative research has been done, to our knowledge, the Ministry of Finance has not (as of Spring 2007) approved a project to actually set government accounting standards.

2.2. The American FASAB

The Federal Accounting Standards Advisory Board (FASAB) is one of two government accounting standards boards in the United States. Its jurisdiction is limited to the United States Government (or the Federal Government) and its constituent units. The board is sponsored by the Secretary of the Treasury, the Director of the Office of Management, and the Comptroller General (head of the Government Accountability Office, the investigative arm of Congress). Its creation in late 1990 was a result of renewed emphasis on Federal financial management (Chan, 1994).

In the belief that “accounting and financial reporting standards are essential for public accountability and for an efficient and effective functioning of our democratic system of government,” the FASAB was established “to develop accounting standards after considering the financial and budgetary information needs of congressional oversight groups, executive agencies, and the needs of other uses of Federal financial information” (*FASAB Facts*, 2006).

The domain of FASAB’s standards covers only financial accounting and reporting. The Memorandum of Understanding (MOU) among the board’s sponsors specifically provides: “The Board will consider [Federal] accounting concepts and standards. The Board will not set or propose budget concepts, standards, and principles. ... ” (MOU, May 7, 2003).

The FASAB does not have legal authority of its own. “The Sponsors agree that [FASAB] standards ... are recognized to have substantial authoritative support, ... The Sponsors retain their authorities, separately and jointly, to establish and adopt accounting standards for the federal government” Therefore FASAB standards are submitted to the Sponsors for review. Among the Sponsors, the Comptroller General and the OMB Director has veto authority (MOU, May 7, 2003). Furthermore, capital accounting standards are subject to congressional review.

The membership of the FASAB and the professional status of the board’s standards underwent significant change during the period between 2000 and 2003 in connection with the AICIPA’s recognition of FASAB standards as Generally Accepted Accounting Principles (GAAP). In order to appreciate these changes, it is necessary to understand the changing environment of Federal financial reporting and auditing. Due to the requirements of audited financial statements in the 1990 Chief Financial Officers

Act, Federal Agencies began engaging private-sector CPA firms to perform financial audits and render audit opinions.

Rule 203 of the AICPA's Code of Conduct requires CPAs to follow GAAP set by a board designated by the AICPA. By the time the FASAB was established, the AICPA had already designated the FASB in 1973 as the promulgator of GAAP for private-sector entities, and the GASB in 1986 for state and local governments. In order to receive the designation of a GAAP promulgator, a standard-setting body has to meet the criteria of independence, due process, domain and authority, human and financial resources, comprehensiveness and consistency. An AICPA task force assessed the FASAB against these criteria, and recommended changes in FASAB's Rules of Procedures and its charter -- the Memorandum of Understanding among its sponsors. Following the completion of the changes, the AICPA recognized the FASAB as promulgator of GAAP applicable to Federal Government entities.

Two major changes were made to increase the FASAB's independence. First, in terms of personnel, the initial October 1990 MOU provided for a majority of six Federal government officials (three representing the sponsors, one CBO member; two representing Federal departments; three public members). The MOU was revised in 2002 to require a majority of six public members, resulting in CBO and the two department representatives losing their seats. This new composition went into effect on July 1, 2002. The MOU was revised in May 2003 to restore the CBO's seat on the FASAB, bringing the total membership to ten. Second, before the GAAP designation, FASAB *recommended* standards to its three sponsors. If the three principals agree to the standards and concepts, Comptroller General and the Director of OMB will publish them and announce them or their availability in the *Federal Register* (MOU October 1990). After the GAAP designation in October 1999, the current procedure of review and negative confirmation ("no objection") was instituted.

There are four main stakeholder groups that make up the FASAB organizational coalition (Exhibit 3). The first group consists mainly of FASAB's sponsors, who endow the FASAB with the delegated authority and financial resources. The benefits of their cooperative efforts result in Federal accounting and financial reporting standards for use in their respective functions as the Federal Government's financial policy maker (the OMB), financial manager and accountant (the Treasury), and auditor and evaluator (the GAO). By giving the restructured FASAB Rule 203 designation, the AICPA enabled CPA firms to express audit opinions on the basis of GAAP. The second of stakeholders of FASAB are the 'producers' – FASAB board members, staff, as well as permanent and occasional task force participants. They contribute their technical knowledge as well as institutional knowledge about the Federal Government; in return they receive professional recognition and financial rewards. The third group of stakeholders of FASAB consists of the general and financial administrators of Federal Government units who are responsible for complying with the numerous finance-related laws and regulations. They and their staffs directly and indirectly contribute to FASAB's due process of producing a single set of uniform standards for all Federal entities. Their acceptance and implementation of FASAB's standards is their greatest contribution. Finally, the intended users of Federal Government financial reports – Congressional committees, civic groups and even the general public – contribute by their interest in and attention to the Federal Government's financial reports. Presumably, their needs are the ultimately reason why these reports are produced and why there is a FASAB at all.

Exhibit 3 – Stakeholders of the FASAB

Stakeholders	Contribution	Inducement
Comptroller General, Government Accountability Office (GAO), whose Financial Management and Assurance unit conducts financial audits	delegation of authority, acceptance of final FASAB standards, general oversight, partial funding, in-kind support, making staff resources available to cooperate with FASAB	standards for auditing Federal entity financial statements; the right to object and request reconsideration of standards
Director, Office of Management and Budget (OMB), which includes the Office of Federal Financial Management		standards for legal compliance, monitoring resource use, improving financial management; right to object and request reconsideration of standards.
Secretary, Department of the Treasury, which includes the Financial Management Service (FMS)		standards for government-wide and agency accounting systems, and for preparing financial statements
Congressional Budget Office (CBO)	partial funding, participation and support	information for Congressional decision making and oversight
American Institute of Certified Public Accountants (AICPA)	enhancing professional authoritativeness of FASAB standards by recognizing them as GAAP	ability of AICPA members to invoke GAAP in expressing audit opinions on financial statements
FASAB Members	technical expertise and institutional knowledge about the Federal environment; professional credibility	professional recognition, modest financial compensation
FASAB staff	technical expertise and ability to draft standards and help build consensus	compensation, career advancement, professional recognition
Members of Accounting and Auditing Policy Committee (AAPC) and other task forces	technical expertise; information about actual practice, and perspectives on feasibility of proposed standards; donation of time	opportunity to voice opinions; feasible and better solutions to practice problems
Federal agency management, Chief Financial Officers, Inspector Generals	comments on exposure drafts and other documents; compliance with standards; making staff resources available for participation in due process	technical guidance for fulfilling accounting and financial reporting requirements; cost savings that result from pooling of talents and resources
Congressional committee, especially oversight committees, and authorizing and appropriations committees	attention to accounting, financial management and reporting issues; requests for action and information; general oversight	more and better information about agency financial status and performance
Other users, including public policy analysts in groups that monitor Federal finances	interest in and use of financial reports to improve policy analysis and recommendations	more and better information for analyzing Federal Government finances

The FASAB has access to substantial financial resources and human resources. However, the dollar figures below do not reflect the full cost incurred by its sponsors, nor the compliance costs of the Federal agencies. The FASAB's current funding (Fiscal Year 2007, beginning on October 1, 2006) is almost US\$2 million shared as follows: OMB and GAO each 27.5%; CBO and Treasury each 22.5%. In addition, the GAO provides the FASAB with office space, information technology support, and legal advices. (Executive Director of FASAB, email on October 30, 2006)

Supported by a full-time eight-person staff, headed by an executive director, currently (November 2006) the FASAB currently has ten board members, who serve on a part-time basis. Four board members represent the sponsors and the CBO. The board also includes six public or non-Federal members. The board's sponsors select them upon the recommendation of a panel convened by the chairman of FASAB, who is himself a public member.

FASAB has a standing task force called the Accounting and Auditing Policy Committee (AAPC), which was created in 1997 to provide guidance regarding the application of existing standards. This committee includes representatives from FASAB's three sponsors; three representatives from the Federal agency chief finance officers, who prepare agency financial statements; three representatives from the Federal agency Inspector Generals, who perform compliance audits and most agency financial audits; a FASAB member and, one member at large. In addition to the AAPC, the FASAB also appoints task forces on specific issues from time to time to receive expert views and recommended solutions. Task force members serve as part of their regular duties and receive no extra compensation.

The FASAB is subject to the provisions of the Federal Advisory Committee Act, including the requirement for open meetings. The board's rules of procedure are designed to meet the minimum requirements of the act, and include the following steps (*FASAB Facts*, 2006):

1. Identification of accounting issues and agenda decisions
2. Preliminary deliberations
3. Preparation of initial documents (issue papers and/or discussion memorandums)
4. Release of documents (e.g. exposure drafts) to the public, public hearings when necessary, and consideration of comments
5. Further deliberation and consideration of comments, and
6. Approval by at least a majority vote
7. Submission of proposed Statement to the Principals for ninety day review (forty five days for Interpretations)
8. Publication of final Statement or Interpretation

During the sixteen-year period (from October, 1990 to July 2007), the FASAB produced four *Statements of Federal Financial Accounting Concepts*, thirty-two *Statements of Federal Financial Accounting Standards*, seven *Interpretations*, six *Technical Bulletins*, six *Technical Releases*, and three *Staff Implementation Guides*. In addition, the due process has generated numerous exposure drafts, invitations for views, invitation to comment, preliminary views, and research reports. The board has also compiled two volumes of codifications: one with original statements and another with current text. All the FASAB's products are available free of charge from its website: www.fasab.gov, where a full list of documents can be found.

2.3. The American GASB

The Governmental Accounting Standards Board (GASB) is the other American government accounting standards board. Created in 1984, its jurisdiction is limited to state and local government accounting and financial reporting. (Unless otherwise noted, the quotations are taken from the 2005-2006 edition of *Facts about GASB* and other publicly available sources available at the Board's website: www.gasb.org.)

The GASB regards its mission as “to establish and improve standards of state and local governmental accounting and financial reporting that will ... result in useful information for users of financial reports, and ... guide and education the public, including issuers, auditors and users of those financial reports.”

This mission has been reaffirmed in the Board's strategic plan for 2005-2009, which stresses the Board's core values of independence, integrity, objectivity and transparency. The Board has also set specific goals and identified measurable outcomes in standard setting; constituent relations and communications; education; and organizational effectiveness.

Under the terms of agreement that established the GASB under the auspices of the Financial Accounting Foundation, the GASB will establish standards for activities and transactions of state and local governmental entities, and the FASB will establish standards for activities and transactions of all other entities. Although the issue of which board's standards should be followed by business enterprises and certain nonprofit organizations (e.g. hospitals, colleges and universities) has been dealt with, it continues to pose challenges for the scope and contents of GASB's standards.

The principal purpose of the GASB is to “issue Statements of Governmental Accounting Standards designed to improve financial reporting by state and local governments. It is also empowered by its Rules of Procedure to issue Statements of Governmental Accounting Concepts and Interpretations. The GASB staff is permitted to issue GASB Technical Bulletins and question-and-answer Special Reports.”

In 1984, the GASB succeeded the National Council on Governmental Accounting in setting accounting and financial reporting standards for state and local governments in the United States. In 1986, the American Institute of CPAs recognized the GASB's standards as generally accepted accounting principles (GAAP) for state and local governments. This means that, under the AICPA's Rules of Conduct for its members, CPAs have to justify departures from GASB standards when using those standards to assess the fair presentation of their audit clients.

The GASB does not have legal authority to require State and Local Government to adopt its standards. Rather, it relies on the endorsement of national groups that represent the political leaders, chief executives, government finance officers to persuade the legislatures of states and local governments to pass legislation to require compliance with GASB standards. The requirements of bond rating agencies of GAAP-based financial statements that have been independently audited also exerts considerable economic leverage on State and Local Governments. These and other interested in improving State and Local Government accounting and financial reporting (see Exhibit 4) were recruited to join the Governmental Accounting Standards Advisory Council (GASAC). While the formal function of the GASAC is to advice the GASB, GASAC members are expected to exercise their influence to promote the acceptance of GASB standards.

Exhibit 4 – Organizations Represented on the GASAC

State and Local Governments, and Political/Management Leadership ("Public Interest Groups")
<ul style="list-style-type: none"> • National Conference of State Legislatures • National Governors' Association • National Association of Counties • U.S. Conference of Mayors • Council of State Governments • National League of Cities • International City/County Management Association
Preparers, Public Finance Professionals
<ul style="list-style-type: none"> • National Association of State Auditors, Comptrollers and Treasurers • Government Finance Officers Association • Native American Finance Officers Association • National Association of Budget Officers • Association of School Business Officials International • National Association of College and University Business Officers • National Association of State Retirement Administrators • Healthcare Financial Management • American Power Association
Private Sector Independent Auditors
<ul style="list-style-type: none"> • American Institute of Certified Public Accountants
Users of Financial Information
<ul style="list-style-type: none"> • Association of Finance Guarantee Insurers • The Bond Market Association • A bond rating agency • Insurance Industry Investors • National Federation of Municipal Analysts • National Association of Bond Lawyers
Federal Government
<ul style="list-style-type: none"> • U.S. Government Accountability Office • Governments Division, Bureau of the Census (at large member)
Allied Professional Associations
<ul style="list-style-type: none"> • American Accounting Association -- academics • Association for Budgeting and Financial Management • Association of Government Accountants • Government Research Association

The Governmental Accounting Standards Board (GASB) is a public – and private – sector partnership of about thirty organizations. The degree of each organization’s involvement with the GASB reflects the extent to which its professional, economic and political interests could be promoted or have to be protected. Four organizations were particularly instrumental in the creation of the GASB and continue to bear primary responsibility for its viability. The Financial Accounting Foundation (FAF) is a nonprofit organization created in 1973 to oversee and provide funding for the FASB, the only GAAP promulgated at the time. After the FASB failed in its bid to assume responsibility for setting GAAP for state and local government, the FAF’s duty to preserve and protect the interest of the FASB led to its entry into the negotiation process for forming a GASB. After weighing the costs and benefits of these alternatives, the FAF decided to sponsor and fund the GASB. In the course of extended negotiations with the FAF, public sector representatives obtained the following favorable terms: (1) three public-sector representatives – including one nominated by the NASACT (National Association of State Auditors, Comptrollers and Treasurers) and another by the GFOA (Government Finance Officers Association) – would become member of the expanded FAF board of trustees; (2) the GASAC would have the authority to review and approve the nominations by the FAF trustees of members of the GASB, for which the GASAC took on the responsibility of assisting in raising funds for supporting the GASB (Chan, 1985).

The FAF provides the organizational infrastructure and oversight authority over the FASB. The NASACT, GFOA and the seven “public interest groups” possessed the political clout and legal authority over government accounting standards. A score of organizations joined the GASAC; their contributions and incentives are also identified in Exhibit 5. With the AICPA’s willingness to consider giving GAAP designation to GASB’s standards – which it did two years later – the pieces fit together for the creation of the GASB as we know it now.

The GASB has been in operations now for 23 years. Since its seven board members are appointed or reappointed to five-year terms, the GASB current members now belong to the third generation of membership. Due to funding constraints, the board has remained part-time, with the exception of a full-time chairman. It appears that the ‘psyche income’ from personal satisfaction and professional recognition make up a substantial part of the members’ inducements. The GASB usually holds public meetings at its headquarters in Norwalk, Connecticut on a monthly basis, supplemented by teleconferences and others means. It is in the nature of a part-time board with members scattered around the country to depend on the research and other support services of its full-time professional staff.

The GASB’s procedures are designed to encourage broad public participation, and communication of all points of view and expressions of opinion. For many projects, the board appoints an advisory task force of outside experts, studies existing literature, and conducts or commissions such additional research, publishes a discussion document for public comments, conducts a public hearing and distributes an exposure draft. The board announces significant steps in the process and opens its meeting and meeting records to the public.

In addition to political support in the form of acceptance by the governmental institutions that do possess the direct legal authority to require certain types of government

Exhibit 5 – Stakeholders of the GASB

Stakeholders	Contribution	Inducement
Financial Accounting Foundation (FAF)	oversight, funding, appointment of GASB members, resolution of jurisdictional conflicts with FASB	the ability to influence direction of non-Federal government accounting and reduce potential detriments to FASB.
American Institute of Public Accountants (AICPA)	enhancing professional authoritative-ness of GASB standards by recognizing them as GAAP	the ability of AICPA members to invoke GAAP in expressing audit opinions
National Association of State Auditors, Comptrollers and Treasurers (NASACT)	members’ endorsement of the GASB and its standards to state legislatures; willingness to accept nation-wide standards, partial funding support; participation in due process	availability to state governments of uniform accounting standards with a high level of professional authoritative-ness; a seat on the board of trustees of the FAF
Government Finance Officers Association (GFOA)	members’ endorsement of the GASB and its standards to state and local governments; acceptance of standards; partial funding support; participation in due process	availability to local and state governments of uniform accounting standards with a high level of professional authoritative-ness; a seat on the board of trustees of the FAF
GASB members	technical expertise, contextual knowledge about the environment of state and local government financial reporting, professional credibility	professional recognition and compensation
GASB staff	technical expertise and ability to draft standards and help build consensus	compensation and professional recognition, career advancement
Federal Government (GASAC)	the Federal Government perspective, interest in and endorsement of standard setting process,	more reliable information about Federal grant programs; better information for financial impact on the Federal Government
State and Local Government Legislators and Chief Executives (GASAC)	endorsement of GASB and its standards to state and local government for implementation, and approval of funding support for the GASB	enhanced credibility of government financial reports, better information for monitoring government financial status and performance
Finance officials in individual State and Local Governments (represented by the GFOA on GASAC)	acceptance of standards, and seeking funding and political support for implementation	readily availability of standards for guiding development of accounting systems; knowledge of standards used by external auditors
CPA firms as auditors of State and Local Government (represented by the AICPA on GASAC)	acceptance and use of GAAP as basis for expressing audit opinions	availability of nation-wide standards recognized by the AICPA for expressing audit opinions
Capital market participants, investors and creditors (GASAC)	demand for accountability and use of financial information, endorsement of GAAP-based financial statements as a factor in bond rating	comparable financial information for credit assessment, lower cost for information analysis processing
Citizens and taxpayers advocacy groups (GASAC)	demand for accountability and use of financial information	information for assessing tax and debt burden, lower cost for information analysis
Public finance professionals (GASAC)	expertise and insight about the government environment	information for assessing impact on professional fields or practice

accounting standards, the GASB also needs financial resources and human resources, which are inter-related to the extent that professional services have to be paid for.

In agreeing to sponsor the GASB, the FAF undertook the responsibility of funding the GASB. In 2005, the GASB generated \$2 million from subscription and publication sales, and \$2.1 million from contributions. The total revenue was sufficient to cover the direct expenses of approximately \$3.7 million of the board and research staff and advisory council, and another \$0.3 million in direct administrative expenses. However, the GASB could not meet its share of \$1.5 million of its common costs shared with the FASB.

Contributions to the GASB come from its ‘constituent groups’, including State and Local Governments, public accounting firms and individual practitioners, municipal securities industry investors/creditors, foundations and other organizations. In October 2006, the GASB launched a GASB support fee program directed at governments who benefit from the GASB in the sense that their auditors use GAAP set by the GASB to audit their financial statements. These governments are assessed a fee based on the dollar amount of Federal financial assistance; however payments are voluntary.

The GASB consists of a full-time chairman and six part-time members. It has a full-time professional staff of ten persons, and shares administrative support services with the FASB. The GASB has access to the GASAC for strategic advice and to task forces for technical advice. The GASB’s main activities involve the research and deliberation for setting standards, including the development of a conceptual framework. Equally important are the ‘outreach’ activities in the due process of soliciting and considering the views of various constituencies on all accounting and financial reporting issues. Much time and resources are spent on developing consensus in the hope of increasing acceptance of the board’s products.

The GASB’s primary products are its *Statements of Governmental Accounting Standards* (51 since its formation to July 2007), and *Statements of Governmental Concepts* (four during the same period). In addition the Board issues *Interpretations* to clarify, explain or elaborate on existing GASB standards or NCGA standards. The GASB staff issues technical bulletins and special reports to give implementation guidance for the board’s standards. The board’s due process also generates various discussion, memoranda, invitations to comment, preliminary views, and exposure drafts. The GASB’s substantive products are for sale in part to generate revenues to support its operations.

3. Comparative Summary

Since the United States has two government accounting standards boards, we compare them before making a Sino-American comparison.

3.1. A FASAB-GASB Comparison

Exhibit 6 identifies the similarities and differences between the FASAB and GASB in terms of organizational attributes.

Exhibit 6 – A Comparative Summary of the FASAB and GASB

Common Features		
<ul style="list-style-type: none"> • AICPA recognizes the standards of both GASB and FASAB as GAAP. • Both boards focus on financial accounting and external general purpose reporting. • Both boards use extensive due process procedures in setting standards. • Both boards are essentially part-time, with full-time staff support and extensive use of task forces. 		
Dissimilarities		
	GASB	FASAB
Number of Governments to which standards are applicable	50 state governments and 87,000 local governments	One government -- the United States (or Federal) Government
Domain of Standards	state and local government accounting and financial reporting	Accounting and financial reporting of the Federal Government as a whole and component units
Sponsorship and Oversight	A private-sector nonprofit foundation, in association with an advisory council with private- and public-sector membership	OMB Director, Treasury Secretary and Comptroller General
Legal Authority	No direct legal authority, relying on groups representing government officials to endorse GASB and its standards to legislative and oversight bodies	OMB Director, Treasury Secretary and Comptroller General reserve legal authority, but agree to adopt FASAB standard developed through agreed-upon procedure
Funding	Contributions and sale of publications	Jointly by the three sponsors and the CBO
Dissemination of standards	Pronouncements for sale and subscription, other documents available from the GASB's website.	All documents available for download from FASAB's website free of charge

3.2. A Chinese-American Comparison

Exhibit 7 identifies the similarities between the CASC and the FASAB/GASB.

Exhibit 7 – A Sino-American Comparison

Common Features		
The CASC/GNPAPC, FASAB and GASB		
<ul style="list-style-type: none"> • All do not have legal authority themselves, and are advisory in nature. • Are all essentially part-time, with full-time staff support and extensive use of task forces. 		
Dissimilarities		
	CASC/GNPAPC	FASAB/GASB
Number of standards boards	One government accounting standards board for the whole country	Two government accounting standards boards
Governments to which standards are applicable	The Central Government, as well as all provincial and local governments.	FASAB for the Federal Government, and GASB for state governments and local governments
Domain of Standards	No clear delineation of external financial reporting, but accounting standards are distinguished from accounting systems requirements.	Form and contents of financial reports (including financial statements) intended for external users.
Sponsorship and Oversight	The administrative leadership of the Ministry of Finance	FASAB: A troika of top legislative and executive fiscal officers; GASB: a private and public-sector partnership
Legal Authority	CASB/GNPAPC has no legal authority; it provides advice to the Accounting Regulation Department; the leadership of the Ministry of Finance has the administrative authority to set government accounting standards.	FASAB and GASB themselves have no legal authority. FASAB: legal authority rests with the sponsors. GASB: legal authority rests with the state and local governments' legislature to require use of GASB standards
Enforcement	Administrative authority of the Ministry of Finance; the next level of administrative authority belongs to the State Council. Should financial statement audits be conducted, statutory authority exists in the Audit Law.	FASAB: auditing required by statutes and administrative requirements; not enforceable on the legislative and judicial branches. GASB: auditing by government and private-sector certified public accountants (CPAs)
Funding	Provided by the Ministry of Finance from its appropriations	FASAB: cost-sharing by the sponsors and the CBO; GASB: contributions and publication sales revenue.
Dissemination of standards	No standards issued to date.	FASAB: Free download from the Internet. GASB: Subscription and sale

3.3. Explaining the Sino-American Differences

Based on the descriptive institutional profiles in Section 2 and the above comparative analyses, we would characterize the institutional arrangements for setting government accounting standards in China and the United States as:

- Type 1: Public – and private – sector partnership with a professional orientation – the American GASB during the entire period of its existence, and the American FASAB since its 2003 reorganization.
- Type 2: Public – and private – sector partnership with a governmental orientation – the American FASAB prior to its 2003 reorganization.
- Type 3: Government monopoly with administrative dominance – the CASC/ /GNPPC under the Ministry of Finance in China.

These differences in institutional attributes may be explained by the nature of the government system and the relationship between the accounting/auditing profession and government.

That China has one government accounting standards board while the United States has two boards is directly attributed to the relationship between the national government and sub-national governments. China is a unitary state with a powerful Central Government (Saich, 2001). As such, the Central Government makes all the important policy decisions for implementation by provincial and local governments. Every ministry and commission at the Central Government has subordinate counterparts at the provincial and local levels. This hierarchical structure is maintained uniformly throughout the country even in the face of considerable regional disparity in economic and social conditions. In other words, the Central Government creates and oversees the organizational infrastructure for making public policies, including those governing public budgeting and financial management. In contrast, the United States has a federal system. The Federal Government has only those powers that the Constitution of the United States expressly gives to it, with all the powers reserved for the States and the people. Specifically, the Federal Government has its own budgeting and financial management system, with many features that are not replicated in State and local governments. Each of the States has its own autonomy fiscal systems covering such areas as taxation, budgeting, accounting, auditing and treasury management. American local governments are the creatures of a State, which ultimately supervises their financial affairs, even though home rule is granted to larger local governments. State and local governments are obliged to comply with the budgeting and financial management requirements of Federal grants. However, they resisted a proposal under which the Federal Government would create and fund an organization to set accounting standards for State and local governments. In short, the fundamental difference in constitutional arrangement between levels of government goes a long way to explain the basic structural differences between China and United States in ‘who is in charge’ of setting government accounting standards.

The extent of centralization of fiscal authority explains the differences in the sponsorship and oversight mechanism for the government accounting standards boards in China and the United States. In China, the Ministry of Finance, which is responsible for making fiscal policy, possesses virtually all the administrative authority in the area

of budgeting and financial management (Lou, 2002a). The Budgeting Department in the Ministry prepares (and executes) the Central Government budget, and combines it with the aggregation of provincial government budgets to form the national budget. The Treasury Department manages the government's cash flows and is in effect in charge of the accounting system. The Accounting Regulation Department is assigned the administrative jurisdiction over the drafting of the more conceptual accounting standards for both public and private sectors, and serves as the secretariat of the China Accounting Standards Committee. While the National Audit Administration is independent of the ministries, the Auditor General reports to the Prime Minister, rather than to the National People's Congress – the Chinese parliament. Thus administrative dominance is an appropriate characterization of the Chinese fiscal system. In contrast, in the American Federal Government, Congress and the executive branch share fiscal authority. The Congressional 'watchdog' Government Accountability Office (GAO) audits all aspects of executive departments' performance: finance, compliance, as well as economy, efficiency and economy. Prior to the formation of the FASAB, as an extension of congressional fiscal oversight, the GAO had played a preeminent role in setting accounting rules and approving accounting systems. The Office of Management and Budget, part of the Executive Office of the President, sets budget policy and financial management policy, among other functions. The Treasury Department's Financial Management Service (FMS), in coordination with departmental counterparts, operates the central accounting, reporting and cash management functions. This explains why the FASAB is sponsored, funded and overseen by a consortium of three officials representative both the Executive and Legislative branches of Government.

The extent of involvement of private sector accountants and auditors in government accounting and auditing is another major difference between China and the United States. The Chinese CPAs, whose professional association is regulated by the Accounting Regulation Department of the Ministry of Finance, are not engaged to audit any government units. That is the exclusive authority of the National Audit Administration (NAA). However, even as the NAA conducts many legal compliance audits, it does not perform financial statements audits, for the simple reason that Chinese Government at all levels do not currently produce business-type financial statements (i.e., balance sheets, statement of activities or operations). Instead the Finance Minister and his provincial and local counterparts present (unaudited) summary final accounts to legislatures at various levels of government. In contrast, American private sector ('independent') auditors represented by the American Institute of Certified Public Accountants (AICPA) have a long tradition of involvement in public sector fiscal affairs, to the point that they audit the annual financial statements of many state and local governments, and some Federal Government departments. The use of private-sector CPAs to enhance the credibility of government financial reports gives the AICPA, which designates the promulgators of American Generally Accepted Accounting Principles (GAAP) considerable leverage in influencing the governance of the GASB and the FASAB.

In both China and the United States, the legal authority to set government accounting standards (in the generic sense of rules, and not only Generally Accepted Accounting Principles) rests with the relevant government officials. However, for different reasons, these officials have found it useful to create advisory bodies, which enjoy varying degrees

of independence and influence. Comparatively, the CASC is the least independent and influential. In the United States, in an effort to gain AICPA's designation of FASAB as a GAAP promulgator, the FASAB was given more independence by reversing the ratio of Federal and public members, and greater authority in releasing standards. The GASB has the highest degree of independence and influence for several reasons: (a) the GASB operates outside of the jurisdiction of any State and Local Government; (b) the large number and diversity of sponsors and overseers of the GASB reduces the power of any one of them; (c) the backing of the bond rating agencies gives the GASB considerable leverage. (Beginning in the 1970s, bond rating agencies have required State and Local Government borrowers to publish audited financial statements prepared on the basis of GAAP; otherwise, bond ratings would be adversely affected.)

Conclusion

The above discussion of the extensive differences should not be pushed too far. The seeming incomparability of the Chinese and American institutional structures for setting government accounting standards raises a basic question of "what are government accounting standards"? In the contemporary American context, the term refers to the standards set by the FASAB and GASB that are recognized by the AICPA as GAAP and used by public – and private – sector auditors in assessing government financial statements. These GAAP operate parallel with rules and regulations set by the fiscal officers (e.g. state comptrollers or auditors) for their own jurisdictions. In the Federal Government, the FASAB standards have replaced the GAO's own accounting rules, and serve as the conceptual foundation of the detailed accounting regulations used by the Treasury Department's Financial Management Service (FMS). In each State, the State comptroller issues accounting regulations for the State Government as well as Local Governments in the State. In the Chinese context, private sector auditors are not involved in auditing the government, and the government does not produce annual financial statements for the National Audit Administration to attest to. So the current accounting systems regulations are analogous – not to GASB and FASAB standards – but to administrative regulations.

Finally, all accounting standard-setting organizations are coalitions of stakeholders. Some organizational coalitions are more fragile than the others, i.e. susceptible to the withdrawal or threat of withdrawal of critical stakeholders. In this regard, the GASB is most financially fragile in most part because its revenues depends on the contributions of organizations of State and Local Governments officials. (Recently the president of the GFOA has advocated transferring the function of the GASB to the FASB.) The FASAB is politically fragile because it crucially depends on the sponsorship of the OMB, Treasury and the GAO. (The recent disagreement between the 'public' and 'federal' members of FASAB on Social Security issues has given rise to anxiety about the board's future.) The existence and utilization of the CASC/GNPAPC depends on the leadership group of the Ministry of Finance for its existence, work program and direction.

In conclusion, government accounting standard-setting organizations are institutions of accountability (see Dowdle, 2006 for a general discussion of public accountability).

The American FASAB and GASB and the Chinese CASC/GNPAPC each emphasizes a different kind of accountability. Before its reorganization in 2003, the FASAB reflected an emphasis on the accountability of the executive branch to the legislative branch, being concerned with the separation of power and checks and balances. Afterwards, the FASAB shifted the emphasis to the government's public accountability. The GASB's accountability structure is eclectic, mixing political accountability of the government to the public, as well its accountability to creditors and investors in government securities. The Chinese CASC/GNPAPC's emphasis is on administrative accountability, especially the oversight function of the Ministry of Finance.

It has often been said that 'institutions matter'. The existence of standard-setting organizations is a necessary but insufficient condition for the development of government accounting standards. The Chinese Ministry of Finance has created the institutional structure and has invested substantial amounts of resources in building the capacity to set government accounting standards. However, in the absence of internal and external demands for government accounting standards (as versus system requirements), the potential of the CASC/GNPAPC has not been realized. In contrast, statutory requirements (on the Federal Government) and bond rating agency demands on behalf of the capital market (on state and local governments) have driven the development of a large number of American government accounting – and financial reporting – standards.

References

- Aoki, Masahiko (2001), *Toward a Comparative Institutional Analysis*, Cambridge, Massachusetts: MIT Press.
- Chan, James L. (1985), The Birth of the Governmental Accounting Standards Board: How? Why? What Next? *Research in Governmental and Nonprofit Accounting*, Vol. 1, 3-32.
- Chan, James L. (1994), Accounting and Financial Management Reform in the United States Government: An Application of Professor Luder's Contingency Model, in *Perspectives on Performance Measurement and Public Sector Accounting*, edited by Ernst Buschor and Kuno Schedler, Bern, Switzerland: Paul Haupt Publishers, 17-41.
- Dowdle, Michael W. (ed.) (2006), *Public Accountability: Designs, Dilemmas and Experiences*, Cambridge, England: University of Cambridge Press.
- Easton, David (1966), *A Framework for Political Analysis*, Englewood Cliffs, New Jersey: Prentice Hall.
- FASAB - Federal Accounting Standards Advisory Board (2006a), *Facts about the FASAB*.
- FASAB (2006b), Memorandum of Understanding Among the General Accounting Office, The Department of the Treasury, and the Office of Management and Budget on Federal Government Accounting Standards and a Federal Accounting Standards Advisory Board (October 1990; September 1999; May 2003) and First Amendment, July.
- FASAB (2004), Statement of Responsibilities and Characteristics of Members of the Federal Accounting Standards Advisory Board. *Rules of Procedures* (updated April).
- FASAB (2000), FASAB Begins Changes Resulting from AICPA Rule 203 Designation, January-March
- FASAB (1999), The AICPA Council Designates FASAB as a 'Rule 203' Body, October.
- GASB - Governmental Accounting Standards Board, *Facts about the GASB* (2005-2006).
- GASB, 2006 Members
- Governmental Accounting Standards Advisory Council, 2006 Members.

Statement of Budgeted Revenues and Expenses for the Year ending December 31, 2006.

GASB's Rules of Procedure.

The Structure for Establishing Governmental Accounting Standards: Report of the Committee to Review Structure for Governmental Accounting Standards of the FAF and GASAC (January 26, 1989).

Katz, Daniel and Robert L. Kahn (1966), *The Social Psychology of Organizations*, New York: John Wiley, "Organizations and the System Concept," 14-29.

North, Douglas (1990), *Institutions, Institutional Change and Economic Performance*, Cambridge, England: Cambridge University Press.

Rhodes, R. A. W.; Binder, Sarah A. and Rockman, Bert A. (eds.) (2006), *The Oxford Handbook of Political Institutions*, Oxford, England: University of Oxford Press.

Simon, Herbert A. (1945), *Administrative Behavior*, New York: The Free Press.

Saich, Tony (2001), *Governance and Politics of China*, England: Palgrave.

Chinese Language Publications:

Lou, Jiwei (ed.) (2002a), *Chinese Government Budgeting: System, Management and Cases*, Beijing: China Finance and Economics Publishing House.

Lou, Jiwei (ed.) (2002b), *The Future of [Chinese] Government Budgeting and Accounting: An Overview and Inquiry into Accrual Reforms*, Beijing: China Finance and Economics Publishing House.

People's Republic of China, Ministry of Finance, China Accounting Standards Committee (CASC) (2003), *About the China Accounting Standards Committee*.

People's Republic of China, Ministry of Finance, China Accounting Standards Committee (CASC) (2005), ed. *Government Performance Evaluation and Government Accounting*, Dalian Publishing House.

(Página deixada propositadamente em branco)

**TRANSITION BARRIERS OF ACCRUAL ACCOUNTING IN THE PUBLIC
SECTOR OF DEVELOPED AND DEVELOPING COUNTRIES:
STATISTICAL ANALYSES WITH SPECIAL FOCUS
ON THE NETHERLANDS AND EGYPT**

Introduction

While the potential returns from the transition to accrual accounting in the public sector are substantial, so too are the consequences of the transition failure. In reality, the recognition of the transition barriers in an earlier step is substantial as the transition barriers can have a huge impact on the requirements and speed of the transition to accrual accounting. Yet, the identification of the transition barriers gives a clear picture about both volumes of work and financial means necessary for successfully managing the transition process. Therefore, the potential transition barriers need to be identified and tackled before any attempt to adopt the accrual accounting system. This, in turn, can assist in reducing the transition risks and avoiding the transition failure. Accordingly, the transition barriers of accrual accounting in the public sector have been researched and examined by several public sector accounting researchers (Lüder, 1992, Jaruga and Nowak, 1996, Godfrey *et al.*, 2001 and Christensen, 2001). None of these studies has tackled the transition barriers of accrual accounting in the public sector ‘in detail’, whether theoretically or empirically, and in neither developed nor in developing countries. To fill the void, two studies (Ouda, 2003 and 2005a) have comprehensively researched the transition barriers of accrual in the public sector of both developed (e.g., the Netherlands) and developing (e.g., Egypt) countries. In addition, Lüder (2001) argues that “in the last two decades, government accounting research has emphasized the soft over hard research and the comparative government accounting research so far is almost exclusively non-quantitative research. Statistical analyses would be desirable, for e.g., to find out the significance of the differences of structural and behavioural variables for success or failure of government accounting reform”. Furthermore, Lüder (2001) has made the following general remarks on the significance of single independent variables of the Contingency Model:

- The lists of independent variables may be and presumably are incomplete. This is confirmed by several researchers’ investigations and their demand for adoption of additional variables;

- The significance of variables, and thus their influence on the innovation process, may differ and, in fact, does differ;
- The significance of variables may also vary from country to country; and
- It is important to find out if the lists contain variables that have never been observed in any innovation process. These, of course, are candidates for deletion.

In fact, one of the aforementioned studies (Ouda, 2003) has responded to Lüder's invitation (remarks) and performed statistical analyses in order to detect the significance of the differences of the transition barriers between the developed and developing countries.

However, up till now, no study has responded to Lüder's invitation regarding the detection of the significance of the differences of the transition barriers within the developed and developing countries, this in addition to the correlation analyses among the transition barriers within both developed and developing countries. Therefore, the original purpose of this paper is to respond to Lüder's invitation and attempt to fill a gap in the literature by performing the required statistical analyses. While the transition barriers are considered as independent variables, and the transition to accrual accounting is considered as dependent variable, the independent variables themselves within each (country) group are likely not independent (are likely correlated). Therefore, it is necessary to take into account the correlation between the factors being tested due to the fact that they come from the same (country) group. Consequently, the primary purpose of this paper is twofold:

- Detection of the significance of the differences of the factors (transition barriers) that can preclude the transition to accrual accounting within the developed and developing countries (e.g., the Netherlands and Egypt); and
- Examining to what extent the transition barriers are correlated within the developed (e.g., The Netherlands) and developing (e.g., Egypt) countries.

Thereafter the paper is organized in four main sections. The first concerns the theoretical framework and the second describes the research methodology and data collection. Sections 3 and 4 are the most important in the paper. The former analyses the detection of the significance of the transition barriers within The Netherlands and Egypt, first separately, then comparatively. The latter discusses the correlation among the transition barriers within both countries.

2. Theoretical development

As noted earlier, the transition barriers of accrual accounting in the public sector have been researched and examined by several public sector accounting researchers (Lüder, 1992, Jaruga and Nowak, 1996, Godfrey *et al.*, 2001, Christensen, 2001 and Ouda, 2003 and 2005a). Herein, Lüder (1992) mentioned in the Contingency Model, the following four factors as implementation barriers: legal system, staff qualification, size of jurisdiction and organizational characteristics. Since the development of the Contingency Model around 1990, only a few extensions of Lüder's barriers have been set up, leaving the former barriers unchanged (Pallot, 1996). Jaruga and Nowak (1996) have mentioned the following six implementation barriers, the last two of which are originally regarded as Lüder's barriers: system of values, modes of thought,

content of accountability, system of education, legal system and shape jurisdiction. Furthermore, Godfrey *et al.* (2001: 282), in their Diffusion-Contingency Model, have stated the same implementation barriers as Jaruga and Nowak's as barriers to change and added one more barrier which is the aid distortion. Moreover, Christensen (2001) has considered the lack of accounting skills in the public sector and inadequate state of asset records as the most confirmed implementation barriers. However, none of these studies has dealt with the transition barriers of accrual accounting in the public sector in detail, whether theoretically or empirically, and in neither developed or in developing countries.

As a step further and complement to the aforementioned studies, two studies (Ouda, 2003 and 2005a) have extensively researched and examined the transition barriers. In these two studies, the transition barriers are broken down into practical transition barriers and conceptual transition barriers. The **practical barriers** are: legal barriers; cost of designing and installing of a new accounting system; lack of generally accepted government accounting standards; lack of qualified government accounting personnel; resistance to change and the absence of the right incentive system; bureaucratic management culture; lack of internal consistency; lack of external pressure; lack of political commitment; lack of communication about the reform process; lack of information technology capability; the use of traditional (line item) budget and shortage of financial resources. The **conceptual barriers** are: lack of profit motive; identification and valuation of the existing physical assets; identification of a governmental reporting entity and its boundaries; increase of inflation rates which can create difficulties regarding valuation of governmental assets and liabilities; and the ambiguity around some of the accrual accounting principles and postulations that have given rise to a heavy debate about how they can be applied to the public sector, such as: matching principle, realization principle and going concern. So, in order to have an overview of the transition barriers (whether practical or conceptual) and their criteria of measurement as identified by Ouda's study (2005b), see the following index (Table 1). For the theoretical justification of the transition barriers, we refer to Lüder (1992 and 1994); Pallot (1996); Ball (1994 and 2000); Jaruga and Nowak (1996); Guthrie (1998); Godfrey *et al.* (2001); Christensen (2001); and Ouda (2003, 2005a, 2005b and 2005c).

Table 1 – Transition Barriers Index

Transition Barriers	Measurement criteria
<i>Practical Transition Barriers</i>	
- Legal barriers	Inflexibility of legal system Lack of legal pressure Nature of standard setting bodies
- Cost of designing and installing of a new accounting system	Volume of costs required Lack of technical skills in terms of software and hardware.
- Lack of qualified government accounting personnel	Education system Education level Salary differential Training system
- Lack of accounting standard and practices that are consistent with the public sector context	IPSAS ESA National GAAP Combination between two of them
- Resistance to change and absence of the right incentive system	Influence of change Lack of right incentives Satisfaction with the old system
- Bureaucratic management culture	Prevalence of bureaucratic culture Prevalence of input-system Absence of output-based system Permanent tenure system
- Organizational characteristics	Decentralization of responsibility for changes in the accounting regulations Absence of the internal consistency among and within the governmental entities
- Lack of external pressure	External pressure from executive and legislation bodies on governmental entities Demand of improved information by decision-makers
- Political factors (lack of political commitment)	Political culture Political system Role of Ministry of Finance
- Lack of communication about the reform process	Lack of communication strategy and efforts
- Lack of information technology capacity	Degree of computerization of the accounting system Required costs
- The use of traditional budget (line item)	Inconsistency of accounting and budgeting bases
- Shortage of financial resources	Financial circumstances of each country
<i>Conceptual Transition Barriers</i>	
- <i>Lack of profit motive</i>	Lack of profit motive in comparison with the availability of cost information
- Identification and valuing of the existing physical assets	Lack of assets register Problems associated with valuation method
- Matching principle	Absence of direct link between revenues and associated expenses
- Realization principle	Diversification of government inflow of resources
- Identification of governmental reporting Entity	Problems associated with identifying the reporting entity Approaches used to identify its boundaries
- Economic factor (inflation)	Inflation rates

Source: Ouda (2005b: 220).

In fact, the segregation of the transition barriers into practical and conceptual transition barriers has raised the following questions:

- Do the transition barriers have the same significance within the developed (the Netherlands) and developing (Egypt) countries?
- Which transition barriers are considered to be more important in comparison with the other barriers within the two countries separately?
- What is the influence of each barrier within each country on the transition process in comparison with the other barriers?
- To what extent are the transition barriers correlated within the developed (the Netherlands) and developing (Egypt) countries?

2. Research methodology and data collection

2.1 Research community (organizational level)

While it is argued that the Ministry of Finance is most concerned with the government accounting reform, the intention was to encompass different bodies in order to enrich and reinforce the credibility of the empirical research results and to obtain a more comprehensive picture regarding the transition barriers from the standpoint of different bodies in the two countries at the Central Government level. These bodies are displayed in Table 2.

Table 2 - Research Community

In Egypt	In The Netherlands
- Ministry of Finance	- Ministry of Finance
- Central Auditing Organization	- Dutch Court of Audit
- Agencies	- Agencies
- Different Ministries	- Different Ministries
- Academics	- Academics

2.2 Method of data collection

In gathering the research data, we have used structured interviews based on open questions, structured interviews based on open and closed questions, and self-administered questionnaires (based on open and closed questions). The structured interviews have assisted in getting more insight into practical issues regarding the transition barriers of accrual accounting within the central government of the Netherlands and Egypt. Based on these data, we designed a questionnaire with closed questions in order to get standard answers enabling us to apply a statistical technique. 300 questionnaires (150 for the Netherlands and 150 for Egypt) were prepared and sent to the respondents. The respondents were accountants, financial managers, auditors, chief executives and academics. The data collection process in the two countries has resulted in 119 responses from a total of 300 responses (gross response rate of 39.6%), as in Table 3.

Table 3 – Results from Data Collection Process

	Absolute numbers	Percentage related to target population	Percentage related to returned surveys
Target group	300	100%	NA
Total number of surveys returned	119	39.6%	100%
The Netherlands	54	36%	45.37%
Egypt	65	43.33%	54.63%

3. Detection of the significance of the differences of the transition barriers

3.1. Statistical technique

The importance of this section stems from the fact that it will be more useful and effective for both developed and developing countries (for e.g., the Netherlands and Egypt) to be aware, from the outset, of the significance of each preclusion factor (transition barrier) and its influence on the transition process in comparison with the other factors. This can assist in reducing or avoiding the risks that are usually embodied in an accounting reform process. Considering that the main purpose of this paper is the detection of the significance of the differences of the transition barriers of accrual accounting within the developed and developing countries (for e.g., the Netherlands and Egypt), it is important to select a statistical technique that can achieve this purpose, and for this we will use the t-test for paired samples. The paired sample t-test is used to assess the significance of difference between means of two variables (factors) in one group (country). Then, mean scores are compared using paired t-test to determine if the impact of each factor on the transition to accrual accounting (within the central government of the Netherlands and Egypt) in comparison with the other factors is significantly different. As such, the decision rules are:

- If (p) value < .05, reject null hypothesis; the difference is probably not due to chance and then the difference is significant.
- If (p) value > .05, accept null hypothesis; the difference is probably due to chance and then the difference is not significant.

Therefore, we are most interested in the means of the two groups and the p-value.

3.2. Detection of the significance of the differences of the transition barriers (preclusion factors) within The Netherlands and Egypt separately

Section 1 has identified a number of the transition barriers (whether they are practical or conceptual barriers) that can have a negative impact on the transition to accrual accounting in the public sector. In order to facilitate the statistical analysis, each transition barrier will be given a certain code and some transition barriers have been incorporated into one factor such as the lack of qualified accounting personnel, resistance to change and the absence of the right incentives system are incorporated into one factor, which is the personnel characteristics. Also organizational characteristics

encompass the absence of the internal consistency among and within the governmental entities; and the decentralization of responsibility for changes in accounting regulations. In addition, the cost of designing and installing a new accounting system and the lack of financial resources have been incorporated into one factor, which is the financial resources. Moreover, the specific accounting issues include the problems associated with the identification and valuation of physical assets, lack of assets registers and problems associated with the identification of the governmental financial reporting entity and determination of its boundaries. So, based on Section 1 (especially the transition barriers index), the following barriers have been identified and will be analyzed in more detail within each country in separate:

- Legal Barriers
 - Lack of Accounting Standards
 - Bureaucratic Management Culture
 - Specific Accounting Issues
 - Political Factors
 - Communication Barriers
 - Accrual Accounting Principles
 - Accrual Accounting Postulations
 - Personnel Characteristics
 - Organizational Characteristics
 - Financial Resources
 - Economic Factor (inflation)
 - Traditional Budget Influence
 - Lack of Profit Motive
- LEGBAR
 - LAS
 - BMC
 - SPECACI
 - POLFAC
 - COMBAR
 - AAPRIN
 - AAPOST
 - PERSCHAR
 - ORGCHAR
 - FINRES
 - ECOFAC
 - TBI
 - LPM

3.2.1 The Netherlands

This section shows the significance and impact of the preclusion factors on the transition process to accrual accounting in the central government of The Netherlands in comparison with each other. Based on the test results, the Table 4 shows the total picture of significance of each preclusion factor in comparison with the other preclusion factors in The Netherlands.

Table 4 – The significance of each factor in comparison with the other factors in The Netherlands.

The Netherlands	1	2	3	4	5	6	7	8	9	10	11	12	13	14
1 POLFAC														
2 SPECACI														
3 COMBAR	X													
4 AAPRIN	X													
5 BMC														
6 LEGBAR	X	X												
7 LAS	X	X												
8 AAPOST	X	X	X	X	X									
9 PERSCHAR	X	X	X	X	X									
10 ORGCHAR	X	X	X	X	X									
11 FINRES	X	X	X	X	X	X	X	X	X	X				
12 ECOFAC	X	X	X	X	X	X	X	X	X	X				
13 TBI	X	X	X	X	X	X	X	X	X	X	X	X		
14 LPM	X	X	X	X	X	X	X	X	X	X	X	X	X	X

X = significant (at 5% level)

The results of Table 4 show that there are significant differences between the first 10 factors: political factors, specific accounting issues, communication barriers, accrual accounting principles, bureaucratic management culture, legal barriers, lack of accounting standards, accrual accounting postulations, personnel characteristics, organizational characteristics and the last 4 factors – financial resources, economic factor (inflation), traditional budget influence and lack of profit motive (the observed differences are statistically significant at the 5% level). Apparently, it seems that the Dutch respondents see that the first 10 factors can significantly affect the transition process to accrual accounting within the Dutch central government in comparison with the last mentioned 4 factors. Based on the test results, the preclusion factors can be categorized into two groups as follows:

Group 1: this group encompasses all the factors that have shown significant differences in comparison with the last four factors. Namely, this group includes the factors that can have more or less a significant impact on the transition to accrual accounting in the central government of the Netherlands. So we might call this group **Impact Factors Group**.

Group 2: this group comprises all the factors that do not produce significant differences in comparison with the aforementioned ten factors under Group 1. In fact, this group includes the last four factors, which do not seem to have a significant impact on the transition to accrual accounting in the central government of the Netherlands. In connection with Lüder's remarks (2001), these factors are candidates for deletion. Accordingly, we might call this group **Deletion Factors Group**. Based on the abovementioned segregation, the test results give rise for more analyses for each group separately, as shown below.

Group 1: Impact Factors

While the test results reveal that there are significant differences between the two groups, each group shows significant differences among the factors that belong to it. The test results show a high level of agreement within the Dutch group that the first five factors show significant differences in comparison with most of the other five factors. Furthermore, the first five factors show a small mean difference among each other. In fact, the mean difference can show the role that these factors can play (as barriers to transition) in comparison with each other. A high degree of preclusion of the transition process can be translated into small mean differences among these factors. So the smaller the mean difference is, the fairly equalled the role that these factors can play as barriers to transition. This also means that these five factors could play a similar role as an impediment to the transition to accrual accounting in the Dutch central government. Consequently, one can conclude that political factors, specific accounting issues, communication barriers, accrual accounting principles and bureaucratic management culture have a profound impact on the transition to accrual accounting in the central government of the Netherlands. Therefore, we might call those five factors **Profound Impact Factors**. In addition, within the first five factors the test results show that the Dutch respondents gave the political factors and specific accounting issues the highest ranking in comparison with the communication barriers, accrual accounting principles and bureaucratic management culture. Accordingly, it seems that, on the one hand, the Dutch respondents found that the political factors (generally, the lack of political commitment and especially the lack of leadership of the Ministry of Finance) have more impact on the transition to accrual accounting in the Dutch

public sector in comparison with all the previously stated factors. On the other hand, the test results provide a clear picture of the relationship between the transition to accrual accounting in the central government of the Netherlands and tackling of specific accounting issues in an earlier phase. Perhaps the main reason for the fact that the specific accounting issues rank highly (after the political factors) is the decision of the Dutch Ministry of Finance to use the ESA (European System of Regional and National Accounts 1995) in place of the IPSAS or national GAAP. The ESA has been developed by the international co-operation of economists and national statisticians (not accountants) to present a description of the economy in statistical terms in the form of pattern of accounts and tables which, by logical development and to some extent because of convention, will be understood by economists and administrators specializing in this field throughout the world. Consequently, the ESA is essentially developed for macro-level. Logically, what is developed for the macro-level (national accounting) is not likely to be used at the micro-level (government accounting). Consequently, it can be inferred that the use of ESA has resulted in creating several accounting problems and, hence, has given rise to the great importance of the specific accounting issues. Furthermore, the test results of Table 4 indicate that the legal barriers and lack of accounting standards have less impact on the transition process than the above mentioned five factors, and more impact on the transition process than the last three factors of Group 1 (accrual accounting postulation, personnel characteristics and organizational characteristics). In terms of mean scores, these two factors have almost the same mean scores (legal barriers $M = 3.2037$ and lack of accounting standards $M = 3.1852$). Similarly, the smaller the mean difference is, the fairly equaled the role that the legal barriers and lack of accounting standards can play as barriers to transition. Accordingly, we might call these two factors **very important impact factors**. Frankly speaking, it seems logic that both legal barriers and lack of accounting standards are to be comprised in one group. In fact, in the absence of the legal provisions and accounting standards that are consistent with the nature of the public sector, there will be quite an ambiguity with respect to the purpose and philosophy of accounting changes as well as the technicalities. In addition, Table 4 reveals that the Dutch respondents agreed that the impact of the accrual accounting postulations, personnel characteristics and organizational characteristics on the transition to accrual within the central government is fairly equivalent, as the results did not produce significant differences among these three factors at the .05 level. Similarly, the results show a small mean difference, which means that the role that can be played by the accrual accounting postulations, personnel characteristics and organizational characteristics, as barriers to transition, is similar. Accordingly, we might call these three factors **important impact factors**. Consequently, Group 1 can be re-categorized into:

1 - Profound impact factors:

- Political factors
- Specific accounting issues
- Communication barriers
- Accrual accounting principles
- Bureaucratic management culture

2 - Very important impact factors:

- Legal barriers
- Lack of accounting standards

3 - Important impact factors:

- Accrual accounting postulation
- Personnel characteristics
- Organizational characteristics

Group 2: Deletion Factors

The test results of Table 4 set forth that the financial resources and inflation have almost the same impact on the transition process to accrual accounting in The Netherlands, where no significant difference exists. Whereas the results show that financial resources have a significant impact on the transition process in comparison with traditional budget influence and the lack of profit motive. Based on the mean scores, while there is a significant difference between the financial resources and both traditional budget influence and lack of profit motive, this difference does not mean that the lack of financial resources has a considerable influence on the transition process in The Netherlands. The mean scores of these three factors lie between 1.4815 and 2.5463, which include the areas of disagreement and strong disagreement.

In addition, Table 4 indicates that there is a significant difference between the economic factor (inflation) and the traditional budget influence (TBI) and lack of profit motive (LPM). Similarly, while the impact of the inflation is significantly different from the impact of both TBI and LPM (based on the mean scores of these three factors which lie between 1.4815 and 2.4907), the inflation is not considered a barrier to transition. Consequently, the inflation is considered a candidate for deletion. Similarly, while the test results show a significant difference between the traditional budget influence and the lack of profit motive, based on the mean scores, traditional budget influence is not considered as a barrier to transition.

Based on the above stated test results, the following four factors are **candidates for deletion**:

- Financial resources
- Economic factor (inflation)
- Traditional budget influence
- Lack of profit motive

3.2.2. Egypt

This section analyzes the significance and impact of the previously stated preclusion factors on the transition to accrual accounting in the central government of Egypt.

Based on the test results, the Table 5 summarizes the significance of each preclusion factor in comparison with the other preclusion factors in Egypt.

Table 5 – The significance of each factor in comparison with the other factors in Egypt

Egypt	1	2	3	4	5	6	7	8	9	10	11	12	13	14
1 LAS														
2 BMC														
3 LEGBAR														
4 POLFAC														
5 COMBAR	X	X	X	X										
6 SPECAL	X	X	X	X										
7 FINRES	X	X	X	X										
8 ORGCHAR	X	X	X	X										
9 AAPRIN	X	X	X	X	X									
10 AAPOST	X	X	X	X	X	X	X	X	X					
11 PERSCHAR	X	X	X	X	X	X	X	X	X					
12 ECOFAC	X	X	X	X	X	X	X	X	X					
13 TBI	X	X	X	X	X	X	X	X	X	X				
14 LPM	X	X	X	X	X	X	X	X	X	X	X	X	X	X

X = significant (at 5% level)

The test results of Table 5 reveal that the lack of accounting standards, bureaucratic management culture, legal barriers and political factors do have an overwhelming impact on the transition to accrual accounting in the central government of Egypt in comparison with all the other factors. This is because the test results show a substantial and statistically significant difference between these four factors and all the other factors, which in turn implies that the Egyptian respondents have realized that the lack of accounting standards that are consistent with the context of the government sector plays an essential role in precluding the transition to accrual accounting in the central government. Furthermore, prevalence of the traditional bureaucratic model of management and difficulties of changing the bureaucratic culture is one of the main obstacles of the transition to accrual accounting in the central government of Egypt. In addition, the lack of legal pressure on the governing bodies and the governmental entities to move towards the adoption of accrual accounting plays an essential role as a barrier to transition to accrual accounting in the Egyptian central government. Finally, the Egyptian respondents agreed with the Dutch respondents that the lack of political commitment and, in particular, the lack of leadership of the Ministry of Finance is considered a fundamental barrier to the transition to accrual accounting in the central government of both developed and developing countries. Furthermore, the test results have not shown statistically significant differences at the .05 level among the lack of accounting standards, bureaucratic management culture, legal barriers and political factors. The four factors show a very small mean difference among each other and hence they can play an equivalent role as barriers to transition. Consequently, these four factors can form the elements of **Group 1**, which we might call (similar to The Netherlands case) **profound impact factors**. Similar to The Netherlands case, the profound impact factors group in Egypt comprises the political factors and bureaucratic management culture. This means that the lack of political commitment and bureaucratic management culture do have a fundamental negative effect on the transition to accrual accounting in both developed and developing countries. In reality, the lack of political and bureaucratic commitment arises because the politicians and bureaucracy are familiar with the old system and the common belief that what worked before will continue to work in the future. It might be because of inadequate knowledge and understanding of the new types of financial reports generated by accrual accounting or because they do not want to be transparent and properly accountable.

In addition, the test results of Table 5 reveal that the communication barriers, specific accounting issues, financial resources, organizational characteristics and the accrual accounting principles do have a significant impact on the transition to accrual accounting in the central government of Egypt in comparison with the rest of the preclusion factors. Similarly, the results indicate that there is no significant difference among the communication barriers, specific accounting issues, financial resources, organizational characteristics and accrual accounting principles (with the exception of the significant difference between the communication barriers and accrual accounting principles, but this was almost 5% (.049)). Based on the mean scores, it seems that the impact of these five factors on the transition process is almost amounted to each other. Based on the test results with respect to these five factors, we can come to the second group which we might call **very important impact factors (Group 2)**. However, comparing The Netherlands case with the Egyptian case regarding the *very*

important impact factors can give rise to the following observations: whilst the specific accounting issues are ranked in higher position as a profound impact factor in The Netherlands, these issues do also have a considerable impact on the transition to accrual accounting in the central government of Egypt (as it is ranked as a very important impact factor). This in turn means that there is a consensus between both developed and developing countries on the role which can be played by the specific accounting issues as an impediment. Unlike The Netherlands case, the lack of financial resources is playing a considerable role as a barrier to transition in the developing countries (Egypt) and therefore supports the hypothesis that the lack of financial resources does have a significant impact on the government accounting reform process in the developing countries. It also appears from the practice that the developing countries usually attribute their failure of getting accrual accounting adopted in the public sector to the lack of financial resources.

In addition, the test results have not shown a significant difference between the organizational characteristics and accrual accounting principles, and therefore it suggests that organizational characteristics do have a similar impact to the accrual accounting principles on the implementation process in Egypt. This result is in contrast with the results obtained in The Netherlands case, where the organizational characteristics do have much less impact on the transition process in comparison with the impact of accrual accounting principles, as the accrual accounting principles is recognized as a profound impact factor and organizational characteristics is recognized as important impact factor. Besides the previously stated two groups, the test results of Table 5 show a high level of agreement among the Egyptian respondents that the impact of accrual accounting postulations, personnel characteristics and inflation on the transition to accrual in the central government is fairly similar, as the test results show no significant differences among these three factors. In terms of mean scores, these three factors had mean scores higher than the last two factors: traditional budget influence and lack of profit motive. Accordingly, we might call these three factors **important impact factors (Group 3)**. However, based on the mean scores, the inflation belongs more to *Group 4 than Group 3*. This means that inflation is not regarded as a barrier to transition, and hence, it is considered a candidate for deletion. Finally, the test results of Table 5 reveal that the use of traditional budget has a significant impact on the transition process in comparison with the lack of profit motive. While there is a significant difference between the traditional budget influence and lack of profit motive, this difference does not mean that the traditional budget influence has a considerable influence on the transition process in Egypt. The mean scores of these two factors lie between 1.8308 and 2.2457 which include the areas of disagreement and strong disagreement. This result is consistent with the results obtained in the Netherlands case. Similarly, based on mean scores, the traditional budget influence is not considered a barrier to transition. Consequently, the traditional budget influence and lack of profit motive (in addition to inflation) can be categorized as **deletion factors group**. Consequently, the preclusion factors in Egypt can be categorized into four groups as follows:

Group 1 – Profound impact factors:

- Lack of accounting standards
- Bureaucratic management culture
- Legal barriers
- Political factors

Group 2 – Very important impact factors:

- Communication barriers
- Specific accounting issues
- Financial resources
- Organizational characteristics
- Accrual accounting principles

Group 3 – Important impact factors:

- Accrual accounting postulation
- Personnel characteristics

Group 4 – Deletion factors:

- Inflation
- Traditional budget influence
- Lack of profit motive

3.3. Comparative analysis

Firstly, the categorization of the transition barriers within the two countries has almost conformed the prevailing circumstances and degree of development of each country. For example, the profound impact factors (Group 1) in the Netherlands comprise the factors that reflect the current situation in the Dutch central government. This group encompasses the specific accounting issues and accrual accounting principles. This means that this group sheds light on the current accounting issues (problems) which are required to be overcome from the Dutch respondent's point of view such as: forming and recognition of provisions, forming of reserves, superannuation and pensions (general old-age pension of citizens (AOW)) and preparation of opening balances. This is in addition to the Parliament's fear of accumulation of capital deficit. Furthermore, the Dutch respondents as a developed community see that the lack of communication efforts about the accounting reform process is regarded as a profound transition barrier. Actually, this is in concordance with the nature of the developed communities, that like to be convinced by the feasibility and necessity of any changes whether they are accounting or other. In addition, the Dutch respondents agree with the Egyptian respondents on the importance of the political factors and bureaucratic management culture as real barriers to transition. On the other hand, the profound impact factors Group 1 in Egypt has focused more on the factors that are actually playing a fundamental role in precluding the adoption of accrual accounting and in carrying out any change in the developing countries. This group comprises political factors, legal barriers, bureaucratic management culture and lack of accounting standards. In reality, the dictatorial or semi-dictatorial political systems, conservative bureaucratic culture, fruitless legal systems and inability to produce the accounting standards, which take into account the public sector context, are most of the factors that have impeded the performing of public sector reform in general, and in particular the accounting and budgeting reform in the developing countries. Secondly, Group 2, in Egypt, includes the factors that have been considered as profound factors in the Netherlands whereas it comprises in the Netherlands the factors that have been considered as profound factors in Egypt. In other words, unlike the Netherlands, the specific accounting problems and communication barriers are considered as very important factors in Egypt whereas the legal barriers and lack of

accounting standards are considered as very important factors in the Netherlands. This means that each country has given the second priority to the factors that are considered to be very important according to the prevailing circumstances in each country. Unlike the Netherlands, the financial resources and organizational characteristics play a very important role in precluding the adoption of accrual accounting in Egypt.

Thirdly, Group 3 has almost comprised the same factors in both countries. This means that both the accrual accounting postulations and personnel characteristics have a similar impact as an impediment to the adoption of accrual accounting in the public sector of both developed and developing countries. Fourthly, the respondents in both countries agreed that the lack of profit motive, traditional budget influence and inflation rates are considered as deletion factors. Namely, these three factors play no or very little role in precluding the transition to accrual accounting in the public sector of both developed and developing countries.

4. Correlation among the transition barriers (preclusion factors) within both countries

4.1. Statistical analysis

While the transition barriers are considered as independent variables and the transition to accrual accounting is considered as dependent variable, the independent variables themselves within each (country) group are likely not independent (are likely correlated). Therefore, it is necessary to take into account the correlation between the factors being tested due to the fact that they come from the same (country) group. So, in order to determine whether there is a significant correlation between two factors or not, we need to calculate the correlation coefficient (r) and the p value (probability). Similar to the t -test, the decision rules are:

- If (p) value $< .05$, reject null hypothesis the correlation is probably not due to chance
the correlation is significant.
- If (p) value $> .05$, accept null hypothesis the correlation is probably due to chance
the correlation is not significant.

Considering that the focus of this paper is on analyzing the situation in both developed and developing countries, it will be interesting to analyze the correlation between the preclusion factors in The Netherlands and Egypt separately in order to give a full and comparable picture about the correlation among the independent factors in the two countries. Based on the test results, Table 6 summarizes the correlations between each preclusion factor and the other preclusion factors in The Netherlands.

Table 6 – Correlations between each factor and the other factors in The Netherlands

The Netherlands	1	2	3	4	5	6	7	8	9	10	11	12	13	14
1 POLFAC														
2 SPECAL														
3 COMBAR	X													
4 AAPRIN		X												
5 BMC	X		X											
6 LEGBAR	X		X											
7 LAS					X									
8 AAPOST				X										
9 PERSCHAR	X	Y	X		X	X								
10 ORGCHAR							X							
11 FINRES														
12 ECOFAC							X			X				
13 TBI														
14 LPM			Y	Y	Y									

X = significant positive correlation

Y = significant negative correlation

Similarly, based on the test results, Table 7 summarizes the correlations between each preclusion factor and the other preclusion factors in Egypt.

Table 7 - Correlations between each factor and the other factors in Egypt

Egypt	1	2	3	4	5	6	7	8	9	10	11	12	13	14
1 LAS														
2 BMC	X													
3 LEGBAR														
4 POLFAC	X		X											
5 COMBAR														
6 SPECAL					X									
7 FINRES					X									
8 ORGCHAR					X	X	X							
9 AAPRIN														
10 AAPOST	Y					X			X					
11 PERSCHAR					X	X	X	X						
12 ECOFAC						X								
13 TBI									Y					
14 LPM	Y			Y					Y			X		

X = significant positive correlation

Y = significant negative correlation

Bear in mind that in both Tables 6 and 7 only the lower left side is shown. This is due to the fact that the correlation is symmetric. In other words, $Cor. (X, Y) = Cor. (Y, X)$.

As it is clear from the two tables, many factors are correlated with each other within each country separately. However, if we separately interpret and discuss the correlation between each preclusion factor and the other preclusion factors, we shall be confronted with a repetition problem. So in order to avoid this problem, we shall focus the interpretation of the correlation on:

- The factors that demonstrate much correlation with the other factors; and
- The factors that demonstrate particular/higher correlation.

Studying the two tables, it appears that the following preclusion factors (Table 8) have demonstrated much correlation with the other factors.

Table 8 - Preclusion factors much correlated with the others factors

<i>In The Netherlands</i>	<i>In Egypt</i>
<ul style="list-style-type: none"> - Political factors - Personnel characteristics - Communication barriers - Lack of accounting standards - Lack of profit motive 	<ul style="list-style-type: none"> - Political factors - Lack of accounting standards - Communication barriers - Specific accounting issues - Accrual accounting principles - Personnel characteristics - Lack of profit motive

In addition to the aforementioned factors, the following factors have shown a higher (particular) correlation, above .5:

- In the Netherlands:
 - Bureaucratic management culture and lack of profit motive: correlation coefficient (r) = -.509
- In Egypt:
 - Organizational characteristics and personnel characteristics, where (r) = .643
 - Financial resources and personnel characteristics, where (r) = .606

4.2. Discussion

Based on the aforementioned factors, the correlation among the preclusion factors, in addition to the potential reasons behind this correlation, will be discussed as follows.

4.2.1. Factors that demonstrate much correlation with the other factors in both countries

- Political factors (lack of political commitment)

The test results of both Tables 6 and 7 indicate that there is a significant positive correlation between the political factors and the legal barriers in the Netherlands and Egypt. Basically, this result suggests that the higher the legal barriers, the more the political factors tend to act as a barrier to transition. In reality, both executive and legislative bodies play a fundamental role in any transition process. More precisely, they complement each other as to the carrying out of the transition process and the enactment of the laws that are required for fulfilling that transition process. It is argued that there is an interrelationship between the political factors and the legal barriers. For instance, the absence of the legal pressure may result in the lack of political commitment. The experience of the earlier reformer countries has confirmed this fact. In New Zealand, during the early to mid-1980s there had been attempts to encourage departments to adopt accrual accounting but a number continued to disregard these attempts. This was a consequence of the lack of legal pressure on the executive bodies to move towards the adoption of accrual accounting. Another example is the inflexibility of legal systems which can make the carrying out of the accounting change, through the executives' bodies, more difficult or at least makes it

to persist longer. Consequently, the positive correlation between the political factors and legal barriers can be justified. In addition, the correlation coefficient (r) is not significantly different in Egypt (.464) from that of The Netherlands (.444), which in turn means that the relationship between the political factors and legal barriers tends to be important in both developing and developed countries.

Another interesting point is the positive correlation between political factors and bureaucratic management culture in The Netherlands. Generally speaking, the Dutch public sector reforms have taken place step by step and they are carried out when and where needed, more in reaction to demands and stimuli from their environment (organic change), and scarcely by means of centrally directed strategic policy steering. In addition, each Minister is responsible for the quality of the public administration and public management of his own area of policy and he or she can deal with the way things are organized and done in his or her ministry. Furthermore, each separate ministry primarily brings public management reform about itself.

Accordingly, "the public management reform is a matter between the Minister and the bureaucracy". Consequently, it is logical that political factors are positively correlated with the bureaucratic management in The Netherlands. So the positive correlation between the political factors and the bureaucratic management culture can be justified where the lack of political commitment gives a signal to the bureaucracy that the government is not serious about the implementation of the accounting reform. Thus, the higher the lack of political commitment, the more the bureaucratic management culture will act as a barrier to transition to accrual accounting. Whilst the test results showed a significant correlation in the Netherlands, they did not produce a significant positive correlation between the political factors and the bureaucratic management in Egypt. One potential explanation is that in the developing countries, it is even more complicated to distinguish the bureaucracy from the politicians. The relationship is mixed and interactive, fluid and integrative, not dichotomous or hierarchical. Thus, the Egyptian respondents eventually consider both of the political factors and bureaucratic management culture as one factor.

In addition, the correlation analysis reveals that there is a significant positive correlation between the political factors and the personnel characteristics in the Netherlands. In fact, this result suggests that the politicians are not so sufficiently different from the bureaucracy. Namely, the lack of the right incentive system, in addition to the lack of dissatisfaction regarding the old system, may also make the politicians resist the change process. Similar to the bureaucracy, the political commitment can be demonstrated by installing an incentive system that motivates them to promote the introduction of accrual accounting and to use the performance information following there from in decision making. This was clear from the New Zealand experience where the public sector reforms were ordered in such a way as to generate early benefits to both bureaucracy and 'Ministers'. Early in the process, bureaucrats received (in exchange for increased accountability for the outputs) the benefits of managing their departments without the need to comply with the extensive detailed procedural requirements. 'Ministers' saw the benefits through their capacity to manage the fiscal situation they faced in preparing the 1991 budget (Warren, 1996).

The most interesting point is the positive correlation between the political factors and communication barriers in the Netherlands. The correlation results suggest that the

lack of political commitment is associated with the lack of adequate communication efforts. It has generally been proved that politicians do not seriously treat the root cause of their problems until the situation approaches crisis conditions and the need for remedial action becomes urgent and broadly accepted by the unions and population at large (OECD, 1995). Furthermore, public finance is a highly technical and extremely complex field. It is generally difficult to bring non-specialists, such as politicians, to an understanding of the link between the modernization of public services and technical reforms such as the introduction of accrual accounting, budget classification, etc. Therefore, there should be communication endeavoring to teach the politicians to understand the importance of these issues (Chevauchez, 2002). Consequently, the lack of communication efforts, which can make the politicians and populations aware of these issues, may result in a lack of political commitment. Unlike the Netherlands, the test results in Egypt have not shown a significant positive correlation between the political factors and communication barriers. However, the lack of relationship between the political factors and communication barriers can, to some extent, be justified in the developing countries, where most of the communication efforts (such as the media, etc) are subjected to the control of politicians.

Finally, the test results of Table 7 show a significant negative correlation between the political factors and the lack of profit motive in Egypt. This in turn means that the higher the political factors, the less the lack of profit motive acts as a barrier to transition. One possible explanation is that the politicians are much more interested in information about the cost of services provided and the information required for decision-making and discharging the accountability than the profit motive, as the profit motive is not the aim of the public sector which aims at serving the public interest.

- Accrual accounting principles

One of the most logical points is that the test results of Table 6 show a significant positive correlation between the accrual accounting principles and the specific accounting issues in the Netherlands. This in turn means that the Dutch respondents agree that there is a relationship between the emanation of the specific accounting issues and the accrual accounting principles. In reality, the emerging of current specific accounting issues in the Dutch Central Government is associated with the decision of adopting accrual accounting and its principles. For instance, the matching principle means that the revenues, which were earned during the accounting period, should be matched with the associated expenses. The expenses here have to comprise both current and fixed expenses, which have resulted in the inevitability of identification of all current and fixed assets. Thus, the process of identifying the revenues and assets, which expired during the production of those revenues, is fundamental for the matching principle. This causes the problem of identification and valuation of physical assets in the central government, which did not exist under the commitment-cash accounting system. Similarly, realization and recognition principles have given rise to the appearance of different accounting issues. Besides, the most additional accounting problems in the Netherlands such as: forming and recognition of provisions, forming of reserves, superannuation and pensions (general old-age pension of citizens (AOW)) and preparation of opening balances, were also related to the decision of adoption of accrual accounting in the Central Government.

Another interesting point is that both developed and developing countries agreed on the relationship between accrual accounting principles and postulations. The results of both Tables 6 and 7 show that there is a significant positive correlation between the accrual accounting principles and accrual accounting postulations, which in turn means that the Dutch and Egyptian respondents see that an increase of the role of accrual accounting principles as a barrier to transition is also associated with an increase of the role of accrual accounting postulations. In fact, accrual accounting relies on both principles (e.g., matching, realization, conservatism and consistency principles) and postulations (e.g., accounting entity and going concern). The adoption of accrual accounting principles entails the adoption of the accrual accounting postulations too. The accrual accounting postulations have been seen as a barrier to transition to the same extent as the accrual accounting principles. This was obvious from the problems that have been raised about the reporting entity and determination of its boundaries and the going concern postulation. Accordingly, whoever is inclined either in the developed or in the developing countries to choose the accrual accounting principles as a barrier to transition is also inclined to do the same with the accrual accounting postulations.

Furthermore, the results of both Tables 6 and 7 show a significant negative correlation between the accrual accounting principles and the lack of profit motive. One potential explanation is that the Dutch and Egyptian respondents see that the lack of profit motive is less important in comparison with furnishing reliable information on the cost of government services. This means that the more the impact of accrual accounting principles on the transition process is increased, the more the impact of the lack of profit motive is decreased. The correlation results confirm the results from other statistical test presented in previous sections. In Sections 3.2.1 and 3.2.2 both Dutch and Egyptian respondents have not considered the lack of profit motive an impediment and it is regarded a candidate for deletion.

Unlike The Netherlands, the results of Table 7 indicate that there is a significant negative correlation between the accrual accounting principles and the traditional budget influence in Egypt. This in turn means that an increase of the role of accrual accounting principles as a barrier to transition is accompanied by a decrease of the role of traditional budget influence. Consequently, the correlation analysis confirms the other results obtained in the previous sections (the t-test). Once again, it is confirmed that the traditional budget influence is a candidate for deletion.

- Personnel characteristics

An interesting point is the positive correlation between personnel characteristics and bureaucratic management culture in the Netherlands. This suggests that the intricacy of changing the bureaucratic management culture in the developed countries is more related to resistance to change and the absence of the right incentives system. It is common for resistance to change to come from the bureaucrats who are comfortable with the old system.

Namely, the bureaucrats who are entirely complacent about the status quo will not devote their time and attention to the accounting change and related issues. Furthermore, the lack of an incentive system can also stifle the accounting innovation. In fact, bureaucracy needs to feel that the change will generate benefits for them. For

example, the New Zealand experience has proved that creating the appropriate incentives has made the bureaucracy assist in carrying out the reform. Scott (1996) stated that departmental heads saw the removal of controls over their inputs as a positive change, and this type of motivation could help to implement the reforms. Financial managers in departments took pride in raising the systems up to the necessary standard, in return for which managers in their departments were given greater freedom to manage. Unlike the Netherlands, the test results of Table 7 have not shown a significant correlation between the bureaucratic management culture and the personnel characteristics in Egypt. This suggests that intricacy of changing of bureaucratic management culture in the developing countries is not related to the absence of the right incentive system but to allegiance to the bureaucratic principles and norms, which generally oppose any endeavor of change. Therefore, the majority of writers who have discussed the government accounting reform, especially in the developing countries, agreed on the notion of transferring key conservative bureaucratic directors during the reform process and recruiting of new reform-minded directors.

In addition, the test results of Table 7 reveal that there is a significant positive correlation between the personnel characteristics and the specific accounting issues in Egypt. The positive correlation means that an increase in personnel characteristics is accompanied by an increase in specific accounting issues. Namely, there is a relationship between the lack of qualified accountants, absence of the right incentive systems and the lack of conviction about the benefits of the new accounting system and emerging of the specific accounting issues. In fact, overcoming the specific accounting issues requires a qualified accountant and incentives systems. Then, the lack of qualified accountants means that the specific accounting issues remain unsolved or even increased. So the greater the lack of qualified accountants and the absence of the right incentives systems, the higher the chance for the specific accounting issues to appear. Surprisingly, the test results in the Netherlands show a significant negative correlation between the personnel characteristics and the specific accounting issues. The negative correlation means that an increase in personnel characteristic is accompanied by a decrease of the specific accounting issues. In fact, the opposite is quite true. This correlation is assumed to be accidental and hence inexplicable (unexplainable).

Another point is the positive correlation between personnel characteristics and communication barriers in both The Netherlands and Egypt. The correlation results suggest that the resistance to change whether in the developed or developing countries is associated with the lack of communication about the reform process. It has been argued that the resistance to change is often emanated as a consequence of the fact that personnel in the field are not informed and consulted. Principles underlying new accounting changes should be first discussed with operations and financial staff to make sure they make sense. Lack of discussion can cause a lot of confusion and impact on moral. Consequently, the resistance to change and the tendency to keep the traditional government accounting system are more related to the lack of adequate communication efforts. In addition, it is the characteristic of the people involved in financial professions to often be reluctant to accept change in the working environment and to want tasks to remain at the same scheduled pace. One of the earlier empirical studies, which has investigated whether or not personality type may have an effect on one's choice of a college major or eventual career, indicated that some business professions

such as accounting tend to be uncreative and unwilling to encounter “new ideas without being systematically prepared for a new change” and would prefer that everything remain constant (Omundson and Schroeder, 1996). Therefore, taking into consideration the characteristics of accountant and bureaucracy personality, the lack of communication efforts makes the transition process to accrual accounting more difficult in both developed and developing countries.

The results of Table 6 show a significant positive correlation between the personnel characteristics and the legal barriers in The Netherlands. This suggests that the inflexibility of legal systems and the lack of legal pressure on the governmental entities to move towards the change process in the developed countries are often accompanied by the resistance to change and lack of conviction about the benefits of the new system. In addition, this means that whoever is inclined, in The Netherlands, to choose the legal barriers as a barrier to transition, is also inclined to choose the personnel characteristics. However, the results of Table 6 have not shown a significant correlation between the personnel characteristics and the legal barriers in Egypt. This suggests that the developing countries have not yet recognized that the lack of legal pressure and the inflexibility of the legal systems can be accompanied by resistance to change and can make bureaucracy reluctant to change their culture, habits and attitudes.

- Communication barriers

The test results of Table 7 indicate that there is a significant positive correlation between the communication barriers and the specific accounting issues in Egypt. In reality, the long history of using cash accounting in the public sector has made the adoption of accrual accounting in the public sector to be confronted with a heritage of huge accounting problems, such as forming of provision, identification and valuation of physical assets, lack of assets registers, opening balances, identification of reporting entity and its boundaries, etc.

The lack of communication efforts can result in that these specific accounting issues remain something of a mystery for bureaucracy and the other members who are involved in the government accounting reform. The communication efforts, such as seminars, conferences, case studies, courses, etc, are required to shed light on, debate and discuss the specific accounting issues and clarify what kind of difficulties are involved in these issues, how these difficulties can be tackled and how these issues can be used in the public sector. Accordingly, to what extent the specific accounting issues can remain as a black box is more related to:

- volume of communication efforts (seminars, conferences, case studies, etc);
- the extent to which the specific accounting issues are debated and discussed;
- and
- the extent to which the outstanding issues concerning the accrual accounting problems can be tackled.

So it is logical that the specific accounting issues are positively correlated with the communication barriers.

In addition, the findings of Table 6 show a significant positive correlation between the communication barriers and the bureaucratic management culture in The Netherlands. The correlation results suggest that the greater the lack of communication efforts, the greater the chance for the bureaucratic management to resist the change. In general,

bureaucracy can not simply accept the change and give up its behaviour, habits and norms. It is not easy for bureaucracy to move away from input controls, rules and procedures and towards output management and performance targets – the ‘accountability’ framework. Accordingly, to influence the bureaucratic behaviour via communication requires much targeted contents in messages and careful selection of media. In addition, bureaucracy is similar to some extent to the politicians in the way that they need to be aware of the problem. Furthermore, they do not move towards reform from themselves, rather, there is often a pressure from the politicians on bureaucracy. Accordingly, the lack of the communication efforts may result in the lack of the political pressure and, hence, the lack of bureaucracy support.

In addition, the test results of Table 6 show a significant positive correlation between the communication barriers and the legal barriers. Similar to the politicians and bureaucracy, the legislators need to be aware of the problem and to feel that there is a serious need for enactment of acts that are required for tackling this problem. Close communication with the legislators is essential and it is an ongoing challenge for most of the countries adopting accrual accounting. If the communication efforts do not exist or are insufficient, this may increase the legal barriers. For instance, in order for the governmental entities to feel that there is a legal pressure, this pressure needs to be communicated to them. Otherwise, the legal pressure will remain as ink on paper. Consequently, the lack of legal pressure is often accompanied by the lack of adequate communication efforts. Unlike The Netherlands, the results of Table 7 show that there is no relationship between the legal barriers and communication barriers in Egypt. This result suggests that the developing countries have not yet recognized that the legal barriers are associated with the lack of adequate communication strategy.

Furthermore, the test results of Table 7 show that there is a significant positive correlation between the communication barriers and the financial resources in Egypt. This result suggests that the lack of communication efforts in the developing countries is mostly associated with the lack of financial resources. Communication of the details of accrual accounting with all key stakeholders, in particular the Treasurer, Cabinet, Parliamentarians, Treasury executive, bureaucracy, the public, media and the public interest groups, and dissemination of the objectives of the reform process to all of them, costs money. More precisely, the communication strategy usually consists of: identification of the target audience (stakeholder group), communication of key messages, use of appropriate communication tools, determination of appropriate timing of communications and identification of appropriate communication roles. Carrying out these communication tasks requires sufficient resources. The lack of financial resources will undermine the ability of the developing countries to undertake the aforementioned communication tasks. So it may be inferred that due to the lack of financial means, the developing countries have not paid enough attention to the communication efforts in comparison with the developed countries.

One of the interesting points is the positive correlation between communication barriers and organizational characteristics in Egypt. The positive correlation suggests that the absence of the internal consistency within and among the governmental entities and the production of divergent accounting systems within the public sector are associated with the lack of adequate communication strategy. In fact, achieving a radical government accounting reform requires a consistent framework in which the

participants in the change process plainly understand their respective roles and are aware of the core of reforms. In addition, overcoming the diversity in the accounting systems within one sector and development of a unified accrual accounting system for the whole central government requires communication efforts on a regular basis. These efforts are necessary in order to raise awareness and insight into the accrual accounting concepts and issues. Thus, the communication barriers may hinder the internal consistency within and among the governmental entities and may make the development of a harmonized/consistent government accounting system within the governmental entities more intricate.

There is also a significant negative correlation between the communication barriers and the lack of profit motive in the Netherlands. This result suggests that the higher the communication barriers, the lower the lack of profit motive as a barrier to transition tends to be. Again, the correlation results confirm the results obtained from the other statistical tests (presented in Sections 3.2.1 and 3.2.2), where the lack of profit motive is considered a candidate for deletion.

- Lack of accounting standards

The results of Table 6 show a significant positive correlation between the lack of accounting standards and the organizational characteristics in the Netherlands. One possible explanation is that the more the responsibility of changing the accounting regulations and practices is decentralized, the greater the chance of diversification of these regulations and practices, and hence, the greater the chance of lacking unified accounting standards. Basically, the correlation results suggest that the lack of unified accounting standards in the public sector is often associated with the lack of internal consistency among and within the governmental entities and the decentralization of responsibility for changes of accounting practices. Caporchione (1995: 72) points out that the autonomy of governmental entities is an important factor in explaining the variance in their accounting reform. In addition, another writer (Ball, 2000) has argued that the lack of internal consistency among the governmental entities may result in the development of different accounting procedures and practices and consequently in treating the arising problems differently and apart.

In addition, the test results of the two tables show a significant positive correlation between the lack of accounting standards and the bureaucratic management culture in both countries. This result suggests that both developed and developing countries agree that the lack of accounting standards is associated with the prevailing of the bureaucratic management culture in the public sector. However, the correlation coefficient (r) is higher in Egypt (.418) than that of The Netherlands (.296). This in turn means that the relationship between the lack of accounting standards and the bureaucratic management culture tends to be higher in the developing countries. This can further explain to what extent the bureaucratic management culture can impede the development of public sector accounting standards in the developing countries in comparison with the developed countries. This is perhaps due to the fact that bureaucratic management culture in the developing countries (e.g., Egypt) is more conservative and, hence, has more allegiance to the bureaucratic principles. This kind of bureaucratic culture is persistently against any endeavor of reform. In addition, the prevalence of bureaucratic management culture, which does not appreciate the value of improved accounting

information, may result in preclusion of the efforts exerted to adopt the accounting standards that are consistent with the context of the public sector.

Another interesting point is the positive correlation between political factors and lack of accounting standards in Egypt. This suggests that the lack of accounting standards in the developing countries is associated with the lack of political commitment. Namely, the lack of political commitment in the developing countries could account for the professional and academic bodies' lack of enthusiasm to develop the accounting standards that are consistent with the public sector context and to pursue the implementation of accrual accounting. It also seems that this is a more logical finding in the developing countries where, in absence of the political commitment, nothing can proceed.

Besides, the test results in Egypt show a significant negative correlation between the lack of accounting standards and both accrual accounting postulations and lack of profit motive. This in turn means that the desideration to choose both accrual accounting postulations and lack of profit motive decreases, inasmuch as the desideration to choose the lack of accounting standards (as a barrier to transition) increases. The correlation analysis reveals that the lack of profit motive in the public sector is not a sufficient reason for not developing the public sector accounting standards. This is because the accounting standards in the public sector are not basically directed towards the measurement of net income but rather towards the measurement of efficiency of using the available resources. In addition, the correlation analysis indicates that the respondents do not agree with the assumption that the government is not a going concern. This is in concordance with what has been discussed by IFAC (IPSAS 1, 2004) that there may be circumstances where the usual going concern tests of liquidity and solvency appear unfavourable, but other factors suggest that the governmental entity is nonetheless a going concern.

4.2.2. Factors that demonstrate particular/higher correlation

While the previous section (4.2.1) is devoted to discussing and interpreting the correlation of the factors that demonstrate much correlation with the other factors, the primary aim of this section is to focus on the interpretation of correlation of the factors that demonstrate a higher/particular correlation. Bear in mind that if the correlation coefficient (r) is *squared*, the quotient known as (r^2), will indicate approximately the percent of co-variation between variables. Technically, r^2 is called the *coefficient of determination*. Thus, for example, a correlation coefficient (r) of .50 would yield a coefficient of determination (r^2) of .25. The fundamental meaning of this numerical fact is that the degree of co-variation is 25%. That is, 25% of the variance of the X variable is associated with the variability in the Y variable.

- Bureaucratic management culture and lack of profit motive: (*correlation coefficient* (r) = *-.509* and *coefficient of determination* (r^2) = *.26*)

The results of Table 6 indicate that there is a significant negative correlation between the bureaucratic management culture and the lack of profit motive in *the Netherlands*. This means that the more the bureaucratic management culture is perceived as a barrier to transition, the less the role of the lack of profit motive is perceived as an

impediment. It has been inferred from other studies (Ouda, 2005b) that the lack of profit motive was one of the main reasons for not adopting the accrual accounting system in the central government. However, the t-test (both sections 3.2.1 and 3.2.2) has proved that the lack of profit motive has no significant effect on the transition to accrual accounting. Rather, it is considered a deletion factor. Furthermore, the negative correlation here gives another empirical evidence that the higher the bureaucratic management culture, the lower the lack of profit motive as a barrier to transition tends to be, which in turn means that the impediment of transition to accrual accounting in the central government of the Netherlands is more associated with the bureaucratic culture than the lack of profit motive.

- Organizational characteristics and personnel characteristics: (where r) = .643 and (r^2) = .41)

The test results of Table 7 indicate that there is a significant positive correlation between the organizational characteristics and the personnel characteristics *in Egypt*. One possible explanation of the correlation between the organizational and personnel characteristics is that the diversity of accounting regulation among the governmental entities is likely associated with the lack of qualified accounting personnel who have the accounting capability and are able to communicate with each other to reach unified accounting regulations within the governmental entities. The higher positive correlation between the organizational characteristics and personnel characteristics indicates to what extent the organizational and personnel dimensions are strongly related to each other in case of carrying out any change process. If the attitude of personnel characteristics towards change of accounting system is positive, then the organizational characteristics towards the change process will also be positive. On the other hand, if both dimensions display an opposite attitude, then the barriers to transition tend to be high. In addition, the test results indicate that 41% of the emergence of the organizational characteristics is related to the personnel characteristics. So the higher the personnel characteristics (namely, lack of right incentive system, resistance to change, lack of qualified accounting personnel and lack of dissatisfaction about the old system), the higher the organizational characteristics (namely the lack of internal consistency among and within the governmental entities and decentralization of responsibility for changes in the accounting regulation) tend to be as a barrier to transition. Consequently, both personnel and organizational characteristics should be treated and overcome on a parallel basis if the transition process needs to be successful.

- Financial resources and personnel characteristics: (where r) = .606 and (r^2) = .37)

The test results of Table 7 show that there is a significant positive correlation between the financial resources and the personnel characteristics *in Egypt*. Similarly, the higher positive correlation between the personnel characteristics and the financial resources shows to what extent the existence of personnel characteristics in Egypt can be related to the lack of financial resources. Basically, 37% of the emergence of the personnel characteristics is associated with the lack of financial resources. In fact, the lack of qualified accounting personnel, lack of right incentive system and resistance to change require sufficient financial means to be overcome. In the

absence of financial resources, these problems will remain unsolved, and this in turn will preclude the transition to accrual accounting. Accordingly, the existence of the personnel characteristics as transition barriers is more associated with the lack of financial resources in the developing countries (Egypt).

Conclusion

In the course of Section 4, the following results have been reached.

Firstly, the most positively correlated factors with each other and with the other factors in the Netherlands are the personnel characteristics, political factors, communication barriers, legal barriers and bureaucratic management culture. In addition to the results obtained from the t-test, the correlation analyses proved that the aforementioned factors have a significant impact on the transition to accrual accounting in the Dutch central government. Furthermore, Section 4.2.2 indicated that the impediment of transition to accrual accounting in the Dutch Central Government could be more related to the bureaucratic management culture than to the lack of profit motive, where the correlation results indicate that there is a significant negative correlation ($r = -.509$) between the bureaucratic management culture and the lack of profit motive. Secondly, the most positively correlated factors with each other and with the other factors in Egypt are the accrual accounting principles, lack of accounting standards, political factors, financial resources, organizational characteristics, specific accounting issues and personnel characteristics. Similar to the Netherlands, the above stated factors have a significant impact on the transition to accrual accounting in the Egyptian central government. In addition, Section 4.2.2 has proved that 41% of the variance of the organizational characteristics is associated with variability in the personnel characteristics and 37% of the variance of the personnel characteristics is associated with variability of the lack of financial resources.

Thirdly, it seems that the lack of profit motive is the most negatively correlated factor with a great part of the other factors in both countries. This factor is negatively correlated with the communication barriers, accrual accounting principles and bureaucratic management culture in the Netherlands and it is negatively correlated with the lack of accounting standards, political factors and accrual accounting principles in Egypt. This means that the higher the role of these factors as barriers to transition, the lower the lack of profit motive tends to be a barrier to transition. The correlation results therefore confirm the results obtained from the t-test, where the lack of profit motive is considered a candidate for deletion.

References

- Ball, I. (1994), Initiatives in Public Sector Management and Financial Management: The New Zealand Experience in Anderson, A., *Financieel beheer, verslaggeving en prestatie meting bij de Rijksoverheid*, Symposium verslag, 2 November, Circustheater Schevenongen, 10127/1.
- Ball, I., et al. (2000), *Reforming Financial Management in the Public Sector: Lessons U.S. Officials can Learn from New Zealand*, <http://www.rppi.org/privatization/ps258.html>.

- Caperchione, E. (1995), Governmental Accounting Changes and Italian Public Administration renewal in the Nineties, in Montesinos, V. and Vela, J. M., (eds), *International Research in Public Sector Accounting, Reporting and Auditing*, Instituto Valenciano de Investigaciones Económicas, S.A, 61-80.
- Chevauchez, B., (2002), Government budgeting and accounting reforms in France, in *Models of Public Budgeting and Accounting Reform*, OECD Journal on Budgeting Volume 2, Supplement 1, 285-304.
- Christensen, M., (2001), Public Sector Accrual Accounting: Who Made the Emperor's Clothes?, Manuscript submitted to APIRA.
- Godfrey, A. D., Devlin, P. J. and Merrouche, M. C. (2001), A Diffusion-Contingency Model for Government Accounting Innovations, in Bac, A. (ed.), *International Comparative Issues in Government Accounting*, Boston et al.: Kluwer, 279-296.
- Guthrie, J. (1998), Application Accrual Accounting in the Australian Public Sector – Rhetoric or Reality?, *Financial Accountability and Management*, Vol.14, No.1, 1-19.
- IFAC (IPSAS 1) (2004), Presentation of Financial Statements.
- Jaruga, A. and Nowak, W. (1996), Towards a general model of public sector accounting innovations, *Research in Governmental and Non-profit Accounting*, 21-31.
- Lüder, K. (1992), Contingency Model of Government Accounting Innovations, *Research in Government and Nonprofit Accounting*, Vol. 7, 99-127.
- Lüder, K. (1994), The Contingency Model Reconsidered: Experience from Italy, Japan and Spain, in Buschor, E. and Schedler, K. (eds.), *Perspectives in Performance Measurement*, Berne Haupt, 1-15.
- Lüder, K. (2001), Research in Comparative Governmental Accounting over the Last Decade- Achievements and Problems, Working Paper (CIGAR 8 Conference Valencia, 14th-15th June).
- OECD, (1995), Budgeting for Results, Perspectives on Public Expenditure Management, (Paris: OECD).
- Omundson, J. S. and Schroeder, R. (1996), Type A Personality, Job Satisfaction, and Turnover Intention Among Certified Public Accounts, *Hispanic Journal of Behavioral Sciences*, 18, 39-51.
- Ouda, H. (2003), Implementation Barriers of Accrual Accounting in the Public Sector of Developed and Developing Countries: An Empirical Investigation, Paper presented at the 9th CIGAR Conference, Bodo University, Bodo, Norway, 13-14 June 2003.
- Ouda, H., (2005a), Practical and Conceptual Transition Problems of Accrual Accounting in the Public Sector, *ICGFM - Public Fund Digest*, Vol. 5, No. 2, Aug.
- Ouda, H., (2005b), *Transition to Accrual Accounting in the Public Sector of Developed and Developing Countries: Problems and Requirements, with Special Focus on the Netherlands and Egypt*, Universal Press, Veenendaal, The Netherlands, 405.
- Ouda, H. (2005c), Additional Transition Problems of Accrual Accounting in the Public Sector of Developing Countries, *ICGFM - Public Fund Digest*, Vol. 5, No.1, 92-98.
- Pallot, J. and Ball, I. (1996), Resource accounting and budgeting: The New Zealand Experience, *Public Administration*, Autumn.
- Schick, A. (1999), Opportunity, Strategy, and Tactics in Reforming Public Management, OECD, Symposium, Paris 14-15 September.
- Scott, G. (1996), Government Reform in New Zealand, International Monetary Fund, Washington, October.
- Warren, K. (1996), Implementation accrual accounting in government: The New Zealand Experience, IFAC, Occasional paper 1, December.

(Página deixada propositadamente em branco)

– PART 2 –

COUNTRY STUDIES OF REFORM PROCESSES

(Página deixada propositadamente em branco)

Adhikari Pawan

Frode Mellemvik

CHANGING IDEOLOGY IN NEPALESE CENTRAL GOVERNMENT ACCOUNTING REFORM

Introduction

Cash principle has been a basis of Nepalese central government accounting since the beginning of the sixtieths. During the course of these four decades the operation of cash accounting has however drawn more critics than supports. There were perennial concerns both at the national and international arena emphasizing improvements in the quality of government accounting. In the past, accrual accounting was envisaged a panacea for all perceived deficiencies in Nepalese cash accounting. A number of studies carried out by international organizations and the government concluded with an analogue gist emphasizing the need for accrual accounting. There is evidence that some endeavors had also been made over time to install some forms of accrual accounting (see e.g. Adhikari, 2005). Despite being ceremonial, these studies and attempts contributed Nepal to be acquaintance with the tenet of accrual accounting long before the latter became a core of widespread New Public Management reforms.

Initially, the notion of accrual accounting embarked on in Nepal in the beginning of the eighties with a view to underpinning program budget (see e.g. Agrawal and Bista, 1981). In 2005, a high level committee set up for evaluating government's expenditures presented a five year road map for the adoption of accrual accounting in Nepalese central government (see e.g. Adhikari, 2007). Along with delineating a time frame for accrual accounting, the road map impinged on wide ranging discussions on the applicability of accrual accounting in Nepalese central government. There were quests regarding Nepal's capabilities and available resources to install and practice accrual accounting. A prime argument was that in order to undertake a stride towards any comprehensive system of accounting, for instance, accrual accounting, Nepal should work on reinvigorating the operation of its existing cash accounting.

In recent months, a general consensus has been reached among the regulatory agencies, international organizations and donor countries on how to advance reforms in Nepalese central government accounting. Instead of accrual accounting, the adoption of the cash basis International Public Sector Accounting Standards (IPSAS), pronounced by the International Public Sector Accounting Standards Board (IPSASB) of the Interna-

tional Federation of Accountants (IFAC), is now acknowledged a point of departure for streamlining Nepalese central government. The myth of accrual accounting is discarded and the former is envisaged only a long term reform approach. This is seen as an ideological convergence in Nepalese central government accounting reform.

The aim of this paper is to delineate how the notion of accrual accounting evolved and was abandoned in Nepalese central government accounting. The paper is structured as follows. The first section outlines the contemporary trend towards accrual accounting in a global context. The next section provides insight into financial norms and practices in the government of Nepal. There is then a discussion of some of the drawbacks of Nepalese central government accounting. Nepal's past endeavors to adopt the accrual basis of accounting are then demonstrated. Ideological shift in Nepalese government accounting reform is addressed in the penultimate section before conclusion.

1. Contemporary Trends Towards Accrual Accounting

Accrual accounting has been a core of NPM inspired reforms initiating unprecedented and unabated debates since the last twenty-five years (see e.g. FEE, 2006). Researchers have even referred to this ongoing trend towards accrual accounting the most rationalized element in the promotion and institutionalization of New Public Management (see e.g. Adhikari, 2005; Meyer, 1998; Broadbent and Guthrie, 1992; Lapsley, 1999). The widespread of accrual accounting in financial reporting of public entities in different jurisdictions also envisages an era of global revolution in government accounting (see e.g. Heald, 2003). Accrual accounting has been an ultimate destiny of contemporary public sector reforms across countries and international organizations.

The use of accrual principles in accounting and budgeting is considered indispensable to upraise the notions of performance, results and outputs that have long been negated in the public spheres (see e.g. Guthrie *et al.*, 1999; Hood, 1995 and 2000; Lapsley, 1999; Broadbent and Guthrie, 1992; Klumpes, 2001; Robinson, 1998; OECD, 1993). Carlin (2005) states the superiority of accrual accounting and reporting as compared to cash on three related themes. Firstly, the adoption of accrual accounting enhances transparency and accountability both externally and internally. Next, accrual accounting leads to greater organizational performance and outputs though improved resource allocation. And, lastly accrual accounting allows public entities to identify full costs of their activities, which is pivotal to ensure greater efficiency. Athukorala and Reid (2003) further propagate accrual accounting a means in curbing fraud and corruption, particularly in the context of developing nations.

The majority of OECD countries now practice some forms of accrual accounting in their different administrative hierarchies. Chan (2003) categorizes these diversified forms of accrual accounting into four sub-groups; mild, moderate, strong and radical accrual. Accordingly, mild accruals are meant to disclose only short-term financial assets and liabilities. Moderate accruals include both short term and long term financial assets and liabilities. In addition to short and long term assets and liabilities, strong accruals put onto the balance sheet various categories of capital assets. Counties adhering to radical accruals are subjected to demonstrate legislated entitlement benefits as liabilities.

The trend towards accrual accounting is however not confined within the purview of developed nations and the OECD members. In their efforts to refurbish government accounting information many developing countries and countries in transition are either moving or contemplating a move to accrual accounting. Chan (2005) justifies the efforts of developing countries and transitional economies towards accrual accounting a basic necessity rather than a luxury. Accordingly, information on assets and liabilities is pivotal as it assuages developing countries and countries in transition to avoid liquidity and financial solvency problems (see e.g. Chan, 2005). Given the ambiguities inherited to accrual accounting, such countries are however accentuated to shift to mild accruals at the outset until they elevate their technical calibres and resources to cope with other advanced forms of accrual.

Along with countries, accrual accounting has also drawn attention of international organizations. The European Commission has been developing its general purpose financial statements on the accrual basis since 2005 (see e.g. FEE, 2006). The UN aims to practice a full fledged accrual based system by 2010 (see e.g. PWC, 2006). Other international organizations such as the OECD, IFAC, NATO and Interpol are in the process of implementing the accrual basis International Public Sector Accounting Standards (IPSASs). Additional to countries and organizations, the widespread public sector accounting systems including the 1993 SNA, the ESA 95, the IMF's GFSM and the IFAC's IPSASs are also in recent years aligned with accrual principles. And, there is no signal at present that this international trend towards accrual accounting is reversing (see e.g. Athukorala and Reid, 2003). The widespread of accrual accounting triumphs an era of '*accountanization*' in the public sector (see e.g. Laughlin and Power, 1996).

2. Norms and Financial Management Practices in the Government of Nepal

'The Interim Constitution of Nepal 2007', the 'Financial Procedures Act 1999' and the 'Financial Administration Regulations 1999' are the three primary norms providing a general framework for Nepalese financial administration. Financial regulations incorporated in section 10 of the Interim Constitution are actually copied from its predecessor, promulgated after the first people's movement for democracy in 1990. The Constitution has covered, among other things, the two main issues; the operation of government funds and the presentation of annual budget (see e.g. GON, 2007). Accordingly, each government transaction is required to be channeled through the government fund, the so-called consolidated fund. Money collected in the forms of revenues, loans, loan repayments and so on, except those of religious endowments, are directly credited to the consolidated fund accounts. Similarly, expenditures incurred from the consolidated fund are to be represented in the annual budget, which requires parliamentary approval. Albeit, budgetary compliance is the core of the constitution, the latter incorporates a provision demanding the results and performance of budgetary expenditures. Alongside the financial plans, government entities are therefore mandated to present the accounts of goals achieved from previous spending while submitting their budget proposals. Financial provisions incorporated in the Constitution are elaborated further in the 'Financial Procedures Act' and 'Financial Administration Regulation' of

1999. These two norms set basic criteria for the operation of budgeting, accounting, and reporting in the government of Nepal.

The budget of the government of Nepal consists of an annual budget and the medium term expenditure framework (MTEF). The Ministry of Finance and the National Planning Commission are the responsible agencies for the annual budget and the MTEF respectively. The annual budget proposals adhere to a vertical path through departments to line ministries and are consolidated at each level before presenting them to the Ministry of Finance. The National Planning Commission (NPC) prepares the MTEF by assorting the projects and programs deemed essential for national development. The MTEF assures funding to prioritized programs and projects over a period of three to five years (see e.g. NPC, 2002 and 2003). Following the parliamentary approval in June, the Ministry of Finance through district treasuries releases money to all spending units. The government of Nepal consists of approximately 3279 spending units scattered over 75 districts (see e.g. World Bank, 2002). One-sixth of the total budget is disbursed initially and the reimbursement is made every month on the basis of financial statements submitted by the spending units.

The Financial Comptroller General Office (FCGO), an autonomous unit operating under the jurisdiction of the Ministry of Finance, is a central accounting unit in the government of Nepal. At the district level, the FCGO is represented by district treasuries, the so-called 'District Treasury Control Office (DTCOs)'. The FCGO regulates government accounting, custodies the consolidated fund, and presents an integrated accounting statement for the country as a whole. Apparently, accounting in the government of Nepal operates at three different levels; central level, district level and operating level. Central level accounting, carried out by line ministries, is meant to examine the accounts of their subordinate units and consolidate such accounts in the ministerial level statements. District level accounting, conducted by the DTCOs, aims at scrutinizing the accounts prepared and presented by district offices and integrating them in the consolidated district statements. Each spending unit covered by the appropriation act is required to furnish operating level accounting, which commences by preparing journal vouchers and ledgers, primarily the cash book and the budget sheet.

Presently, two levels of reporting are ostensible in Nepalese government accounting. First level reporting begins after the spending units forward their monthly statements to the respective line ministries and the concerned DTCOs. Such statements are evaluated and amalgamated in the ministerial level statements, which are relayed both to the FCGO and the Auditor General Office (AGO). The DTCOs also collect statements on a monthly basis from each district office, operating under their jurisdictions, facilitate internal audits, and prepare the monthly and annual consolidated statements for the district as a whole. The ministerial and district level reports are further verified and consolidated in the FCGO. The FCGO's consolidation of these district and central level accounting statements is a point of departure for second level reporting. The FCGO prepares the integrated reports for the country as a whole and relays to the AGO for final auditing within six months following the year-end.

Additional to compliance-oriented reporting, the projects and programs are mandated to submit their progress reports on a trimester basis and the certification of satisfactory performance by appropriate authorities in their concerned line ministries and aid

agencies (see e.g. NDF, 2004). The perpetuation of the projects and programs largely relies upon the results presented in these reports. The projects/programs must meet approximately 80% of their targets in order to receive money without any interruption or investigation. The budget release will be subjected to further interrogation if their achievements are in between 50 to 80%. The budget release may even halt to those projects and programs in which the progress incurred is less than 50 percent of the intended targets.

3. Some Drawback of Nepalese Central Government Accounting

Adhering to the fundamental cash principle, accounting of fixed assets, obligations and commitments, and debtors and creditors etc. are beyond the scope of Nepalese government accounting. The accounting system is therefore incapable to tie expenditures with the results, outputs or outcomes to be attained through those expenditures as demanded by the constitution and financial regulations (see e.g. World Bank, 2002). Additionally, it is evident that despite being claimed as cash oriented, the operation of accounting has to a large extent been inconsistent and incompatible with the requirements of cash principles (see e.g. World Bank, 2007). Some of the defaults inherited to Nepalese government accounting include the treatment of advance payments as expenditures, the omission of 'off budget' transactions, and the absence of accounting policies (see e.g. Chitrakar and Macmillan, 2002).

There is no such provision in Nepalese government accounting that allows the recording of direct payments and commodity grants offered by donors. Inventories are being treated as expenditures of the fiscal year in which they are procured (see e.g. Sharma, 2006). Similarly, the accounting statements and reports are generated on an annual basis and these reports eventually do not present cumulative expenditures incurred or incomes generated for more than a year. Along with this, the absence of standardized forms and formats has led to considerable ambiguities in the consolidation of government expenditures, revenues, debts, other reimbursements and investments in the annual statements. It is apparent that the audited reports, issued by the Auditor General Office, exclude basis accounting policies, assumptions and explanatory notes. Given these drawbacks, comprehending government accounting reports is actually a challenging endeavor. This complication in reading financial statements has elevated further due to the absence of subjective analysis and interpretation of accounting numbers. The use of accounting data for planning and decision making is consequently rare (see e.g. Sharma, 2006).

These aforementioned limitations justify the inadequate control or reporting of cash in the government of Nepal. The cash flow statements prepared and presented by the budgetary entities ignore disclosures on cash prepayments, accrued cash expenses of prior years, and accrued expenses and trade creditors of the current year. Similarly, the accounting system is incapable to disclose accounts receivable from donors for reimbursable expenditures, the revenue assessed and recorded but not yet collected, and contingent liabilities and guarantees (see e.g. Chitrakar and Macmillan, 2002). Financial reporting is a means through which to discharge accountability of public funds. The absence of important accounting information in financial reporting means

that there is a weak basis for discharging accountability, ensuring transparency, and maintaining uniformity in Nepalese public sector finance. Government accounting in Nepal is circumscribed to ensuring that transactions are recorded and reported in compliance with budgetary regulations.

4. Nepal's Endeavours to Move to an Accrual Basis of Accounting

Both the government and international organizations in the past emphasized the need for accrual accounting to ratify the aforementioned limitations and to improve the quality of government accounting (see e.g. Adhikari, 2005). Initially, the notion of accrual accounting was linked to the successful implementation of program budgeting. In 1985 a new financial norm was enacted, which emphasized the imperative of program budgeting and some forms of actual accounting with a view to evaluating the costs and benefits of each project and program. In 1987/88, to transform this norm into practice, the Financial Comptroller General Office (FCGO) together with the Canadian experts emanated an accounting and auditing reform project. The project was aimed at facilitating accounting changes and fostering the implication of newly introduced program budget (see e.g. AGO, 1989).

The project recommended the government to supersede the existing cash basis of accounting by modified accrual (see e.g. Adhikari and Sharma, 2006). According to Niroula (1991), the new accounting codes, techniques and classifications designed during the project period were formally endorsed for use on May 31, 1989. In 1990/91 the new accounting forms and patterns couched on the ideas of accrual accounting were literally experimented in approximately ten development programs. The dissemination of these new accounting measures did not, however, take the pace after the foreign experts left and the allocated resources for the project were consumed. The project succumbed as a result of inadequate resources, technical skills and commitments to cope with accrual principles. In the late ninetieths, a feasibility study of accrual accounting was facilitated in collaboration with the Asian Development Bank. The study also emphasized the need for accrual accounting and accounting standards. There is however no evidence that the results of this study had been materialized (see e.g. Chitrakar and Macmillan, 2002).

With the advent of a new century, Nepal witnessed incessant critics both at the national and international spectrum due to its deteriorating public services and growing resource dependency. Deficiencies in the planning, budgeting, and expenditure management process were purported a major weakness of Nepalese financial management (see e.g. ADB, 2005). In 2002/2003, Nepal heralded massive public sector reforms to overcome these escalating criticisms in its financial management. A number of nascent financial management approaches, embedded in the NPM reform package, for instance, the 'midterm expenditure framework (MTEF)', 'the immediate action plan (IAP)' and 'the public expenditure tracking survey (PETS)' were introduced.

Despite the adolescence of new measures in financial management, the prevailing accounting norms and techniques emphasizing budgetary compliance however remained intact. A question then raised was how to ensure the results and effectiveness of those nascent financial measures in the absence of a modern government accounting

system. Government accounting was pinpointed an important discipline demanding a rigorous reform (see e.g. GON, 2005a). In 2005, the government responded to these nagging international concerns on accounting by formulating a high level expenditure committee (HLEC). The committee that consisted of representatives both from the regulatory agencies and professional bodies was assigned with a task of preparing a time-bound action plan for the phase wise introduction of accrual accounting (see e.g. GON, 2005b).

In late 2005, the committee submitted its report proposing a five year plan for the adoption of accrual accounting in Nepalese central government. Additionally, the committee report explicitly demonstrated the need for additional political commitments and internal supports, and adequate resources including the enhanced IT capacities, rigorous training to government officers, a system of rewards and punishments, to name a few, prior to experimenting accrual accounting in government entities. By addressing the basic requisites for accrual accounting, the report literally posited a question on the feasibility and applicability of accrual accounting in the government of Nepal in the near future.

5. Ideological Shift in Nepalese Central Government Accounting Reform

The implication of accrual accounting is challenging and incurs substantial costs and time. This has been realized from the governments that have moved or are contemplating a migration to the accrual basis of accounting in recent years. To install the accrual basis of accounting there is a need for effective communication, quality assurance, and the rigorous use of commercial accounting software (see e.g. Athukorala and Reid, 2003). The participation of accounting professionals, comprehensive training to public accountants, and enhanced IT capacity are some of the basis prerequisites to practice accrual accounting smoothly. The use of accounting standards, support and involvement of auditors, a system of incentives and penalties, and the reduction of fraud and corruption are further demanded to perpetuate the functioning of accrual accounting (see e.g. Ellwood and Wynne, 2005). International experience shows that a transition period of 8-10 years is essential to ensure all fundamental infrastructures for accrual accounting and to overcome its technical ambiguities. Although a journey towards accrual is rewarding it is actually a costly, time consuming, and assiduous venture (see e.g. Vonck, 2004).

There is no argument in the government of Nepal regarding the wide ranges of benefits both for public entities and users that arise from using the accrual basis of accounting. At the same time, there is also a consensus that Nepal needs a substantial time period to ensure all fundamental infrastructures and resources pivotal for accrual accounting. Both the government and international organizations have therefore ruled out the possibility of introducing accrual accounting in the government of Nepal in the near future. The financial accountability assessment report, published jointly by the government of Nepal and its major development partners such as the World Bank, the Asian Development Bank, and the DFID in 2005, for instance, exhorts accrual accounting a desirable but distant prospect. According to the Asian Development Bank (2005), Nepal is not yet ready to switch over to an accrual accounting system.

Given the present capacity level, a possible move towards accrual accounting would be an ambitious endeavour. The scenario of accounting sector reform is therefore altering in the government of Nepal. Instead of accrual accounting, the focus is now on improving the existing cash basis and elevating its quality to the accepted level set internationally.

The World Bank's assessment report on Nepalese public sector accounting and auditing standards, issued in 2007, presents crucial recommendations to improve the existing cash basis system. The report further suggests the government to consider the cash basis International Public Sector Accounting Standards (IPSASs) as part of a longer-term program to adopt accrual accounting. Nepal's major development partners and international organizations are also in favour of imposing the cash basis IPSASs with additional voluntary disclosures of un-drawn borrowings, liabilities, and outstanding advances, to name a few, as an immediate reform approach (see e.g. Adhikari and Sharma, 2006). The implication of accounting standards is expected to improve both the quality and comparability of financial information reported by public entities. Moreover, it is assumed that the standardization of financial reporting will aid the government to accommodate the donor agencies and international organizations within an umbrella of a unified financial framework while reporting the accounts of their projects and programs.

The Accounting Standards Board (ASB), an autonomous body formed by the government to develop accounting standards for profit oriented enterprises, has recently been empowered to pronounce Nepal public sector accounting standards in line with IPSASs applicable to budgetary entities (see e.g. Adhikari, 2007). In order to advance the project a steering committee has been set up in the ASB by including representatives from the regulatory agencies including the Auditor General Office, the Financial Comptroller General Office, the Ministry of Finance and the professional bodies such as the Institute of Chartered Accountants of Nepal and the Auditing Standards Board. The committee aims at accomplishing the task of developing the cash basis Nepal public sector accounting standards within a period of one year by the end of the financial year 2008 (see e.g. Adhikari and Sharma, 2006). It is however suggested that the implementation of cash IPSASs would also be assiduous in the government without some fundamental preparations including the amendment of laws and regulations to make the use of IPSASs compulsory, a massive training to public accountants, support from donor countries, and the participation of professional accountants. Altering focus on the cash basis IPSASs by leaving the notion of accrual accounting to the foreseeable future is however an ideological shift in Nepalese public accounting reforms.

Conclusion

The innovations in accounting are perhaps the most remarkable features of the new public management era. Accrual accounting has been the life blood of public sector reforms and there are no discussions regarding a step back to a cash basis accounting. Accrual accounting at the same time inherits a number of ambiguities that may demand for substantial time and resources both technical and human resources. This has led many developing countries to prolong its application in order to ensure

necessary resources and technical skills. The tenet of accrual accounting is actually not innovation in Nepalese financial administration. There is evidence demonstrating a number of failed strives towards the accrual basis of accounting over time. Such failures have enlightened that accrual accounting could not be an immediate approach to reforming Nepalese central government accounting. The immediate focus is now on improving the quality of prevailing cash accounting. The adoption of the cash basis IPSASs is at the top of the agenda. International partners and accounting professionals are confident that the use of public sector accounting standards would contribute not only to eliminating the deficiencies in Nepal's existing cash accounting but also to improving decision making and financial accountability.

References

- Adhikari, P. (2007), Introduction to the Cash Basis Public Sector Accounting Standards, *The Nepalese Journal of Public Finance and Development (Rajaswa)*, May/June.
- Adhikari, P. and Sharma, R. (2006), Prospects of Public Sector Accounting Standards in Nepal, *The Nepal Chartered Accountant (Journal of the Institute of Chartered Accountants of Nepal)*, September.
- Adhikari, P. (2005) *Government Accounting in Nepal: Tracing the Past and the Present*, Thesis for the Degree of Philosophiae Doctor (PhD), Bodø Graduate School of Business, Norway.
- AGO. (1989), *Government Accounting and Auditing Improvements Project*, Cowater International Inc., Ottawa, Canada in Association with P. P. Pradhan & Co., Kathmandu, Nepal.
- Agrawal, G. and Bista, B. (1981), *Government Accounting in Nepal*, Kathmandu: Centre for Economic Development and Administration, Tribhuvan University.
- Asian Development Bank, (2005), *Nepal: Public Finance Management Assessment*, December.
- Athukorala, S. and Reid, B. (2003), *Accrual Budgeting and Accounting in Government and Its Relevance for Developing Countries*, Asian Development Bank.
- Broadbent, J. and Guthrie, J. (1992), Changes in the Public Sector: A Review of Recent "Alternative" Accounting Research, *Accounting, Auditing & Accountability*, Vol. 5, No. 2, 3-31.
- Carlin, T.M. (2005), Debating the Impact of Accrual Accounting and Reporting in the Public Sector, *Financial Accountability & Management*, Vol. 21 (3), August, 309-336.
- Chan, J. (2003), Changing Roles of Public Financial Management, in Bouvaird, T. and Loeffler, E. (eds.), *Public Management and Governance*, London: Routledge, 101-111.
- Chan, J. (2005), Government Accounting Reform in Developing Countries: Connecting MDG, PRS and IPSAS, Paper Presented at the 10th Biennial CIGAR Conference, May.
- Chitracar, K. and Macmillan, G. (2002), *The Road Map for Accounting Reform in the Nepal Public Sector*, Report Prepared for ADB TA 3580-Corporate and Financial Governance Cluster-Improving Accounting and Auditing Standards in the Public Sector.
- Ellwood, S. and Wynne, A. (2005), An Accrual World? Questioning the Universal Validity of Accrual Accounting, in Bourmistrov, A. and Mellempvik, F. (eds.), *International Trends and Experiences in Government Accounting*, Oslo: Cappelen Akademisk Forlag, 158-172.
- FEE. (2006), *The New Public Management: A Perspective for Finance Practitioners*, December.
- Financial Administration Regulations (FAR). (1999) Government of Nepal, Law Book Management Committee, Kathmandu, Nepal.
- Financial Procedures Act. (1999), Government of Nepal, Law Book Management Committee, Kathmandu, Nepal.

- Government of Nepal (GON). (2005a), *Financial Accountability Review Mission*, A Joint HMGN/DFID and World Bank Assessment Update, May.
- Government of Nepal (GON). (2005b), *High Level Government Expenditure Report*, Kathmandu.
- Government of Nepal (2007), *Interim Constitution of Nepal*, Kathmandu.
- Guthrie, J.; Humphrey, C. and Olson, O. (1999), Debating Developments in New Public Financial Management: The Limits of Global Theorising and Some New Ways Forward, *Financial Accountability & Management*, 15 (3) & (4), August/November, 0267-4422.
- Heald, D. (2003), The Global Revolution in Government Accounting: Introduction to Theme Articles, *Public Money and Management*, January.
- His Majesty Government of Nepal (HMGN), *The Constitution of Nepal 1990*, Kathmandu.
- Hood, C. (1995), The “New Public Management” in the 1980s: Variations on a Theme, *Accounting, Organizations and Society*, Vol. 20, No. 2/3, 93-109.
- Hood, C. (2000), Paradoxes of Public-Sector Managerialism, Old Public Management and Public Service Bargains, *International Public Management Journal*, 3, 1-22.
- Kulmpes, P. (2001), Generational Accountability of Public Sector Management-A Case Study of the State Authorities Superannuation Board of New South Wales, *Accounting, Auditing & Accountability Journal*, Vol. 14, No. 2, 166-189.
- Lapsley, I. (1999), Accounting and the New Public Management: Instruments of Substantive Efficiency or a Rationalized Modernity? *Financial Accountability and Management*, Vol. 15, No. 3/4, 201-207.
- Laughlin, R. and Power, M. (1996), Habermas, Law and Accounting, *Accounting, Organizations and Society*, Vol. 21, No. 5, 441-465.
- Meyer, J. (1998), Foreword, in Guthrie, J.; Humphrey, C. and Olson, O. (eds.), *Global Warning: Debating International developments in New Public Financial Management*, Oslo: Cappelen Akademisk Forlag AS.
- National Planning Commission (NPC). (2002), *Medium Term Expenditures Framework, Fiscal Year 2002/03-04/05*, Kathmandu: HMGN.
- National Planning Commission (NPC). (2003), *The Tenth Plan: Poverty Reduction Strategy Paper*, Kathmandu: HMGN.
- Nepal Development Forum (NDF). (2004), Harmonization of Donor Assistance in Nepal and Donor Harmonization Action Plan, Paper Presented at the Nepal Development Forum Meetings, Kathmandu, 5-6th May.
- Niroula, B. (1991), *Financial Administration in Nepal (Nepal Ko Arathik Prasasan) Part: 1*, Unpublished Paper.
- OECD. (1993), Accounting for What? The Value of Accrual Accounting to the Public Sector, Paris.
- PWC (PriceWaterHouseCopers). (2006), *WorldWatch*, Issue 1.
- Robinson, M. (1998), Accrual Accounting and the Efficiency of the Core Public Sector, *Financial Accountability & Management*, 14 (1), Feb, 0267-4424.
- Sharma, S. (2006), *Government Accounting: Strength and Weakness*, Slides Presented at the Training Program on ‘Public Sector Accounting: Understanding National and International Development’, Organized Jointly by the Accounting Standards Board, Auditing Standards Board, Financial Comptroller General Office and Revenue Administration and Training Center (Ministry of Finance), June 4-9, Kathmandu, Nepal.
- World Bank. (2002), *Financial Accountability in Nepal- A Country Assessment*, Washington, D.C.
- World Bank. (2007), *Nepal Public Sector Accounting and Auditing: A Comparison of International Standards*, Country Report, May.
- Vonck, R. (2004), *Mastering the Transformation: New Public Management, Accrual Accounting and Budgeting*, Deloitte.

**THE RELEVANCY OF CONTINGENCY APPROACH
TO PUBLIC SECTOR ACCOUNTING DEVELOPMENT:
RECENT EVIDENCE FROM POLAND**

Introduction

At the end of the 20th century, the contingency approach was officially incorporated into the methodological foundations of research on public sector accounting development. In 1992, it gave rise to the development of the contingency model of public sector accounting innovation by Klaus Lüder. This model appears to have a significant explanatory, prognostic and inspirational potential, as demonstrated by its subsequent elaborations and modifications over the following decade, by researchers from the international network of the CIGAR initiative, as well as by Klaus Lüder (see Lüder, 2002). Does it still have its cognitive and prognostic value 15 years after first being formulated?

In seeking answers to this question, the main idea of Lüder's model has been confronted with sociological theories of social change, especially Talcott Parson's theory of social action system, and the contingency theory of organization. This has resulted in the formulation of the general model of change in the public finance sector¹ and in viewing public sector accounting innovation as a special case of such a change. Practical implementation of the change model in the public sector is illustrated by the contingency of changes in Polish public sector accounting over the years 1998-2007.

We have seen the development of the public sector and public sector accounting as a change within social action system. This general approach is possible and justified if we take into account the fact that accounting, together with accountants, constitutes a social action system in the shape of profession in sociological understanding, i.e. it

¹ To be precise, public finance sector is public sector with business enterprises excluded. For the purpose of this paper, the notion "public sector" has been narrowed so as to use it interchangeably with the term "public finance sector".

comprises accountancy. Therefore, the change within accounting and accountancy is a change within the social action system.

1. Sources and models of social change – the sociological perspective

Since the establishment of Sociology as a science, social change is among key areas of interest of researchers and theorists engaged in the identification and exploration of its factors and models. In the following part of the paper, major sociological views on social change are presented (after Turner, 1998: 216-229) and discussed, starting from the sources of social change, and then the main models of social change are presented.

The sources of social change are the following:

1) Culture, i.e. changes (processes) in cultural symbols.

Cultural symbols have a decisive impact on interpersonal interactions and the organization of society. Changes in such symbols are mostly accompanied by changes in social structures. It is considered that the principal sources of cultural change are as follows:

- development of knowledge in manipulating the environment (technology),
- evolutionary change in value judgments ('what should be') relating to basic areas of social life,
- diffusions of symbol systems, i.e. the spreading of sets of symbols across populations².

Changes in cultural symbols take place as a result of diffusion processes and development of new patterns of behaviour and social structures in coping with problems³.

2) Social structure, i.e. processes occurring in social relations:

- a) inequalities and the rise of class, gender and ethnic differentiation⁴;
- b) subcultures, whose very existence generates pressure towards change (even if there are no inequalities)⁵;

² Diffusion applies to languages, values, ideas, institutional norms and technologies.

³ In processes of creating new relations and structures, the change of norms comes first (because they directly guide people's behaviour), followed by change in the modes of thought (as these must adapt to new patterns of social relations). Consolidation and diffusion of new types of social relations, norms and modes of thought creates conditions for changes in the system of values, i.e. criteria of good and evil. It should be added that cultural and social structure changes are interrelated.

⁴ Inequalities lead to political pressures for change only where they give rise to the emergence of subcultures which have cultural symbols uniting them, distinct social structures and some financial means. If, therefore, a social class, age, gender or ethnic group, or some other social category becomes a subculture as a result of inequality, it is easily capable of mobilization and effecting change.

⁵ Contact between different subcultures inevitably leads to change because of ensuing mutual acceptance and compromise.

- c) social institutions and their endogenous transformations, and the spreading of the effects of these changes in institutional networks⁶.
- 3) Demographic processes relating to population size, composition and movements⁷.

Models of social change (interpretations of changes):

- 1) Cyclic models, viewing change from the political perspective – they regard social change as arising from permanent oscillation between centralization and decentralization of authority, and diffusion and concentration of capital⁸.
- 2) Dialectic-conflict models viewing change from the economic perspective – they regard the growth of the transformation seeds inherent to each societal form as stimulated by economic inequalities and proceeding towards a form superior to the present one.
- 3) Functional-evolutionary models, viewing change from the perspective of evolution induced by growth and development – according to them, social change has a cumulative character and corresponds to society's growth in size and complexity, which is manifest in social structures differentiation necessary for the satisfaction of the needs of a growing population, and in the emergence of new mechanisms integrating and coordinating actions⁹.
- 4) Evolutionary-conflict models, viewing change from the perspective of evolution induced by conflict – according to those, the force of the evolutionary differentiation of society is the drive to diminish inequalities generated by technological progress, which requires the integration and coordination functions to be developed.
- 5) Post-industrial and post-modernist models, viewing change from the perspective of technological progress in production and communications (post-industrialism) and related total decentralization (post-modernism) – these are not so much models as commentaries regarding transformation of societies as a consequence of advances in technology – mostly information technology – and media systems.

⁶ Social institutions, such as the economy, mode of government, education, research, medical services, law, religion and family often undergo transformations as a result of their own internal dynamics. For instance, research seeks to expand knowledge useful for the development of new technologies, which generate change.

⁷ The main demographic factors giving rise to changes in social institutions are increase or decrease of population, movement of rural population to towns, emigration and age structure.

⁸ The cyclic model assumes that at a certain stage of social organization – both centralization and decentralization – there are seeds moving in the opposite direction.

⁹ For instance, Herbert Spencer in his sociological works from 1874-1896 claimed that evolutionary differentiation of societies occurs along three functional axes: (a) production-reproduction (goods and services creation, the new socialization of the new members of society), (b) regulation (political control), (c) distributional (flow of goods, services, information and other resources). Growing differentiation intensifies problems related to coordination and regulation, which causes the creation of structures that bind entities (markets, routes, means of communication and transportation) and their political control (regulations, standards, and supervision bodies).

Against the background of sociological views on the sources and models of social change, two models of change formulated in the context of public sector accounting will be presented and interpreted: the public sector accounting innovation model by Jaruga and Nowak (1996) and the model by Lüder (2002).

2. Innovation in accounting as social change

Broadly understood accounting together with accountants constitutes a social system of operation in the form of profession in the sociological understanding, i.e. constitutes accountancy. Accountancy relates to accounting actions and theories, including accounting practice, research and education. It also embraces the guidelines, principles and procedures to be followed by accountants in performing their tasks, i.e. measuring and communicating reality (Siegel and Shim, 2000: 4-5 (*Accountancy*))¹⁰. Thus changes in these guidelines, principles and procedures are changes in the social system. Innovation means the introduction of something new; therefore, it is a change in the found state. In the case of accounting, innovation is change in the present state of the profession, i.e. change in the social system. In the case of financial management, innovation represents change in the social system performing this type of activity. In the case of the public finance sector, innovation constitutes change in the social system performing public finance processes. Therefore, change (innovation) in these systems may be considered in terms of social change sources and models.

Similar to the case of accounting, it is possible to consider its supra-system, i.e. the financial management system, and – generalizing – also any other area of accounting, including the public finance sector as a whole. Such an approach is possible and valid in the light of the functional model of the societal operation system, formulated by Talcott Parsons and presented in Figure 1¹¹.

According to Parsons, social action systems are characterized by functional imperativeness, which means that each such system, as well as each subsystem that it is comprised of, performs the functions set out in Figure 1. Parsons argues that in order to survive each social system (understood as any organized pattern of interactions) must successfully perform four imperative functions¹² (Turner, 2004: 40):

- adaptation, i.e. deriving resources from the environment and their allocation among the segments of a system;
- achievement of goals, i.e. identification of priorities and mobilization of means for their accomplishment;

¹⁰ See also Encyclopedia Britannica: Accountancy, and Godfrey *et al.* (2006: 439).

¹¹ Functions are realized within specific structures, so we are dealing with functional consequences of the structures. The structures should be such as to allow the functions to be realized. At the level of society, as a whole, the structures providing the functions are: economy (A), politics (G), system of norms (I) and system of values (L).

¹² The importance and relevance of Talcott Parsons' theory has been summed up by Jurgen Habermas as follows: "...so far, no social theory can be taken seriously which at least does not make a reference to Parsons" (Habermas, 2002: 352).

coding of the properties of a whole in each of its parts “enables the system to learn and organize itself as well as maintain proper functioning of the whole system even though some of its subsystems are not functioning properly or are eliminated” [*ibidem*].

Therefore, in view of the above, it can be said that change in a social system subsystem involves change in at least one of the subsystem’s imperative functions, with models of social change taking into account its sources and patterns. Change (innovation) in accounting will thus mean change in its adaptation function, goals function, integration function or patterns cultivation function. The consequences of change, though, will also affect its environment.

With regard to the areas of accounting in question, one of the models of change is the general model of public sector accounting innovation, formulated in the mid-1990s by Jaruga and Nowak (1996: 30)¹⁴ (see Annex 1). Annex 2 presents a model of financial management reform process (in the public finance sector) developed by Lüder in 2002 (Lüder, 2002: 18). Annex 3 presents a model of public management reform developed by Pollit and Bouckaret in 2000 (Lüder, 2002: 19). Analysis and comparison of those models show that their structural elements are of the same nature, although the model by Jaruga and Nowak (1996) tends to be rather conceptual in character, while the model by Pollit and Bouckaert and Lüder’s model have a more operational character. All models specify sources of change (STIMULI) and provide its pattern. In Jaruga and Nowak’s model, the pattern of change seems to allow each of the social change models presented in Section 1. In models by Lüder, and Pollit and Bouckaert, though, the emphasis seems to be on the evolution-conflict aspect (albeit not to the same extent).

3. Accounting change and contingency

Contingency is commonly understood as possibility or uncertainty. Possibility means something that might happen, and uncertainty is something in the future that no one is certain about. It possibly means a future event very difficult to foresee, uncertainty means condition dependent on chance. According to the contingency theory of organizations, contingencies comprise: the environment, organizational size, and organizational strategy.

What determines organizational effectiveness is adaptation of its characteristics to contingencies, which usually leads to high performance. Therefore to maintain effectiveness, organizations need to adapt to changing contingencies. This type of adaptation is called a fit. Under the contingency theory of organizations, adaptation affects performance, which in turn forces adaptive organizational change (Donaldson, 2001: 1-2).

¹⁴ On the basis of Lüder’s contingency model of public sector accounting innovations (Lüder, 1994 and 2002).

If we regard the public finance sector as organization¹⁵ (as is commonly the case today¹⁶) and accounting as its component, then accounting will be subject to adaptive organizational change, forced by the need to adapt its characteristics to contingencies, i.e. the broadly understood environment, to the size of the public finance sector and its strategy. Events connected with the public finance sector will therefore affect accounting not so much directly as through their actual or potential effect on the environment, organizational size and organizational strategy. Accounting, being a service activity, will adapt to the needs arising in these areas. It should be noted that both the operational model from Annex 2 and conceptual models from Annex 1 and Figure 2 take into account thus understood contingency.

4. The general model of public finance sector change

Taking into account both models, i.e., Jaruga and Nowak's (1996) model and Lüder's (2002) model, and the contingency theory of organizations, the fractal nature on the imperative functions of the social action system, the extensiveness of change consequences and highlighting the interactions with the environment as a source of change, it is possible to extend the model by Jaruga and Nowak to embrace the whole of the public finance sector (see Figure 2). It thus includes the change both in the public finance sector and in all its subsystems, i.e. also the financial management subsystem and accounting subsystem.

It should be stressed at this point that accounting, being a subsystem of the social action system, supports the fulfillment of the imperative functions of this system. This means that information generated by accounting supports adaptation, goals achievement, integration and the cultivation of the cultural patterns of structures through its aims for a lasting and developing social supra-system.

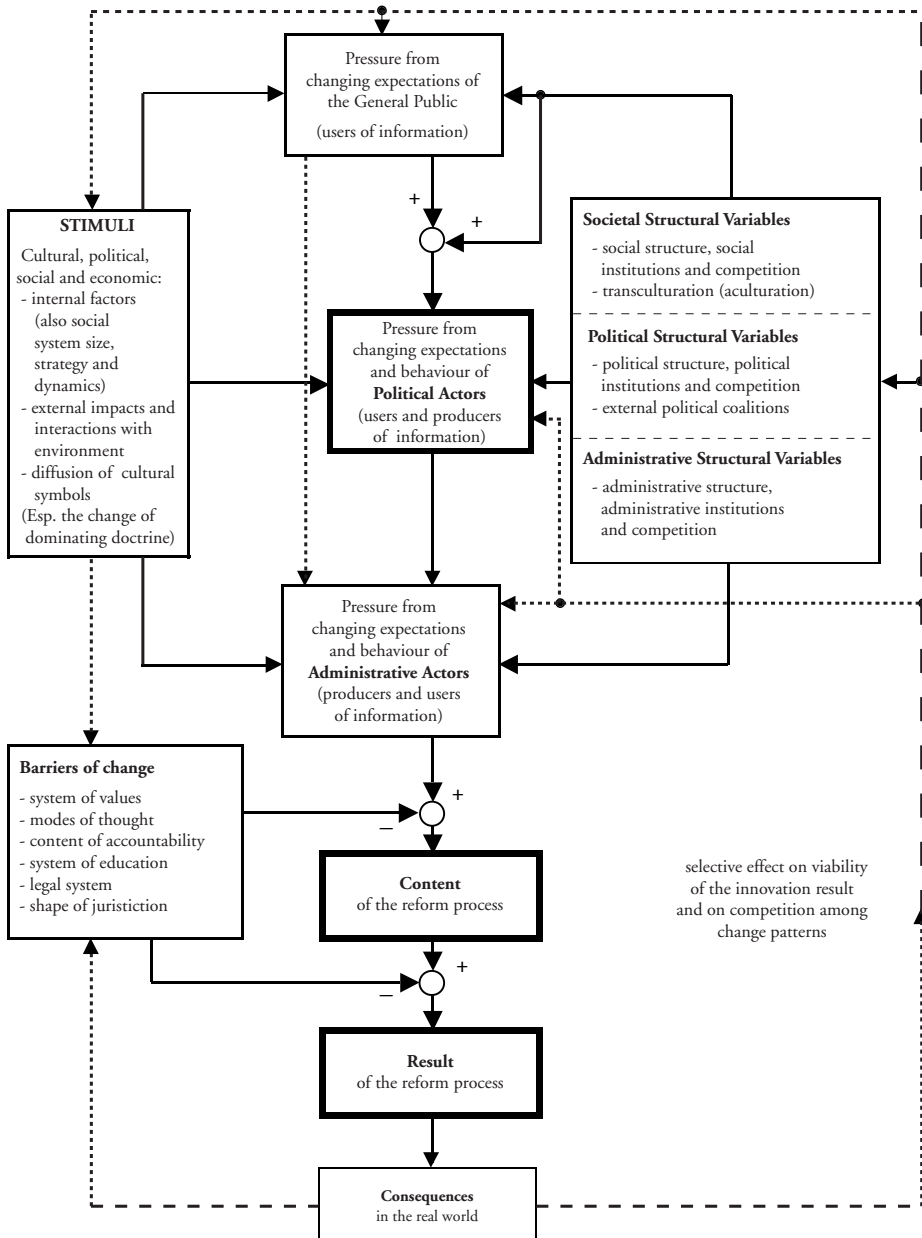
5. Contingencies of recent changes in public finance sector in Poland

Recent changes in the Polish public finance sector accounting were caused by the 1998 *Act on Public Finance*. Its content and context were extensively reproduced at the 7th CIGAR Conference in 1999, and discussed in a publication by Nowak and Bakalarska (2001). Conceptual aspects of accounting change initiated by this Act were described at the 9th CIGAR conference in 2003 and in a subsequent publication by Nowak and Bakalarska (2005). The Act was frequently amended, which, however, did not concern accounting. Finally, it was superseded by *the Act on Public Finance of 30 June 2005*, with effect from 1 January 2006. The new act provided a stimulus for further change in accounting, which resulted in the addition of the statement of changes in equity to the set of financial statement presented by Local Government

¹⁵ Understood as the collection of human and non-human resources which objective is meeting its founder needs due to meeting its client needs, i.e. as the entity being social action system.

¹⁶ See, for e.g., Nowak (2002).

Figure 2 – The General Model of Public Finance Sector Change



and The State Treasury component entities¹⁷. Moreover, to enhance the transparency of public finance, organizational units belonging to the public finance sector were required to make their annual statements on finance and operations available to those interested in them.

But the 2005 *Act on Public Finance* has seemingly turned out to be an interim Act. In April 2007, the Finance Ministry published on the Internet a draft of a new act on public finance, which is intended to lead to the fundamental reform of public finance, including a significant reduction of the size of the public finance sector. This was to accommodate to the Maastricht Treaty requirements for joining the sphere of Euro. The perfected draft of the 2007 *Act on Public Finance* was going to be enforced from 1 January 2008 onwards. However, the political crisis which happened in the summer of 2007 resulted in subsequent elections. Previous ruling coalition had lost power and the winning parties have formed a new coalition. This coalition has decided to abandon the public finance reform in the shape projected by former ruling coalition. The new project of public sector finance reform has not been known till now (late January 2008).

Analysis of changes taking place since the late 1990s in the Polish public finance sector¹⁸, coupled with insights gained from the social change approach, general model of change in the public finance sector (Figure 2) and contingency theory, makes it possible to identify their character and determinants. First of all, these are functional-evolutionary changes in sociological sense. Their drivers are both within and outside the country. Internal causes include endogenous changes in social institutions, initiated by the change of the dominating doctrine (change of political regime in 1989), growing social inequalities caused by economic factors (high unemployment, limited social benefits), and unfavourable demographic changes, such as the ageing of population and mass emigration of young people (especially after Poland's entry in the EU in 2005). External stimuli are mainly the diffusion of cultural symbols from developed country areas – including formal and informal organizations and transnational networks – and impacts from the European Union¹⁹.

In recent years, changes in Polish public finance sector accounting were introduced as a result of revisions of public finance law. Thus, they are contingent adaptive changes, initiated by mandatory representations of changes in the size and strategy of the public finance sector. The main factor that spurred changes in accounting was the introduction in this strategy of the principle of public finance transparency and openness, which allowed the financial reporting model to be developed.

¹⁷ After this revision, the set of financial statements of central and local government entities consists of: balance-sheet, profit and loss account and statement of changes in equity. It should be noted that the 1998 Act introduced, for the first time, in Poland the consolidated balance-sheet for local government.

¹⁸ Which are reflected and embodied in successive acts on public finance and relating regulations.

¹⁹ Pre-accession financing requirements, transformation-related financing requirements, and requirements connected with joining the euro zone.

First the consolidated cash-based statement of financial position for central and local government was introduced (balance of the execution of, respectively, the state budget and local government budget²⁰) and accruals-based consolidated balance-sheet of local government. Then, the accrual statement of changes in equity was introduced to be presented individually by central and local government component entities (in addition to the accrual balance sheet and accrual profit and loss account).

To increase the relevancy and reliability of financial statements, the general principle of consistency of plans of accounts with national accounting regulations and international standards²¹ was adopted, and plans of accounts for budgets were laid down. The recording of the components of assets, liabilities, equity, revenue, expenses, gains and losses according to additional classifications has been allowed if it is a requirement of public sector finance reporting regulations, especially budgetary reporting regulations. The factors conditioning the extent and shape of these changes included first of all: impacts from international organizations (such as World Bank, OECD, International Monetary Fund, IFAC), regulators from the European Union, diffusion of concepts and models developed within the CIGAR network, the revisions of national Accounting Act and the revisions of public finance sector regulations.

Conclusion

Consideration of the changes in public finance sector accounting from the perspective of social change theory and contingency theory of organization confirms the contingency-based nature of these changes, as demonstrated in Lüder's 1992 model. This is also confirmed by the nature of changes that have occurred in Polish public finance sector over the last decade.

Therefore, ignoring contingency in comparative research and case studies relating to public finance sector accounting should be regarded as considerable limitation of the cognitive value of the method applied as well as the reliability of the results thus achieved.

References

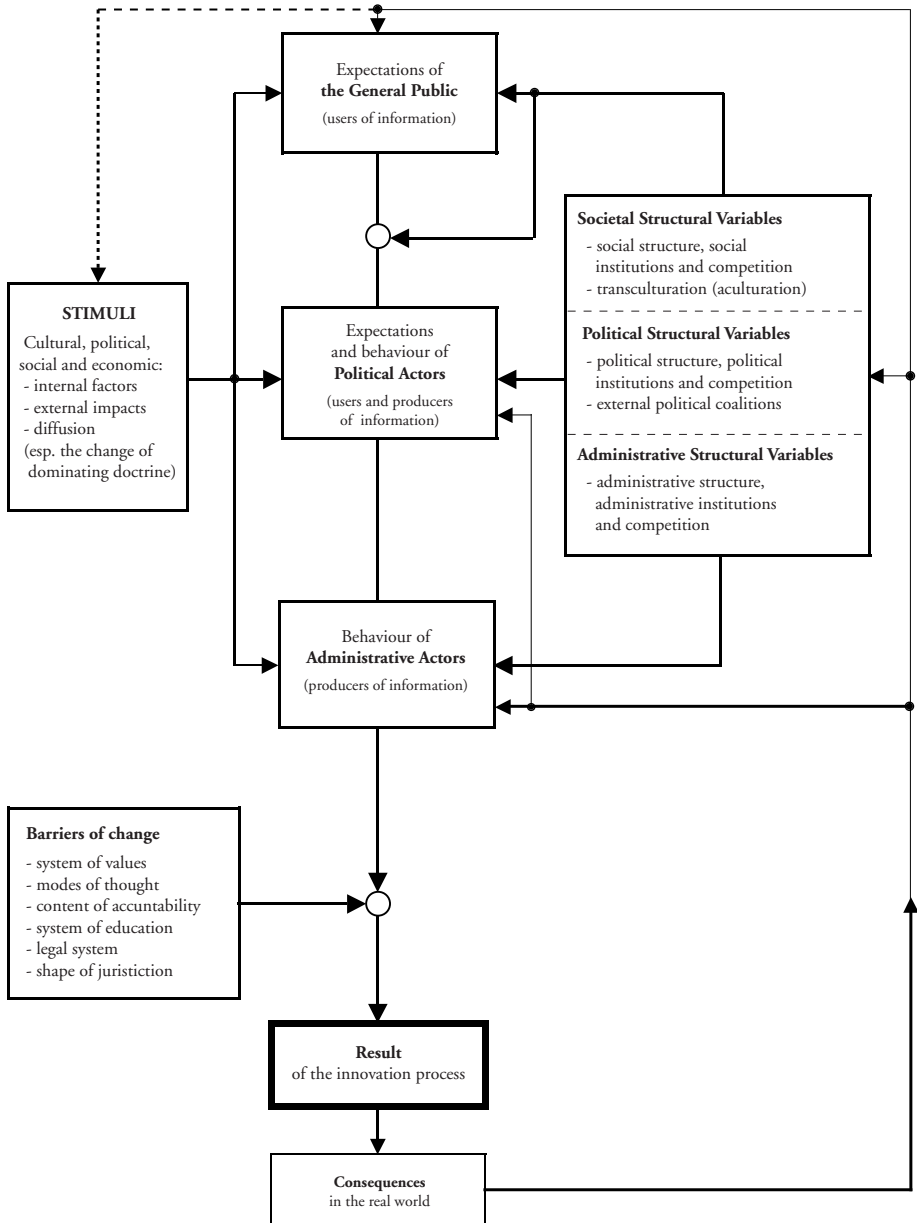
- Donaldson, L. (2001), *The Contingency Theory of Organizations*, Sage Publications, Thousand Oaks, London, New Delhi.
- Godfrey, J.; Hodgson A.; Holmes, S. and Tarca, A. (2006), *Accounting Theory*, Sixth Edition, John Wiley & Sons Australia, Ltd.
- Haberams, J. (2002), *Teoria działania komunikacyjnego*, T.2, Wydawnictwo Naukowe PWN, Warszawa (transl. from: Jurgen Habermas (1981), *Theorie des kommunikativen Handelns (Theory of Communicative Action)*, Suhrkamp Verlag, Frankfurt am Main).

²⁰ Generally such budgets are cash-based.

²¹ Basically IFRS, IPSAS, SNA 93, ESA 95, IMS – according to the requirements of national budgetary classification, national statistical regulations and European Union regulations.

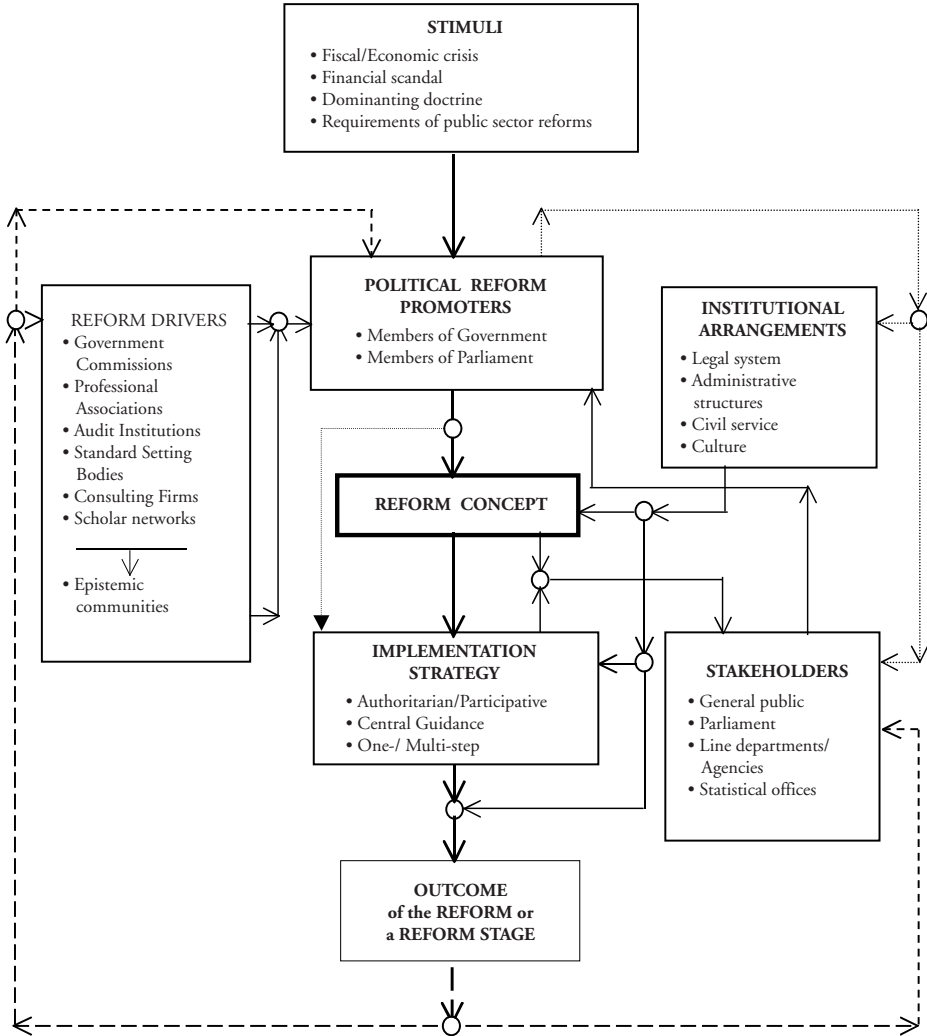
- Jaruga, A. and Nowak W. A. (1996), Toward a general model of public sector accounting innovations, in Chan, J. L.; Jones, R. H. and Lüder, K. G., (eds.) (1996), *Research in Governmental and Nonprofit Accounting*, Vol. 9, Greenwich, CT, London, England, JAI Press Inc., 21-31.
- Krzyżanowski, L. (1994), *Podstawy nauk o organizacji i zarządzaniu (Fundamentals of organization and management sciences)*, II wydanie, Wydawnictwo Naukowe PWN, Warszawa.
- Lüder, K. (1992), A "Contingency Model" of Governmental Accounting Innovations in the Political-administrative Environment, in Chan, J. L., (ed.) (1992), *Research in Governmental and Nonprofit Accounting*, Vol. 7, Greenwich, CT, JAI Press Inc., 99-127.
- Lüder, K. (1994), The "Contingency Model" Reconsidered: Experiences from Italy, Japan and Spain, in Buschor, E. and Schedler, K. (eds.) (1994), *Perspectives on Performance Measurement and Public Sector Accounting*, Berne, Stuttgart, Vienna, Haupt, 1-15.
- Lüder, K. (2002), Research in Comparative Governmental Accounting over the Last Decade: Achievements and Problems, in Montesinos, V. and Vela, J. M. (eds.) (2002), *Innovations in Governmental Accounting*, Kluwer Academic Publishers, Boston / Dordrecht / London, 1-21.
- Nowak, W. A. (1998), *Rachunkowość sektora publicznego. Koncepcje, metody, uwarunkowania, (public sector accounting: concepts, methods, contingencies)*, Wydawnictwo Naukowe PWN, Warszawa.
- Nowak, W.A. and Bakalarska B. (2001), Polish Public Sector Accounting in Transition: The Landscape after early 1999 Step in the State Redefinition, in Bac, A. (ed.) (2001), *International Comparative Issues in Government Accounting*, Kluwer Academic Publishers, Boston / Dordrecht / London, 265-278.
- Nowak, W. A. (2002), On a Basis for International Comparisons of Governmental Accounting Systems: Models of an Economic Entity, in Montesinos, V. and Vela, J. M. (eds.) (2002), *Innovations in Governmental Accounting*, Kluwer Academic Publishers, Boston / Dordrecht / London, 43-59.
- Nowak, W. A. and Bakalarska, B. (2005), The Model of Financial Reporting for Local Government: Methodology for International Comparisons and some Cases' Analyses, in Bourmistrov, A. and Mellemvik, F. (eds.), *International Trends and Experiences in Government Accounting*, Cappelen Akademisk Forlag, Oslo, 98-113.
- Scott, R. W. (1987), The Adolescence of Institutional Theory, in *Administrative Science Quarterly* (1987), 493-511.
- Siegel, J. G. and Shim, J. K. (2000), *Dictionary of Accounting Terms*, Barron's Educational Series, Inc., Hauppauge, NY 11788.
- Turner, J. H. (1998), *Socjologia: Koncepcje i ich zastosowanie, Zysk i S-ka Wydawnictwo*, Poznań (trans. from Turner, J. H. (1994), *Sociology: Concepts and Uses*, McGraw-Hill, Inc.).
- Turner, J. H. (2004), *Struktura teorii socjologicznej*, Wydanie nowe, Wydawnictwo Naukowe PWN, Warszawa (trans. from Turner, J. H. (1998), *The structure of Sociological Theory*, Wadsworth Publishing Company, A Division of International Thomson Publishing Inc.).
- UoFP (1998), *Ustawa z dnia 26 listopada 1998 r. o finansach publicznych (1998 Act on Public Finance)*, Dz.U.RP 1998.155.1014.
- UoFP (2005), *Ustawa z dnia 20 grudnia 2005 r. o finansach publicznych (2005 Act on Public Finance)*, Dz.U.RP 2005.249.2104.

Annex 1
The General Model of Public Sector Accounting Innovations



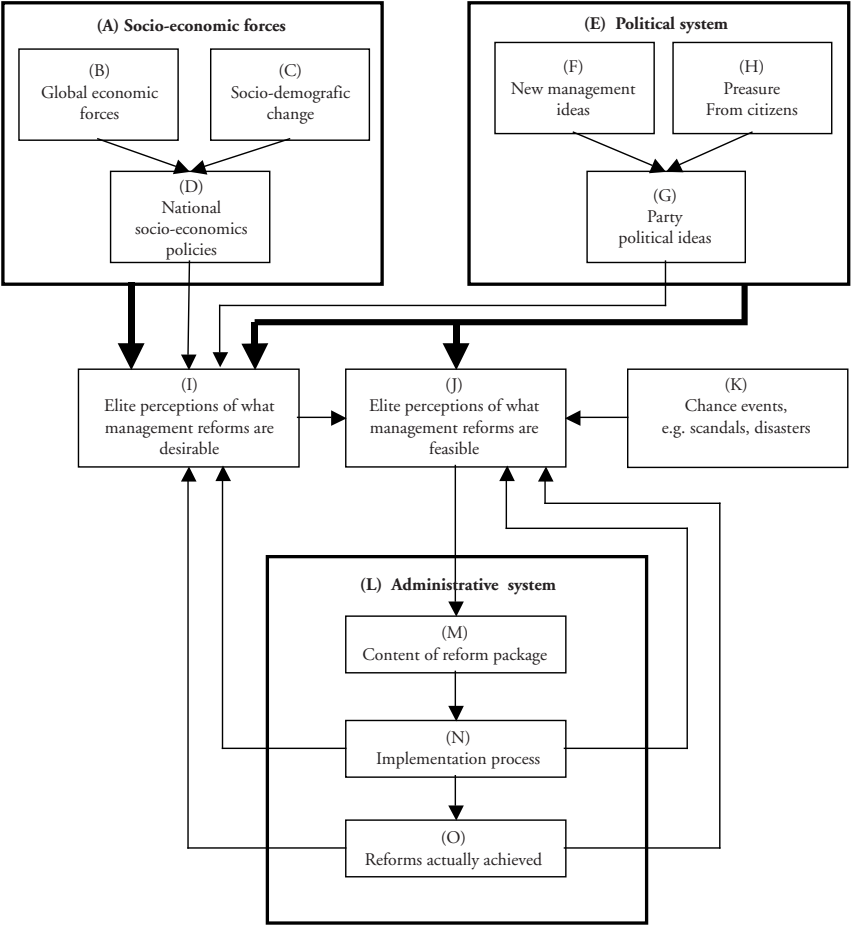
Source: Jaruga and Nowak (1996: 30).

Annex 2 Financial Management Reform Process Model



Source: Lüder (2002: 18)

Annex 3
A model of Public Management Reform by Pollit & Bouckaert



Source: Lüder (2002: 19)

ACCRUAL-BASED ACCOUNTING WITHIN THE MALAGASY URBAN MUNICIPALITIES

Introduction

Accrual accounting in the public sector has attracted significant interest of researchers in the past decade. It emerged from the idea that one of the ways leading to rationale public management is the adoption of the private sector management model (Pallot, 2001; Ezzamel *et al.*, 2004, 2005; Wynne, 2005). Then, the accrual based accounting becomes more accepted within public entities and cash based models become more disused (Lande, 2006; Wynne, 2005).

Before the emergence of the accrual based model, the criterion of a good public management was the budgetary conformity. According to this formula, the cash receipts and the cash disbursements were the main basis of evaluation. The cash information – cash accounting and cash budgeting – were an important reference in monitoring financial decisions.

Since 1990, the situation has changed: in order to evaluate the costs of public goods and services, to evaluate political managers' performance, to reduce corruption or to prevent crises, the users required more transparent and more pertinent financial information as assets, liabilities, net profit and depreciation. This is, for example, the case of New Zealand government. In other respects, some governments such as France, Spain or the United Kingdom are motivated to engage an accounting change in order to give an image of modernisation (Lande, 2006). Other governments, such as Egypt, Algeria (Merrouche *et al.*, 2005; Ouda, 2006) or Madagascar are compelled to change the accounting practice in order to assure the credibility towards the international donors. This paper is organized in five sections. The next section exposes the difficulties of this study, the second section lays out Lüder's contingency model, the third section shows the methodology and the fourth section discusses the study findings. The conclusion of this study is presented in the last section.

1. Distortion between normative referential and accounting practice

Accrual accounting was instituted gradually from the year 2000 onwards. The first accounting reform took place in 2000. At the end of this reform, the Chart of Accounts for Government Operations 2000 (PCOP 2000) was elaborated and the moderate accounting basis was recommended to the large Malagasy municipalities. However, it is important to note that this accounting reform is unknown to most of the related parties (CSC 2003). Without having been applied by the municipalities, the PCOP 2000 was abolished and has been replaced by the PCOP 2006 (CSC 2003). According to this second reform, the full accrual accounting is recommended to the large municipalities. This accounting reform was supported by the organic law (LOLF 2004), promulgated by ministerial decrees (2005-210 of April 2005 for the Chart of Accounts) and orders (6458/2005 of June 2005 for the application guide). In spite of these official enactments, this new accounting arrangement is, until 2007, unknown to Malagasy mains reformers, such as the municipalities, the officials in the Ministry of Finance and the Ministry of Decentralisation. The problematic issue studied in this paper derives from this observation and is formulated as follows: Why is the accrual accounting still unknown to Malagasy municipalities in spite of its official enactment in 2004?

2. Lüder's contingency model

In the beginning of the 1990s, Lüder developed a contingency model to explain the reasons why some governments succeed in implementing accounting reform whereas others failed. In order to bring a further clarification, Lüder's contingency model refers to stimuli, the key actors, the institutional organisation and the implementation strategy as variables of the success and failure of the implementation of the accounting change (see Annex 1).

2.1. The stimuli

Stimuli are essentially events which are the precondition of the reform decision. These events are not discrete: they are supported by the media or nourish the collective debates as being academic and political (Lüder, 1992, 2000 and 2004; Christensen, 2001). The stimuli affect the top promoters, such as politicians or officials. According to Lüder (1992, 2000 and 2002) and Chan (2006), they may have resulted from the international convergence towards accounting harmonisation, the international move to NPM, the financial crisis or the donors' conditionality.

2.2. The reformers

The stimuli mobilise the key promoters, which may be the politicians, the state officials, the technician implicated in the reform process, the epistemic community and the information users (Lüder, 1992):

- the political influence has an important weight in sustaining and validating the reform decision;

- the agents technically implicated in the reform process are the regulation authority, the governmental authority and the accounting professional body; they are in charge of elaborating the normative referential;
- the epistemic community is in charge of the reflection to the reform concept;
- the information users exercise influence on the other reformers.

2.3. The institutional organisation

According to Lüder, the success or the failure of the accounting reform depends also on the institutional organisation, such as the state structure, the culture or the public function. On the basis of this assertion, Lüder (1992) proposes that the implementation of accounting innovation is more successful in the context of the domination of the professional accountants than in the context of the bureaucrat monopolisation. Other authors, such as Torres and Pina (2003) argue that the integration of accrual accounting is more difficult in the context of bureaucratic structures than in the context of decentralised structures.

2.4. The implementation strategy

The strategy of implementing accounting innovation is also important because of its nature, in facilitating or hindering the implementation process. According to Lande (2006), the implementation of a central reform guide is more successful than the disparate implementation. And according to Lüder (1992), the authoritative implementation is less successful than participative implementation.

As shown in Table 1, Lüder's contingency model is used by many researchers working in the field of accounting reform in the public sector.

Table 1 – A synopsis of recent studies based on Lüder's contingency model

Authors	Contingency variable	Period
El-Batanoni and Jones	Stimuli, key actors and implementation barriers	1996
Likierman		1996
Montesinos and Bargues		1996
Pallot		1996
Khumawala		1997
Monsen and Nasi		1998
Yamamoto		1999
Godfrey <i>et al.</i>		1996-2001
Lüder	Stimuli, key actors, strategy, institutional organisation, implementation barriers	1990-2004
Jaruga and Nowak	Stimuli, key actors, strategy and institutional organisation	1996
Lande		2004
Ouda		2003-2006
Godfrey <i>et al.</i>		1996-1999-2001-CIGAR 2005

Authors	Contingency variable	Period
Pollit and Bouckaert	Socio-economic context, political system, stimuli, key actors, administrative structure	2000 CIGAR 2005
Christensen Marwata <i>et al.</i>	Key actors	2002
Chan	Key actors and institutional organisation	1995-1999- 2006
Manzurul	Culture	CIGAR 2005

3. Methodology

According to Lüder's contingency model, the implementation of an accounting reform is a long process, beginning with the motivations of the main promoters and ending with the success or the failure of the accounting reform. In this study, we are not interested in the full process of reform as proposed by Lüder. We will only focus on the reasons why the new accounting arrangement has not been recognised after promoters in the central government were motivated to adopt it after it has been promulgated by successive laws and decrees since 2004. Then, in this study, we integrate a part of Lüder's model, specifically the effects of the actors' behaviour and the accounting organisation in the implementation of accounting change in Malagasy municipalities.

To bring further clarification to our problem, we have adopted the qualitative approach. As determined by this approach, we have collected some opinions and compared the different opinions with political discourses and different official documents (laws, decrees and reports). In this study, we have interviewed two categories of persons related to the public sector accounting change: the central government's actors and the municipalities' actors.

3.1. The central government's interlocutors

As shown in the following tables (Tables 2 to 5) we have collected opinions from four categories of interlocutors from 2004 to 2006. They are actors in:

- the Ministry of Finance (MEFB), they have participated in the development of the new Chart of Accounts within the CSC¹ (national council of accounting harmonisation);
- the Ministry of Decentralisation (MDAT);
- the Ministry of Interior and Administrative Reform (MIRA);
- the body of certified accountants (OECFM)².

¹ CSC: Conseil Supérieur de la Comptabilité - national council of accounting harmonisation.

² OECFM : Ordre des Expert Comptable et Financiers de Madagascar (certified accountant association).

Table 2 – The technical promoters of the new Chart of Accounts recommending the accrual accounting in the CSC

Function	Number	Entity represented	Interviewing period	Interview's objectives
Certified Accountant working within the CSC	1	OECFM	March 2004 September 2006	- Interactions with the other CSC members at the time of the development of the new chart of accounts (PCOP 2006).
Civil servant within the CSC	4	MEFB-DCP*	February 2004 November 2005 June 2006	- Perception of accrual accounting diffusion and its applicability at the level of municipalities - Interactions with the other MEFB civil servants at the time of diffusion and implementation of accrual accounting in the municipalities
Total	5			

* *Direction de la Comptabilité Publique* (Public Accounting Division).

At this stage of analysis, we have compared the opinions of technical promoters with that of other civil servants. This comparison is important because it allows us to know how these actors are interacting and how they are implicated in the implementation of the new accounting arrangement in all levels of State structure.

Table 3 – Civil servant supporters in the MEFB

Function	Number	Period	Interview's objectives
State inspector	1	June 2006 November 2004	- Appreciation of accrual accounting applicability in the municipalities
Manager of information system division	1	September 2006	- Legal disposition of the accrual accounting implementation
Manager of public accounting division	1	September 2006	- Interactions with the CSC, OECFM, the department of information systems at the time of the accrual implementation
Agent in the division of public accounting	1	January 2007	- the diffusion mode of the accrual accounting concept to the municipalities
Total	4		

To ensure better coherence in the implementation approach, other civil servants in the other ministries, such as the MDAT and the MIRA, have to be implicated. Because of their financial control responsibilities, they are in direct contact with the municipalities. So they can assure and facilitate the diffusion of the new accounting arrangement to the municipalities.

Table 4 – Civil servants within other ministries: MDAT and MIRA

Function	No.	Period	Entity	Object of interviews
Manager of the municipalities' financial support division	1	March 2006	MDAT	<ul style="list-style-type: none"> - the department's responsibility - Interaction with the MEFB and/or the CSC in the implementation of the accrual accounting in the municipalities - the administrative disposition taken at the level of the ministry and the department in order to implement the accrual accounting in the municipalities
Agent of the training division	1	November 2004 March 2006		
Responsible entity in the follow-up and assessment division	1	November 2004 March 2006		
Manager of information system division	1	June 2005	MIRA	<ul style="list-style-type: none"> - the nature, extent and content of the accounting training administered to the municipalities - Perception of the applicability of the accrual accounting in the municipalities - the extent and the nature of financial control exercised within the municipalities
Total	4			

The interview's results are finally compared with those held with the other stakeholders, such as the OECFM or other civil servants within the MEFB, as shown in the following table.

Table 5 – Other stakeholders

Function	No.	Period	Entity	Object of interviews
Accountant working the CSC	1	Feb 2004 August 2006	CSC and OECFM	<ul style="list-style-type: none"> - Perception of the current practice of public accounting - Perception of the adoption of accounting applicability by the municipalities - Diffusion plan of the PCOP 2006 within the Malagasy public sector
Civil servant representing the MEFB within the CSC	1	August 2006	CSC and MEFB	
OECFM Vice-President	1	Sept 2006	OECFM	
OECFM President	1	Sept 2006	CSC and OECFM	
Financial magistrate within MEFB	1	Sept 2006	MEFB	
Second General Manager within the INSTAT	1	August 2006	MEFB	
Councillor within the MEFB	1	Sept 2006	MEFB	
Total	7			

3.2. The municipalities' interlocutors

In order to obtain coherent information, we have collected some opinions from responsible entities within the municipalities. Between 2005 and 2006, we interviewed fifty-two interlocutors, as shown in the Table 6³.

Table 6 – Municipality interlocutors

Function	No.	Object of interviews
Mayor	23	- Quality of financial information - Implementation of accrual accounting
CS	2	
MA	18	
FAM	3	
MC	1	
Public accountant	2	
Councillors	3	
Total	52	

List of abbreviations - CS: Chief of Staff; MA: Municipality Accountant; FAM: Financial and Administrative Manager; MC: Management Controller; PA: Public Accountant; Counc: Councillor.

4. Findings

From these interviews we have found that the one major obstacle holding back the implementation of accrual accounting in the municipalities is the failure of the diffusion mechanism. This failure is a matter of the promoter's actions and the public accounting organisation.

4.1. The effects of interaction between the promoters on the diffusion of accrual accounting in the municipalities

The interactions between promoters fail because:

- there is a lack of synergy between civil servants and certified accountants within the CSC at the moment of conception of the normative referential and at the moment of its implementation;
- there is a lack of political commitment at the level of the central government.

4.1.1. The lack of synergy between certified accountants and civil servants

In order to converge to the international accounting harmonisation, a new normative referential, the PCOP 2006, was established in place of the old one, the PCOP 2000. It is designed on the basis of the private entity accounting rules and it recommends

³ Further details on the municipalities visited are presented in Annex 2.

the adoption of full accrual accounting to all public large entities. The design of this new Chart of Accounts was undertaken, at the beginning of 2003, by the Ministry of Finance (MEFB) through the CSC (national body of accounting harmonisation). Within the CSC, the working group which is in charge of this mission is formed by one certified accountant, member of the OECFM, and seven civil servants, representing the MEFB and the MDAT, as displayed in Table 7.

Table 7 – Member of the working group

Group members	Entity	Attributions
Accountant	OECFM	Group's framer
Civil servant	Division of public treasury	Group's line chief
Civil servant	Division of public accounting	Technical concept
Civil servant	Division of public accounting	Technical concept
Civil servant	Division of public accounting	Technical concept
Civil servant	Court of Auditors	Technical concept
Civil servant	MDAT	Technical concept
Civil servant	CAE*	Technical concept

* CAE: *Communauté d'Aide Extérieur* (Community of External Support)

As shown in this table, the accountant is the group's framer; he ensures that the group's work conforms to international accounting standards. The other members ensure the concept of the new normative referential.

As symbolic as it may appear, the certified accountants' actions are more meaningful than those of the civil servants at the moment of the concept of the new chart of accounts. The members of the working group we have interviewed agree that it has resulted from the works of other certified accountants acting discreetly. These works are based on the private sector's normative referential, the PCG 2005. It is important to note that the latter is the root of all sector charts of accounts and it is designed according to the IAS - IFRS. In practice, the civil servants have no role in the elaboration of the normative referential. Therefore, some of them learnt about it only after its official enactment, at the beginning of 2005, as shown in Table 8.

Table 8 – How members are involved at the PCOP 2006 concept stage

Participation in the concept of PCOP 2006	No.	Accountant	Civil servants
Learning about content of the new chart of accounts during its conception	2	1	1
Learning about the content of the new chart of accounts after its official enactment	6	0	6
Total	8	1	7

The effect of this lack of dialogue within the CSC working group is the development of a Chart of Accounts which is not understood by its own creators. On the one hand, without knowing the public sector specificity the certified accountants established the new chart of accounts. They have also based their works on the rules of the private sector accounting. On the other hand, without understanding the accrual accounting concept

and its stakes, the civil servants are in charge of implementing it in all levels of the State structure. Thus, it is logical if the latter seem to have some difficulties in diffusing and convincing their colleagues, at all government levels, to adopt such arrangement.

4.1.2. The lack of political will at the level of central government

Considering that Madagascar has a bureaucratic system centralised in the presidency level (World Bank 2005), it is logical that reforms affecting the state are legitimated and endorsed by the political managers in the central government. These political managers may be the president himself or the ministers. According to the semi-guided interviews with the civil servants within the MEFB and the other stakeholders, we can advance that the lack of political commitment is the major reason hindering the diffusion and the implementation of accrual accounting in the municipalities.

Since its elaboration and until now, from 2003 to 2007, no political discourses have been presented and no political interests were manifested in the sense of modernizing the public accounting or in the sense of benefits gained from the accrual accounting in the public sector. That is the reason why some politicians, such as the MEFB minister and the MEFB chief of staff, were indifferent to the implementation of such reform in the municipalities. Therefore, some officials within the MEFB argue that such innovation is not applicable within the municipalities and others argue that it depends on political will. These arguments are summarised in Table 9.

Table 9 – Assessment of the implementation of accrual accounting by the municipalities

Title	No.	Category	Implementation of accrual accounting by the municipalities
Minister of MEFB	1	Politician	Indifferent
Chief of Staff of the MEFB	1	Politician	Indifferent
Official in charge of public expenditure in the CSC	1	Civil servant	Indifferent
Financial Magistrate	1	Civil servant	Indifferent
Manager of IS division in the MEFB	1	Civil servant	Indifferent
Finance inspector	2	Civil servant	Not applicable
Chief of ACCT department in the MEFB*	1	Civil servant	Not applicable
Second General Manager of the INSTAT** in the MEFB	1	Civil servant	Not applicable
Public accountant in the Treasury	1	Civil servant	Not applicable
Manager of public accounting division in the MEFB	1	Civil servant	Not applicable
Agent in the public accounting division in the MEFB	2	Civil servant	Applicable with political will
Line Chief of PCOP 2006 working group in the CSC	1	Civil servant	Applicable with political will
Total	14		

* ACCT: *Agence Comptable Central du Trésor* (Treasury Central Accounting Agency)

** INSTAT: *Institut National de la Statistique* (National Institute of Statistics)

Since key actors in the central government are not implicated, no more information is going to be diffused and the municipality actors, which have a habit of aligning their politics with those of the central government, are automatically uninterested. Moreover, contrary to other programs, such as the struggle against AIDS and malaria or the institution of new laws regulating the ADN test or even the implementation of new agricultural techniques, which benefit political discourses, the implementation of accrual accounting is not included in the national priorities. Then, it is not included in national programs and it remains not advocated in the DSRP⁴ (2005, 2006) or in the MAP⁵ (2007). So it does not appear in any reform programs financed by the international institutions such as the World Bank and/or the European Union. These are the reasons why among the 52 municipality interlocutors we have interviewed, 69% are satisfied with the quality of financial information obtained by using the cash model. 71% feel that they are able to manage the municipalities' affairs with this system, so they are not motivated to change the accounting practice (Tables 10 to 12). The argument they have advanced is that such innovation is not described as fundamental by the central government's politicians.

Table 10 – Assessment of the quality of financial information obtained by using the cash system

Assessment of the financial information quality	No.	%
Satisfied	36	69%
Not satisfied	16	31%
Total	52	100%

Table 11 – Assessment of the direction method

Mangement / Administration	No.	%
Management	37	71%
Administration	15	29%
Total	52	100%

Table 12 – Motivation degree to the accounting reform within the municipalities' interlocutors

Motivation degree to the accounting reform	No.	%
Indifferent	37	71%
Not motivated	9	9%
Very motivated	6	6%
Total	52	100%

⁴ DSRP: Document of strategy of poverty reduction (from 2003 to 2006).

⁵ MAP: Madagascar Action Plan for five years (from 2007 to 2012).

The major contributions of the political commitment are to diffuse the benefit and the spirit of accrual accounting to all actors in the public sector, to legitimate the administrative reforms undertaken in this way and to mobilize all actors concerned by the public sector accounting.

4.2. The effects of the accounting organisation on the adoption of accrual accounting in the municipalities

In the middle of 2004, the Ministry of Finance elaborated an organic law, LOLF 2004, which determines that the public entities have to practice accounting in the same way as the private entities. In spite of this initiative, the other laws underlying the public sector accounting did not undergo any modifications. The cash receipts and disbursements continue to dominate the accounting regulation, and legal and regular financial controls attenuate the use of the cash accounting model. According to decree 2005-003 of January 2005 determining the public sector accounting regulation, the law 95-005 of June 1995 establishing the budgetary regulation of decentralized community, there is a separation between the attributions of public accountant and the official in charge of public expenditure. The public accountant holds the general account of the municipality but he is not the main actor needing this kind of information. The municipality's officials keep the cash budgetary accounting, which does not provide any more financial information to manage the municipality.

The Ministry of Finance is in charge of the public bookkeeping and financial control. In its role, it employs the public accountant within treasuries to keep the municipalities' funds, to hold the municipalities' bookkeeping, and to record the municipalities' equipment. The municipalities are in charge of holding municipalities' bookkeeping according to the accrual accounting rules. But, in practice, as disposed by the MEFB instruction no. 06-32-G of December 2006, the public accountant registers the municipalities' financial operations according to moderate cash accounting: the expenses are recorded on the basis of the mandates and the receipts on the basis of the receipt orders.

According to the same regulations, the accounting attribution of the official in charge of public expenditure, for example the municipality's mayor, is limited to holding the administrative accounting: budget and the budget execution reporting. The budget recapitulates the cash receipts and disbursements in terms of investments and running affairs. Then, the budget execution reporting recapitulates equally the same operations.

In short, with the current statutory provision, the accrual accounting cannot be diffused: the public accountant, whose responsibility is similar to a cashier's, is in charge of the municipalities' bookkeeping according to accrual basis, but the actual legal provision doesn't foresee a procedure for the recording of specific operations, such as the physical assets or assets depreciation. On the contrary, the official in charge of public expenditure, who needs further information to manage the municipalities, is left with manipulating limited information: they are established on the basis of the cash model.

In addition, the control mechanism is more appropriate to cash accounting practice. According to law 2005-025 of April 2003, the decree 2004-573 of June

2004 and the law 95-005 of June 1995, the financial control exercised by the MEFB, the MIRA and the MDAT in the municipalities all focus on the regularity and legality of the cash operations undertaken by the officials. There is no legal provision for the control in terms of financial audit or in term of conformity with the new chart of account established by the CSC. In order to comply with legal provision in force, the municipalities' officials pay more attention to the budget and the budget execution reporting. In others words, they are led to grant more importance to the cash accounting practice rather than to accrual accounting.

Conclusion

On the one hand, the actions of the national body of accounting harmonisation, the CSC, and the professional body, the OECFM, are not significant to engage a real process of accounting reform. In addition, the lack of dialogue between the civil servants and the certified accountants, who are in charge of the elaboration of accounting normative referential within the CSC, leads to establishment of a chart of accounts unknown to its creators. As such, it seems difficult to convince the other actors to engage in a real process of accounting reform.

On the other hand, in the context of the bureaucratic system centralised in the level of presidency, the political implication is useful to support the accounting reform to all levels of government structure. The political supports legitimate, also, all initiatives engaged in the sense of the implementation of the accounting reform both at the level of central government and at the level of municipalities. Then, without political commitment, the accounting reform program cannot become a national priority and will not benefit, automatically, from funding from the international body. Then, it is logical that major accounting actors, such as civil servants in the central government and municipalities officials, are not motivated to reform the accounting practice. Evidence of this is shown below:

- some statutory provisions relative to public sector accounting remained unmodified and others are badly solved:
 - the financial control mechanism still focuses on cash basis;
 - there is no legal provision regulating the recording of the physical assets or assets depreciation;
 - there is no legal provision for the financial audit;
- the municipalities' officials content to manipulate cash financial information, but they need more detailed financial information to manage the municipalities.

References

- Adhemar, P. (2005), International Federation of Accountants, International Public Sector Accounting Standards Boards, Background and Update, CIGAR Conference, Poitiers, April 2005, 36.
- Albafouille, F. and Ramangasoavina, A. (1964), *Le contrôle des comptes à Madagascar, Imprimerie Nationale – Antananarivo*, 15.

- Andriamihaja, L. (1988), *L'organisation financière de Madagascar, Imprimerie d'ouvrages éducatifs*, Ankatso, Antananarivo.
- Azan, W. (2002), Evolution des systèmes comptables, contrôle externe et réseaux de culture, *Revue de l'Association Francophone de la comptabilité*, Volume 2, 29-50.
- Bescos, P.; Cauvin, E. and Mendoza, C. (2004), Critiques du budget: une approche contingente, *Revue de l'Association Francophone de la comptabilité*, Vol. 1, 165-185.
- Chan, J. L. (2003), Government Accounting: An Assessment of Theory, Purposes and Standards, *Public Money and Management*.
- Chan, J. L. (2006), Government Accounting Reform in Developing Countries, in Lande, E. and Scheid, J. C. (eds.), *Accounting Reform in the Public Sector: Mimicry, Fad or Necessity*, Edition ECM, 31-41.
- Christensen, M. (2001), Public Sector Accrual Accounting, Who Made the Emperor's Clothes?, Asian Pacific Interdisciplinary Research in Accounting (APIRA) Conference.
- El-Batanoni, K. and Jones, R. (1996), Governmental Accounting in the Sudan, *Research in Governmental and Nonprofit Accounting*, Vol. 9, 209-218.
- Eveno, P. (1997), *Les pouvoirs urbains face aux technologies d'information et de communication*, Presses universitaires de France.
- Ezzamel, M. (1994), Organisational Change and Accounting: Understanding the Budgetary System in its Context, *Organisation Studies*, 29, 213-240.
- Ezzamel, M.; Hyndman, N.; Johnsen, A.; Lapsley, I. and Pallot, J. (2004), Has Devolution Increased Democratic Accountability?, *Public Money and Management*, Vol. 24, No. 3, 145-152.
- Ghiglione, R. and Blanchet, A. (1991), *Analyse de contenu et contenus d'analyse*, DUNOD, Paris.
- Godfrey, A.; Devlin, P. and Merrouche, M. (2001), A Diffusion-Contingency Model for Governmental Accounting Innovations, in Bac, A. (ed.), *International Comparative Issues in Government Accounting*, Dordrecht: Kluwer Academic Publishers, 279-296.
- Godfrey, A.; Devlin, P. and Merrouche, M. (1996), Governmental Accounting in Kenya, Tanzania and Uganda, *Research in Governmental and Nonprofit Accounting*, Vol. 9, 193-208.
- Haldma, T. (2006), Uneven Way of Integration of Governmental Accounting into National Accounting System: Evidence from Estonian Municipalities, in Lande, E. and Scheid, J. C. (eds.), *Accounting Reform in the Public Sector: Mimicry, Fad or Necessity*, Edition ECM, 163-175.
- Hughes, J. and Minovski (2004), A Plan for Implementation of International Public Accounting Standards in Developing Countries and Economy in Transition, *Public Fund Digest*, Vol. 04 No. 01. International consortium in governmental financial management, Washington DC, February 2004, 32-52.
- International Federation of Accountants (2003), *Handbook of the International Public Sector Accounting Standards*, PSC-IPSAS1, 137.
- Jarvenpaa, M. (1998), Management Accounting and Strategy. Functional and Institutional Perspectives: A Case Study, *21st European Accounting Association Congress*.
- Jorge, S.; Carvalho, J. and Fernandes, M. J. (2006), Compliance with the New System of Local Government Accounting in Portugal: Empirical Evidence and Reasons for Non-Compliance, in Lande, E. and Scheid, J. C. (eds.), *Accounting Reform in the Public Sector: Mimicry, Fad or Necessity*, Edition ECM, 145-162.
- Khumawala, S. (1997), Public Sector Accounting in India: A Historical Review and an Analysis since Independence to the Economic Reforms of the Nineties, *Journal of Public Budgeting, Accounting and Financial Management*, Vol. 9, No. 2, 305-330.
- Konstantin, T. (2004), *Modernizing Russian Federal Accounting*, A paper of PhD Course first draft.
- Lande, E. (2003), Le système d'informations des communes permet-il de mesurer les risques financiers?, *Revue du Trésor*, février 2003.
- Lande, E. (2006), Accrual Accounting in the Public Sector: Between Institutional Competitiveness and Search for Legitimacy, in Lande, E. and Scheid, J. C. (eds.), *Accounting Reform in the Public Sector: Mimicry, Fad or Necessity*, Edition ECM, 19-30.

- Lehman, G. (2003), A Critical Perspective on the Harmonisation of Accounting in a Globalising World, *Academic Press*, 1-18.
- Likierman, A. (1996), The UK Government's Accounting and Budgeting Revolution, *Research in Governmental and Nonprofit Accounting*, Vol. 9, 303-322.
- Lüder, K. (2002), Research in Comparative Accounting over the Last Decade: Achievements and Problems, in Montesinos and Vela (eds.), *Innovations in Governmental Accounting*, Boston: Kluwer.
- Macmillan, G. (2003), Improving Government Financial Reporting: The Window to Good Governance, *The Governance Brief*, ADB (September 2003).
- Manzurul, A. and Nandan, R. (2005), Public Sector Reform and Accounting Change in a Cultural Environment, CIGAR Conference, Poitiers.
- Matthew, O. (2003), Deploying Financial Management Systems in Developing Nations. The International Consortium on Governmental Financial Management, *Public Fund Digest*, Volume 3, No. 02, Washington DC, 8-20.
- Maurel, C. and Gains, A. (2005), The French Local Authorities' Experiences in the Computerization of the Accounting and the Budgeting Systems, CIGAR Conference, Poitiers.
- Merrouche, C. and Devlin, P. (2005), Local Government Accounting in Algeria: Anarchy or Modernity, CIGAR Conference (Poitiers).
- Monsen, N. and Nasi, S. (1998), The Contingency Model of Governmental Accounting Innovations: A Discussion, *The European Accounting Review*, Vol. 7, No. 2, 275-288.
- Montesinos, V. and BARGUES, J. (1996), Governmental Accounting in Spain: Evolution and Reforms, *Research in Governmental and Nonprofit Accounting*, Vol. 9, 219-38.
- O'Brien (2003), Good Governance: Efforts by Donor Agencies, *Public Fund Digest*, Vol. 3, No. 2, International Consortium (August 2003), Washington, D.C., 20- 29.
- Obert, R. (2003), *Pratique des normes IAS/IFRS, Comparaison avec les règles françaises et les US GAAP*, Edition DUNOD, Paris.
- Ouda, H. (2003), Accrual Accounting in the Government Sector Background, Concepts, Benefits and Costs, Department of Accounting and Accountancy, *Public Fund Digest*, Vol. 3, No. 2, International Consortium on Governmental Financial Management Washington, 52-58, 91.
- Ouda, H. (2006), Transition Requirements of Accrual Accounting in the Public Sector of Developed and Developing Countries: An Empirical Investigation with Special Focus on the Netherlands and Egypt, in Lande, E. and Scheid, J. C. (eds.), *Accounting Reform in the Public Sector: Mimicry, Fad or Necessity*, Edition ECM.
- Pallot, J. (2001a), Transparency in Local Government, Antipodean Initiatives, *The European Accounting Review*, Vol. 10, No. 3, 645-660.
- Pallot, J. (2001b), A Decade in Review: New Zealand's Experience with Resource Accounting and Budgeting, *Financial Accountability and Management*, Vol. 17, No. 4, 383-400.
- Pettersen, J.; Rotefoss, B.; Jonsson, S. and Korneliussen, T. (2005), *Nordic Management and Business Administration Research, quo vadis?*, Norway, GRI (Gothenburg Research Institute) report.
- PNUD (2001), *Coopération du gouvernement malgache et le Programme des Nations Unies pour le Développement, Programme MAG 197/007-DAP 1, Guide du maire, gouvernance et politiques pour le développement humain durable*, juin 2001, mis à jour et réédité en février 2004, DL N°. 001-02/04, 67-73.
- Rakoto, H. (2007), *Innovation comptable au sein des communes malgaches: la cas de l'adoption de la comptabilité d'engagement*, Université de Poitiers.
- Razafimahatratra, P. (2005), Mise en place d'un comité technique pour améliorer la fiscalité locale, *Les nouvelles*, N° 0468 du 07 septembre 2005, 03, 23.
- Torres, L. and Pina, V. (2003), Reshaping public sector accounting, *Revue canadienne des sciences de l'administration*, 334-350.
- Van Helden, J. (2003), A Review of Governmental Accounting Reform, *Systems, Organisation and Management*, University of Groningen, 1-40.

- Wynne, A. (2003), Do Private Sector Financial Statements Provide a Suitable Model for Public Accounts?, *Public Law and the Modernizing State Conference*, Oeiras.
- Wynne, A. (2005), Public Financial Management Reform in Developing Countries, Local Solutions for the Local People, CIGAR Conference, Poitiers.
- Yamamoto, K. (1999), Accounting System Reform in Japanese Local Governments, *Financial Accountability and Management*, Vol. 15, No. 3 and 4, 291-307.

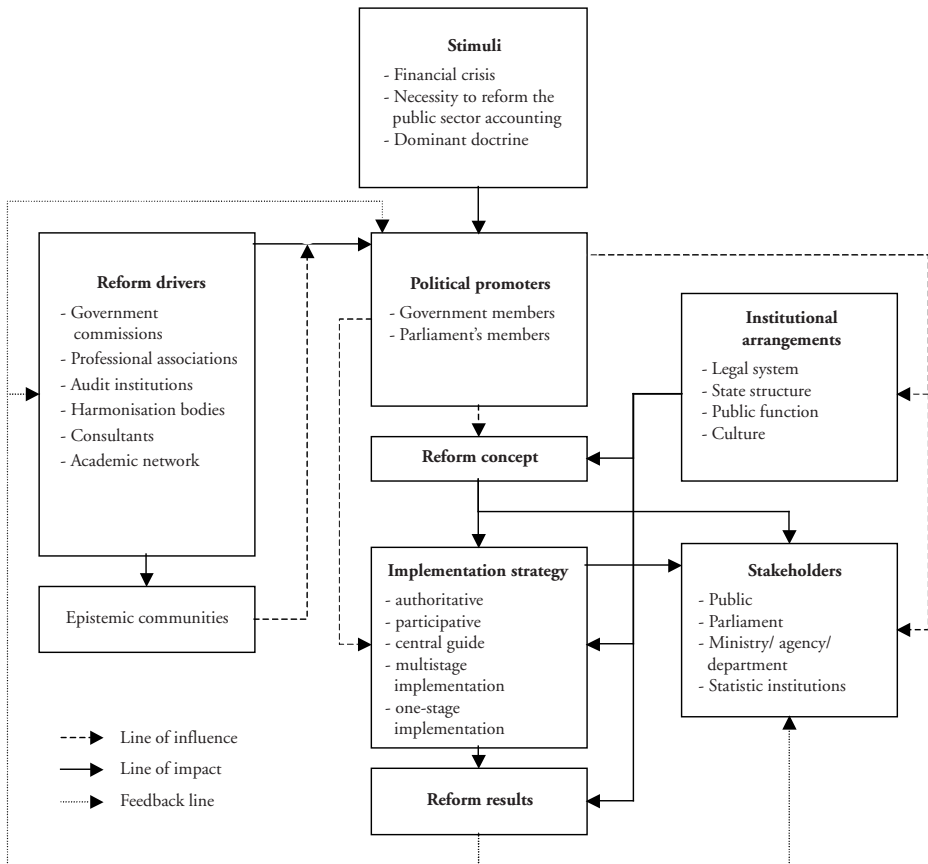
Statutory provision

- Decree 2004-573 of June 2004, on the general inspection of finances.
- Decree 2005-003 of January 2005, on the public sector accounting regulation.
- Decree 2005-210 of April, 2005, PCOP 2006.
- Law 2001-025 of April 2003, on financial court.
- Law 95-005 of May 1995, on the collectivity's budgetary system control.
- LOLF No. 2004-007 of July 2004, on organic finances laws.
- Order 6458/2005 of June 2005, a collectivity's PCOP 2006 application guide.

Political discourses

- Radavidson A., Minister of Economy, Finance and Budget, on investment on the matter of road infrastructures, Mahajanga, June 2004.
- Ramandimbarison, Z., Deputy Prime Minister, on good governance and transparency, Tananarive, 2004.
- Ravalomanana, M., President of the Republic of Madagascar, on DSRP implementation, Tananarive, 2004.
- Ravalomanana, M., President of the Republic of Madagascar, on MAP's presentation, Tananarive, January 2007.
- Sylla, J., Prime Minister, on the programme of implementation of state's politics, Tananarive, March 2003.

Annex 1 – Lüder’s contingency model



Source: Lüder (2002)

Annex 2 – Details of municipalities visited

MUNICIPALITY	Province	Category	Mayor	CS	CTB	FAM	CG	PA	Cons	TOTAL
Alarobia Ambatomanga	Tana	rur 2nd cat	1	0	1	0	0	0	0	2
Alasora	Tana	rur 2nd cat	1	0	1	0	0	0	0	2
Amabatoaona	Tana	rur 2nd cat	0	0	1	0	0	0	0	1
Amabatomena	Tana	rur 2nd cat	0	0	1	0	0	0	0	1
Ambanitsena	Tana	rur 2nd cat	0	0	1	0	0	0	0	1
Ambatomanga	Tana	rur 2nd cat	0	0	1	0	0	0	0	1
Ambohibao Sud	Tana	rur 2nd cat	1	0	0	0	0	0	0	1
Ambohimalaza	Tana	rur 2nd cat	1	0	1	0	0	0	0	2
Ambohimangakely	Tana	rur 2nd cat	2	0	2	0	0	0	0	4
Ambohitradrimoanala	Tana	rur 2nd cat	1	0	0	0	0	0	0	1
Ambohitrandriamanitra	Tana	rur 2nd cat	0	0	1	0	0	0	0	1
Ambohitrolonimahitsy	Tana	rur 2nd cat	1	0	0	0	0	0	0	1
Ambohitrony	Tana	rur 2nd cat	1	0	0	0	0	0	0	1
Ambohitscheno	Tana	rur 2nd cat	0	0	1	0	0	0	0	1
Ampaneva	Tana	rur 2nd cat	1	0	0	0	0	0	0	1
Ankazondandy	Tana	rur 2nd cat	1	0	0	0	0	0	0	1
Antsirabe	Tana	urb 1st cat	1	0	0	0	0	0	0	1
Tana	Tana	urb no cat	1	0	0	1	1	1	0	4
Fenoarivo/Alakamisy	Tana	rur 2nd cat	1	0	1	0	0	0	0	2
Fieferana	Tana	rur 2nd cat	1	0	0	0	0	0	0	1
Imerikanjaka	Tana	rur 2nd cat	1	0	0	0	0	0	0	1
Manjakandriana	Tana	rur 2nd cat	0	0	1	0	0	0	0	1
Miadanandriana	Tana	rur 2nd cat	1	0	0	0	0	0	0	1
Tanjombato	Tana	rur 2nd cat	1	0	0	0	0	0	0	1
Vilihazo	Tana	rur 2nd cat	0	0	1	0	0	0	0	1
Ambanja	Diégo	urb 2nd cat	0	0	1	0	0	0	0	1
Antsiranana	Diégo	urb 1st cat	0	0	0	1	0	0	1	2
Sahatona	Fianarantsoa	rur 2nd cat	1	0	0	0	0	0	0	1
Ankazomborona	Majunga	rur 2nd cat	1	0	0	0	0	0	0	1
Marovoay	Majunga	urb 2nd cat	0	1	0	0	0	0	0	0
Mahajanga	Majunga	urb 1st cat	2	1	3	1	0	1	2	10
Ambatondrazaka	Tamatave	urb 2nd cat	1	0	0	0	0	0	0	1
TOTAL			23	2	18	3	1	2	3	52

List of abbreviations:

Cat - Municipality's category (rur = rural; urb = urban)

CS - Chief of staff

FAM - Financial and administrative manager

CG - Management system controller

PA - Public accountant

Counc - Councillor

(Página deixada propositadamente em branco)

TRACING CHANGES IN CENTRAL GOVERNMENT ACCOUNTING: A CASE OF RUSSIA

Introduction

The last few decades have witnessed substantial efforts to reinvent the state worldwide. While OECD countries have stood at the forefront of these developments, more recently questions of how to revive the public sector have been put on top of the agenda in many developing countries and those in transition. The Russian state is no exception to this global trend, distancing itself from the legacy of its Soviet past. At the outset of the new millennium, appeals for boosting efficiency, effectiveness, and accountability have begun to be widely heard in the country, serving as truths, in the name of which, the Russian public sector is to be revitalized. Driven by a motto to double Russia's GDP by 2010, a series of ambitious initiatives have been put forward by government officials, signaling a clear-cut shift in the ideology in Russian public administration (Russia Journal, 2004). The modernization of the whole budget process was announced to be at the core of the program of economic transformation and development in Russia with the primary goal of "boosting accountability in government expenditures."

The importance of these efforts can hardly be emphasized enough as they are laid down in the *Concept of the Budget Process Reform for 2004-2006* endorsed by Cabinet Resolution # 249 on May 22nd, 2004 (hereafter, *the concept*). The reform, widely nicknamed by some Russian mass media as "A Reform for the People", "A Real Breakthrough in Boosting the Efficiency", or "A Budgetary Revolution" (Finansovye Izvestia, 2004; Kommersant, 2004), has been declared to be a step of vital social significance as it intends to make government expenditures clear and transparent to each Russian citizen. The objective of the modernization process, as stated in *the concept*, is "to lay down preconditions and prerequisites for the most effective allocation and management of government finances by appropriate prioritization of various government activities considered to have critical bearing on a country's development" (p. 2). In essence, the reform process is meant to move away from the costs and inputs (so-called «smeta» financing or *administration of resources*) towards goals and outputs (*management by results*) by "strengthening the accountability and widening the managerial autonomy within a medium-term financial

planning framework” (p. 2) (see also Lavrov, 2004; Tambovtsev, 2004). Out of those policy measures outlined in *the concept*, streamlining public accounting is reckoned to be “a necessary and indispensable precondition in modernizing a country’s budget process”, or “the paramount constituent part of the Budget Process Reform” (Charkov and Choroshev, 2005: 9). A common argument behind this step is to establish a system of accounting and financial reporting in Russian public administration that is capable not simply of tracking the flow of budgetary resources, but also of assessing their effective use. Literally speaking, *the concept* is in strong favor of a move from traditional *cash accounting* towards businesslike *accrual accounting* in order to boost accountability and transparency of government transactions.

Based on the above-mentioned, the present paper seeks to describe and analyze, and by doing so, contribute to knowledge about, Russian public sector accounting in times of change. With its exclusive focus on the central government level, this insight aims at tracing the emergence of a *new* version of accounting norms within the Russian state. The emphasis on the ‘*new*’ is akin to the present study as it “signals a break with the past and the introduction of something new” (Sahlin-Andersson, 2001: 58). Indeed, being different from the entity’s own tradition, the adoption of accrual accounting by the Russian state can be regarded as an organizational innovation. This makes the accounting reform in Russia at least attractive for those who tend to break with previous traditions. In striving to achieve this purpose, the development of Russian federal government accounting has been assembled into three successive periods, originating from the outset of the 90s until recently. By bracketing time, this research is intended to reveal what has changed in a particular transition period at the central government level, and what has remained untouched in the content of accounting norms and ordinances.

It is worth pointing out that Western English-language literature is relatively voluminous on the reformed practices in OECD countries (see e.g., Benito *et al.*, 2005; Lüder and Jones, 2003). Meanwhile, there is a conspicuous absence of rigorous research efforts on the Russian government accounting system. Whereas Russian local government accounting is already covered by Bourmistrov and Mellemvik (1999, 2001 and 2002), there is virtually nothing about Russian central government accounting in CIGAR’s publications and in most of international accounting’s research networks, workshops, and groups (see e.g., Bourmistrov and Mellemvik, 2005). Such a paucity of knowledge can be considered a valuable source of motivation to expand our knowledge in the field of Russian central government accounting. As Bergevärn *et al.* (1995: 39) stress, “such studies are obviously important today, when the public sector is putting so much effort into the reconstruction of accounting and accountability”. In a more or less similar manner, Miller (1994) encourages single studies of particular accounting events, serving as a starting point for new literature. Last, but not least, Preston *et al.* (1992) argue for a need for studies of the creation of specific accounting systems and the manner in which such systems alter. That is why tracing changes in Russian central government accounting is worth independent research efforts due to a plausibly unique reforming path and its particularity.

The current paper is structured as follows. First of all, a frame of reference driven by three theoretical ‘lenses’ is elaborated. This *troika* encompasses a system approach to accounting, an accountability approach, and an institutional approach. Next, an overview

of the data-capturing techniques utilized in the present research is undertaken. In the penultimate section, the evolution of a specific version of Russian central government accounting in terms of its norms is portrayed with respect to the three identified periods. These three are “accounting continuity”, “gradual change”, and “accounting renaissance” in the Russian public sector. Finally, some concluding comments are brought to light. Some propositions for new studies are also highlighted.

1. Accounting as a social and institutional practice

Planned changes in government accounting are believed to be linked to the emergence of particular systems and specific ways of seeking to govern Russian society. This fits well with modern literature that treats the techniques and practices of accounting as being fundamentally bound up with a wider social and organizational change (see e.g., Miller, 1994; Hopwood *et al.*, 1994). That is why it is vital to attend to conditions under which specific accounting technologies such as accrual accounting appear, penetrate, and extend into the Russian public sector. Consequently, if we are to comprehend how a nascent version of Russian central government accounting norms emerges; how demands for more efficiency, effectiveness, and accountability come to be translated into up-to-date calculative apparatus of accrual accounting; and why such significance is accorded the latter, we have to move beyond the boundaries of the organization and examine this accounting change in relation to new ways of managing the Russian public sector. This is congruent with the emerging view of accounting as a social and institutional practice widely advocated in contemporary literature (see e.g., Miller, 1994; Burchell *et al.*, 1985; Preston *et al.*, 1992; Mellemvik *et al.*, 1988). It is in this research tradition that I attempt to approach and understand changes in Russian central government accounting norms. Indeed, Hopwood (1983: 302) spoke of “the external origins of internal accounts”, implying that accounting “can never be seen in purely organizational terms”. This is due to the fact that accounting is a social construction which cannot be isolated from its context, i.e., social processes taking place in and around any organization (Mellemvik *et al.*, 1988; Hopwood, 1983; Miller, 1994). Hence, it is intellectually rewarding to study Russian central government accounting in the context in which it is enmeshed. Such a viewing incorporates at least three various aspects of accounting which need to be highlighted.

To begin with, there is an emphasis on accounting as a *technology*, implying the existence of specific calculative practices and procedures for handling and monitoring economic and financial activities. This corresponds to seeing accounting as a measuring instrument, the scientific task of which is to calibrate, polish, and clarify that instrument so that it generates true measures of reality (Jönsson, 1988; Roberts, 1991). Likewise, accounting may be looked upon as “a mirror or picture which neutrally and objectively records the ‘facts’ about what has happened in an organization over a particular period of time” (Robert and Scapens, 1985: 45). Treated from this theoretical approach, accounting is *a system*, consisting of various elements, linked to each other in one way or another and intended to fulfil certain goals. And changes in one element of the system inevitably lead to those alterations in other elements. It is in this manner that I seek to study the relationship between the Russian central government budget and

accounting over time. As Chan pointed out, one way of characterizing government accounting is to formulate its models in terms of its divergence from the traditional budget (2002: 26). Having said this, a fundamental use of government accounting is for budgeting and the concomitant budgetary control, a use that is often referred to in the literature as “budgetary accounting” (Lüder and Jones, 2003). Therefore, changes in Russian central government accounting may be looked upon as confronted to this traditional budgetary accounting. This is what is termed ‘*a system approach to accounting*’ in this study.

Next, particular computational practices and techniques of accounting are thought to be inextricably linked to specific ways of knowing and managing organizations. Miller (1994) uses the term *rationales* to designate this dimension of accounting as a social and institutional practice. Indeed, it is these rationales or meanings that inspire organizations to change and that result in the calculative technologies and practices of accounting to be altered. New computational practices and techniques are expected to serve these rationales by substantially contributing to “the formation of beliefs and expectations” (Mellempvik *et al.*, 1988: 112).

As stated above, one of the main pillars of and common arguments behind a recent reform agenda embarked on in the Russian state is a growing preoccupation with the notion of *accountability*. And, for this notion to be translated into, an up-to-date calculative apparatus of accounting is likely to be called for. That is why an accountability approach is adopted in this study in order to reveal the role of accounting in the reconstruction of the Russian public sector. In fact, the practice of accounting institutionalizes the notion of accountability (Robert and Scapens, 1985), implying that any shift in focus and priority among the different patterns of accountability leads to considerable implications for the accounting system. Consequently, when researching accounting, a special reference to accountability is a prerequisite. Thus far, the second approach to describe and analyze Russian government accounting in change is to examine it in relation to broader rationales for more accountability, or new types of accountability in the Russian public sector.

Finally, there is also a view of accounting as *socially constituted* or *socially constructed* (Garrod and McLeay, 1986; Laughlin, 1988; Dillard, 1991), meaning that the computational practices and techniques of accounting are “intrinsically and irredeemably social” (Miller, 1994: 4). In line with this, the literature on accounting as a social and institutional practice has come to view the phenomenon of accounting as *a symbol of legitimacy*. A plethora of studies are currently available on the use of accounting practices in order to maintain appearances of legitimacy, as well as the importance of the institutional environment on the practice of accounting (Mellempvik *et al.*, 1988; Bergevärn *et al.*, 1995; Mellempvik and Olson, 1996; Carpenter and Feroz, 2001; Covaleski and Dirsmith, 1988; DiMaggio and Powell, 1983; Dillard *et al.*, 2004; Meyer and Rowan, 1977). And an important conclusion that can be drawn from them is that “accounting information not only reflects, but ... also shapes organizational reality” (Roberts and Scapens, 1985: 455). Indeed, the potential of accounting to make and mould, to give incentives, to focus attention, to create and shape new perceptions of organizational reality is now profoundly recognized (Roberts, 1991; Kurunmäki, 1999).

Based on the above-mentioned, the third and final way to investigate Russian government accounting in change is by using ideas from the field of *institutional*

theory (Meyer and Rowan, 1977), which deals with issues of how organizations adapt to the prescribed myths in their institutional environments. As the literature in the field suggests, this may occur by coercion, via imitation, and through normative pressures (Meyer and Rowan, 1977; DiMaggio and Powell, 1983; Carpenter and Feroz, 2001). To begin with, *coercive* pressures for change stem from the source of power that impels organizations to adjust. Next, the *mimetic* pressures for change refer to the adaptation of organizational rules or practices, which are being used by similar organizations in the field, especially those rules or practices that are being implied by so-called 'successful or legitimate organizations' (see e.g. Oliver, 1991). At last, changes are usually impossible without eminent professional actors who standardize the contents of norms and pack them up so that they would look attractive and applicable. This is what is labelled *normative* pressures for change.

Seen together, this *troika* – a system approach to accounting, an accountability approach, and an institutional approach – is believed to provide theoretical 'lenses' through which to describe and analyze Russian central government accounting norms in times of change. Rather than being isolated from each other, all three are seen as complementary for the purpose of the current study. In effect, their choice is explained by a desire to shed light on Russian government accounting in change from different angles or viewpoints in an endeavour to obtain a holistic view of the phenomenon investigated. The sequence of these three is not accidental; on the contrary, each approach supplements and extends the previous one, so that the phenomenon of Russian central government accounting in change is covered to a degree that would not be achieved by any single theoretical perspective. With these three being inextricably intertwined, such a multi-faceted approach appears to yield a richer and broader understanding of Russian government accounting than any single perspective.

2. Gathering accounting norms

The process of data-capture traces its launch to 2002 with the defense of my advanced master thesis at Bodø Graduate School of Business (Timoshenko, 2002). In the latter I strived to describe and analyze provisions governing the design of the Russian central government accounting system. In the aftermath of this assiduous effort, a host of documents and sources were unveiled. Follow-up search was then carried out to renew my database. This encompassed the most recent developments and initiatives embarked on in the Russian general government sector. In particular, the search for regulations and implementation guidance was driven by a desire to reveal changes in the objectives of budgeting and accounting systems, and how they are interrelated. The vast amount of budgeting and accounting norms were easily accessible and publicly available on the Internet and in libraries. In searching for them, snowballing sampling was largely utilized, giving rise to a rich collection of normative documents. These included various laws, presidential edicts, cabinet resolutions, and concept papers, which all contributed to a better understanding of the process of accounting development and changes in the Russian public sector.

While collecting and assessing these norms, it was pivotal to assemble them with respect to a particular transition period, their institutional source, and the degree of

accounting regulations laid down in them. Besides this, a multitude of other independent and additional ‘texts’ available throughout the study (i.e., those from budgeting and accounting textbooks, articles, and press clippings) were utilized with the aim of boosting the level of detail and care. Noteworthy, the search for information furnished solid evidence indicating that the thinking of Russian government officials during the last decade has been greatly affected by international developments, particularly from organizations such as the IMF, the World Bank and the International Public Sector Accounting Standards Board (IPSASB). This made it imperative to access a series of recommendations and criteria on how to implement and assess reforms, as advocated by the aforementioned organizations, in order to grasp a nascent policy package hammered out in the Russian public sector.

3. The evolution of Russian government accounting

The evolution of the Russian public sector in general and its accounting system in particular has not been given much attention during the last fifteen years. Although varying stages and time intervals can be designated in order to trace the development of the Russian government accounting system, I have approached this by focusing on the three distinct periods (see Table 1). Their choice is due to the identified patterns of continuity and change in the content of central government accounting norms.

Table 1 – The Development of Russian Central Government Accounting from 1992 until recently

Item	Period		
	1992-1998 “Accounting Continuity”	1998-2003 “Gradual Change”	2003 until now “Accounting Renaissance”
Potent institutional forces	Learning primarily from own experience	Learning from own experience along with the IMF and the World Bank	International organizations, including the IMF, the WB, and the IPSASB
The dominant accountability patterns	Towards internal accountability of the executive to the legislature	Internal accountability of the executive to the legislature	Towards accountability in terms of results within the executive branch
The system of government accounting	Towards establishing a Treasury system for budget execution	A well-elaborated system of ‘Treasury accounting’	Towards a system for supporting public entities’ management and evaluation

To be more precise, with some minor adjustments and modifications, the first transition stage (1992-1998) was characterized by the continuation of those provisions inherited from the Soviet past. While in principle preserving the legacy of old accounting and budgeting norms during the second stage (1998-2003), the Russian government had made some important strides towards establishing an up-to-date system of government

accounting and financial reporting. Since 2003, the state of Russia has been distancing itself from the legacy of the Soviet budgeting and accounting systems and seeking to adopt the budget institutions and techniques commonly advocated in the West. It is, in fact, this period in which accounting thought drastically changes direction. This is what I term the central government accounting '*Renaissance*' in Russia for the sake of this research. Let us now discover the forces that drove this rebirth of accounting by dealing with the three periods above in more detail.

3.1. The First Transition Period – “Accounting Continuity”

At the very outset of the 90s, Russia turned out to be a nation lacking the basic pillars of the market economy and democracy. This made it urgent to restore those elementary institutions without which no democratic nation can function. Structural economic reforms (such as privatizing state-sponsored enterprises) were clearly prioritized during the first transition period, whereas the transformation of the Russian public sector was relegated to a remote second place. In this regard, only minor and the most basic changes in fiscal management were introduced during this stage in order to adapt the budget process to the discontinuation of Soviet practices. To be more precise, the federal government had begun launching a treasury system for budget execution with the creation of the Federal Treasury department under the Ministry of Finance in 1992. The named body was empowered by the legislation to render the role of the government accountant and a cashier for all federal budget disposers and receivers.

Equally important, the Accounts Chamber was established as the Russian Supreme Audit Institution in 1995. According to the 1993 Constitution of Russia, the Accounts Chamber is the only body responsible for external audit of government finances that is accountable to the Russian legislature. The Federal Law “On Accounts Chamber”, which came into force in January 1995, laid down the foundation for the independence of the Chamber from the executive branch of the government and clearly stated the principles of legality, neutrality, and objectivity. The World Bank (2003) assessed its creation as a significant stride in institutionalizing the accountability of the executive to the legislature in the country which had no tradition of an independent, ex-post, external audit function for public financial management. Treated in this way, the Accounts Chamber filled an important gap in the country’s financial accountability framework.

Even though the economic conditions had dramatically altered, both the budget institutions and the processes of fiscal management were to a significant extent a continuation of the Soviet era, lagging far behind those developments in the private sector. Coping with the turbulent financial environment, Russian policy makers seemed to be mostly preoccupied with avoiding political and social instability. Indeed, the very existence of Russia as a sovereign state was threatened during these years. This entailed deteriorating budget performance, high levels of inflation, augmented levels of domestic and foreign debts, which all culminated with the Russian economic crisis of August 1998.

Given a great deal of ‘fire-fighting’ activities during the early transition, government budgeting and accounting systems were not focal points, implying the legacy and

continuity of those practices and procedures inherited from the Soviet past. The relative stability in the content of central government accounting norms indicates this vigorously. Indeed, with a previous set of accounting norms serving as a point of departure, post-Soviet Russian policy makers were likely to adjust or modify them slightly to cope with a rapidly changing economic environment. With little or no ascendancy prompting externally, the system continued to regenerate itself, resulting in a 'new' pattern of accounting provisions that was chiefly reminiscent of its predecessor and that was hardly relevant providing new economic conditions. For instance, the 1993 Instruction #122 "On Accounting for Organizations Financed from the Budget" was nullified by the Supreme Court's resolution in July 1998 as *contradictory* to the Russian legislation. As a result, a lack of up-to-date accounting rules in the Russian public sector had induced government entities across the country to be guided by those provisions in the private sector for nearly two years (see e.g., Tokarev, 2000).

3.2. The Second Transition Period – "Gradual Change"

In the aftermath of the 1998 fiscal stress, reform efforts were intensified, heralding the second phase of transition. This was indeed the time when the economy recovered and grew, permitting the federal government to start solving some strategic tasks. More precisely, in cooperation with international financial organizations such as the IMF and the World Bank, the Russian central government adopted a series of fiscal austerity measures directed at halting macroeconomic instability. It also pursued some institutional reforms, including the adoption of the Russian Budget Code which finally came into force in 2000. Its adoption was, in fact, met by many international observers such the IMF and the World Bank as a significant step forward in modernizing the Russian public sector. This law took four years to be passed by the Russian Parliament and to be promulgated. While it is possible to detect some features in the Code depicting the legacy of the Soviet era, its passage can generally be characterized as a significant step forward in modernizing the Russian public sector (Diamond, 2002, 2003 and 2005). Perhaps more importantly for the sake of this study, the approval of a new Budget Code was reinforced by the launch of a Federal Treasury accounting and financial reporting system in 1999, allowing the management of the budget execution process.

Indeed, since its creation in 1992, the Federal Treasury had implemented a system to manage the budget execution process, allowing for greater timeliness and effectiveness of accounting and reporting, as well as a considerable improvement in the quality of data (World Bank, 2003; IMF, 2004). For instance, a federal execution balance sheet for the Russian Federation was for the first time prepared in 2000. Also for the first time in 2000, interim reports depicting the budget flows and net financial position were issued by the Ministry of Finance and circulated within the government, to supplement the annual report on budget execution. Furthermore, monthly reports on the federal budget execution, comprising revenues, expenditures, and financing data, had begun to be provided on a regular basis (World Bank, 2003). Besides that, a system of commitment recording was introduced in 2001 by Cabinet Resolution # 806 dated July 15th, 1999 to track utility-related expenditures such as heating, natural gas, fuel,

electric power, and water supply (Diamond, 2003). Following the IMF's Report on the Observance of Standards and Codes on Fiscal Transparency, the latter proved to be effective in tracking and avoiding arrears (IMF, 2004).

Moreover, a major step in the development of the Federal Treasury system was undertaken with the approval of a Federal Treasury Development Program by Cabinet Resolution # 677 dated June 23rd, 1999. The objectives of this program were specified as follows: (i) to implement a Treasury Single Account for federal budget revenues and expenditures; (ii) to centralize all government operations in the Federal Treasury's accounts; (iii) to ensure the implementation of a uniform accounting and reporting system based on a single accounting and budget classification; and (iv) to develop, implement, and facilitate an integrated treasury computer/communication system.

Noteworthy, the overall development of the Federal Treasury's capacity has been supported under the Ministry's of Finance *Treasury Development Project*, with World Bank loan funding (World Bank, 2001). Among other things, a US \$231 million project has aimed at providing a transparent system of accounting that shows the utilization of the financial resources of the government and enables management and audit of these resources (World Bank, 2002). This project commenced in June 2002, and has a maturity of 17 years including a 5-year grace period. The government expressed its deep commitment to the project due to its vital importance for strengthening fiscal management in the country (World Bank, 2003).

However, with some progress achieved during the second transition stage, Russian public accounting was solely aimed at ensuring control and compliance with those provisions and rules endorsed in the budget. To illuminate, the 1999 Chart of Accounts on Budget Execution effective from January 1st, 2000, explicitly specified the objectives of government accounting reporting, which were as follows (my translation):

- To provide comprehensive and reliable information on the federal budget execution;
- To secure control for the rightful use of resources from the federal budget;
- To provide the accounting reports necessary for the executive (i.e., the Russian Cabinet of Ministers) and the legislature (i.e., the Federal Assembly);
- To furnish useful information for other internal and external users.

As stems from the text of the instruction, the primary objective of accounting was to generate financial reports on budget execution at required time intervals (quarterly and annually) in order to assess budget accomplishments. Having said this, Russian central government accounting was designed for the recording of data and possessed as such the compliance orientation, whose main task was to measure and communicate actual spending versus authorizations, and not to provide information for fiscal management. Not surprisingly, government accounting was recognized on a modified cash basis to record the varying economic transactions, tracking the record of receipts and disbursements in relation to the budget.

Next, although other internal and external users were recognized in the text of the instruction, the reports produced were intended to be useful, first and foremost, to the Russian Cabinet of Ministers and the Federal Assembly, which were regarded as the primary users of accounting information for the purpose of the government's management of the macro-economy. This means that the operational objective of accounting was to secure the legislative approval of the final accounts, so that the

former could annually discharge its fiscal accountability. All this suggests that Russian central government accounting was intended to operate in a relationship between the Federal Assembly as the principal and the Cabinet of Ministers as the agent, in order to secure control of the rightful use of federal budget resources by providing comprehensive and reliable information on federal budget execution. In this regard, accounting constituted an adjunct to the budget, was held in low esteem, and considered solely a matter for government officials who were reckoned to be the only users of accounting information.

3.3. The Third Transition Period – “Accounting Renaissance”

Since 2003 demands for greater efficiency, effectiveness, and transparency in Russian public administration began to be widely heard, heralding the beginning of the third and most remarkable transition period. This has been enacted through a series of government initiatives embarked on in the country, signaling a clear-cut shift in the ideology in Russian public administration. Being essentially accountability-driven, they are all believed to alter significantly the scope and function of the Russian state in years to come. Rather than giving priority to strict obedience to the rules and provisions enacted in the budget law, there is now a definite move towards a greater element of accountability in terms of results within the executive branch. A radically improved structure of the Russian Cabinet of Ministers endorsed with the passage of Presidential Edict # 314 “On the System and Structure of Federal Organs of Executive Power” from March 9, 2004, indicates this strongly, giving birth to new ministries, agencies, and services. Albeit the degree of managerial autonomy of the agencies and services from the respective ministries is not yet clearly identified (Diamond, 2005), there appears to be a salient trend towards discerning policy from delivery of this policy. This is expected to result in better defined responsibilities and, as a repercussion, in heightened accountability and control issues, so that federal budget managers, rather than being held accountable for the correct use of inputs, would be held accountable for the results of using those inputs.

As far as the Budget Process Reform is concerned, it aims at ensuring the effective allocation and management of government finances that meet the country’s policy priorities and objectives. If implemented, the effectiveness of the use of budgetary expenditures is expected to rise by 10-20% after three years. A policy kit is diverse, encompassing the introduction and implementation of performance-oriented budgeting and medium-term financial planning, as well as the transformation of Russian public accounts towards accrual accounting. Along with the budget classification, the reforming of Russia’s public sector accounting system, as stated in *the concept*, is

“... a necessary and indispensable precondition in modernizing a country’s budget process. Both the budget classification and accounting system should become a reliable tool that ensures transparency of those activities of the state bodies and administrators of budget resources, and provides a wealth of financial information required throughout all the phases of the budget process, emanating from the analysis of the previous period’s financial results, to the

preparation and presentation of the draft budget, and its execution throughout the fiscal year up to the generation of final accounts” (p. 4, author’s translation).

This quotation suggests that the budget and accounting are still inextricably intertwined, and that accounting change is perceived as *complementary* or *residual* to that in the budget process. Needless to say, this also stems from the very name of the reform effort itself. Even though public budgeting gains much more attention than accounting, the outcome of the Budget Process Reform is deemed partially dependent on the availability of feedback information from the accounting system. Indeed, “without the reforming of government accounting, it is almost impossible to adopt performance-oriented budgeting and medium-term financial planning framework” (Nesterenko, 2004). In a more or less similar vein, “to achieve all the goals of economic reforms occurring in Russia nowadays, there is a need for the establishment of an adequate system of government accounting” (Corporation Parus, 2005). This makes the transformation of Russian public accounts at least as important as the budget reform itself. That is why moving Russian government accounting towards accruals is reckoned as the first element of the reform package enunciated in the Budget Process Reform Paper for 2004-2006.

According to *the concept*, the introduction of accrual accounting is intended to “fundamentally boost accountability and transparency of government transactions, and to furnish information showing the financial consequences of decisions being made in the fiscal and budgetary sphere” (p. 6). More precisely, in a move away from the previous exclusive emphasis on receipts and disbursements, the scope of Russian government accounting has now been extended to account for transactions affecting financial and non-financial assets and liabilities belonging to the Russian state:

“Unlike cash accounting, which merely enables flows of financial resources to be tracked and does not yield a complete picture of those assets and liabilities belonging to the state bodies, accrual accounting makes it possible to assess the outcomes of programs, as well as to match the costs of services provided by the government against those costs of obtaining the same services in the market” (p. 6, author’s translation).

As such, the financial information generated by the accounting system is expected to be in line as much as possible with the accounting methods used by the private sector, with three main statements prepared – a balance sheet, an operating statement, and a statement of cash flows (Romanov, 2004). Reports based on accruals are claimed to yield “full and comprehensive information about activities in Russian general government sector on a completely new basis” (Makleva, 2004). More specifically, they will allow their users not merely to assess cash flows, but also to evaluate a government’s ongoing ability to finance its activities and to meet its liabilities and commitments. Next, this information may be useful not solely for internal users such as the executive and the legislature, but for a wide constellation of external users like creditors and investors of the federal government as well. The latter are thought to “compare the results of activities in the Russian general government sector with those in other countries” (Makleva, 2004). Above all, the general public may also

find information on a government's overall position and current stock of assets and liabilities useful in demonstrating accountability for government's management of resources. In particular, this may "assist the Russian public in being kept informed about that economic policy conducted by the government and giving the latter a vote of confidence" (Makleva, 2004). This suggests that Russian central government accounting tends to become an important tool for supporting public entities' management and evaluation.

Furthermore, the transformation process in Russia appears to be substantially affected by overseas forces in the shape of large international organizations such as the IMF and the World Bank. Both organizations are deeply embedded in issuing normative models designed to conduct reforms, as well as in keeping a close eye on progress achieved. To illuminate, the IMF's 2004 report on fiscal transparency practices in Russia prescribed that "the new Chart of Accounts should be based on a GFS-consistent budget classification system, reflect international accounting standards in the public sector (IPSASs), and facilitate a gradual transition to accrual accounting" (p. 28). Having said this, it is not surprising that the Russian state is currently making a great effort to adopt these practices and definitions in accordance with the IMF *Code of Good Practices on Fiscal Transparency*, the 1986 edition of *A Manual on Government Finance Statistics* (GFSM 1986), and its revised version, *Government Finance Statistics Manual* (GFSM 2001). In this respect, launch and implementation of *the concept* with its focus on altering the budget classification and Chart of Accounts in favour of accrual accounting for the whole government sector can be considered to be the positive response to the ideas advocated by the IMF.

Finally, the Ministry of Finance officials are deemed pretty well aware of the International Public Sector Accounting Standards Board's (IPSASB) activities and its accrual-based International Public Sector Accounting Standards (IPSASs). While it is still premature to talk about the conformity of new Russian government accounting norms with IPSASs, it has become evident that their adoption is absolutely inevitable in the future (Zelenskyi, 2004; Artuchin, 2003; FBK, 2005). To illustrate this, the application of IPSASs is thought to help streamline the system of government accounting standard-setting in Russia. What is more, their adoption can assist in avoiding an endless stream of instructions, orders, and decrees, which have all proved to be rather contradictory in the past (Charkov and Choroshev, 2005). More importantly, the Concept of Accounting and Financial Reporting in Russia for the Medium-Range Outlook is strongly in favour of their implementation, stating that "the paramount instrument of reforming accounting and financial reporting in the budgetary sphere should be IPSASs". Regardless, throughout the course of reforms there is "a need to reach a positive answer to the question of whether the system of government accounting and financial reporting admits to produce those accounting statements in accordance with IPSASs and GFSM" (Artuchin, 2003: 17). All this manifests the strong commitment of the federal government to alter the existing system of accounting and financial reporting in the Russian public sector in support of accrual accounting.

4. Discussion and concluding remarks

The evidence gathered in this paper exhibits that the traditional pattern of transforming Russian central government accounting has its roots in the Soviet period. In fact, being isolated from the outside world, the Soviet state was the only designer of all accounting solutions across the whole country, giving birth to the so-called 'balance school' (Bourmistrov, 2001). The latter had been a dominant accounting paradigm in the nation for many decades, stretching its power and ascendancy even beyond the 1990s when the USSR ceased to exist. This predetermined a relative stability in the content of central government accounting norms until recently. More probably, Russian government officials felt little pressure to alter the accounting system inherited from the 'good old times' (Martinez-Vazquez and Boex, 2001). This resulted in a 'new' detailed pattern of central government accounting norms essentially reminiscent of its predecessor. The state of Russia turned then out to be the only institutional pressure steering all changes in the content of accounting norms during the 90s.

Since the beginning of the new millennium, the state of Russia has been distancing itself from the legacy of the Soviet budgeting and accounting systems, and seeking to adopt ideas and ideals advocated by international organizations. This means that the reconstruction of accounting is now more a collective endeavor rather than a pure internal exercise, coalescing both external agencies and the government. Consequently, the reforming process is no longer confined to self-experience. The evidence presented in this study suggests that accrual accounting along with other up-to-date budgeting techniques is dispatched as a symbol of sound fiscal management practices to Russian government officials, making Russian central government accounting more and more reminiscent of its Western counterparts. In fact, myths generated by specific organizational practices (in our context, the adoption of accrual accounting does enhance fundamentally accountability and transparency) and widely propagated by international organizations (namely, the IMF and the IPSASB) possess legitimacy based on the supposition that they are rationally effective (Meyer and Rowan, 1977). These myths are a consequence of a set of ideas traveling around the globe (Czarniawska and Joerges, 1996; Czarniawska and Sevón, 1996).

Indeed, these ideas are on today's agenda worldwide, universal, fashionable, socially and politically legitimized, and are thus hard to resist or object to (Gherardi and Jacobsson, 2000; Sahlin-Andersson, 2001; Czarniawska and Sevón, 2005). Having become increasingly known as 'the steering wheels' around the globe, they were likely to attract the attention of Russian policy makers, and were, therefore, selected. As Forssell (1989) stresses, to follow what is 'progressive' and 'modern' is often perceived as a duty by organizational members. In this regard, GFSM and IPSASs have been adopted as the 'steering wheels' for reinventing Russian public accounts, commemorating the end of the balance school era. Therefore, the inclusion of new accounting and budgeting techniques into the political rhetoric, calling for better governance, accountability, efficiency, and effectiveness may be classified as *a symbol of legitimacy*, intended to bolster the image of the Russian state as more 'progressive' and 'modern' in the eyes of external parties and others. All this is to say that the state of Russia is undoubtedly subject to normative isomorphic pressures from the institutional environment of the accounting system.

In turn, coercive isomorphic pressures for change emanate from those international aid agencies (e.g., the IMF and World Bank) upon which the state of Russia depends in terms of financial resources to survive. A Treasury Development Project, with World Bank loan funding (US\$ 231 million), provides a vivid illustration of this. However, coercive pressures for change seem less potent today in comparison to the mid and late 90s. This is because of the sound economic and financial performance of the country during the last few years and its increased ability to pay debts back. For instance, Russian authorities have not sought to borrow from the IMF since 2001 (see e.g. Odling-Smee, 2004). More probably, the economic crisis of the 90s made the state of Russia reliant upon international donor organizations. But it is indeed through these organizations that new budgeting and accounting technologies have gradually penetrated down to the central government at the outset of the 2000s. This is well in line with DiMaggio and Powell (1983), pointing out that the potency and power of the various types of pressures tends to vary over time, given the particular set of actors in place.

Furthermore, it is also possible that mimetic isomorphic pressures are a potent force for the Russian federal government, acting in concert with normative and coercive ones. To be more specific, mimicking certain accounting and budgeting practices and techniques of successful states around the globe (in particular from OECD countries) may already have encroached upon the decision to reinvent the Russian public sector management system. This may stem from a plethora of international agencies and departments worldwide (the EU, DFID, USAID, the Swedish Ministry of Finance, etc.) which are embedded in the transformation process. Nevertheless, no compelling evidence has been found in this study revealing whether or not this form of isomorphic pressures does, in fact, prevail in the Russian state today. Moreover, identification of one type of pressure for change at a particular point in time does not necessarily imply that the remaining two are absolutely ineffective (Carpenter and Feroz, 2001; Mizuchi and Fein, 1999).

Last, but not least, while it is hard to argue against the positive consequences of the declared reforms, the question arises of whether Russian central government will actually succeed in promoting the desired outcome, by penetrating and altering operating processes currently in place in particular public sector entities. Formulated differently, it is one thing to promulgate a new set of accounting norms at the central government level, whereas quite another to implement them locally. As Preston *et al.* (1992: 590) have argued, the final accounting technology is “just as much the result of the actions and reactions of others as of the designers themselves”. These ‘others’ are numerous, including, first and foremost, a huge army of public sector accountants involved in operating actual accounting and budgeting systems. Besides this army, there are systems analysts, software engineers, and consultants, whose efforts are also deemed crucial. This makes it intellectually rewarding to link the central government initiatives to reinvent the Russian public sector with those endeavours to hammer them out in specific organizational settings.

References

- Artuchin, R. E. (2003), The role of budgetary accounting, *Budget*, No. 2.
- Benito, B.; Brusca, I. and Montesinos, V. (2005), Local Government Accounting: An International Empirical Analysis, in Bourmistrov, A. and Mellemvik, F. (eds.) *International Trends and Experiences in Government Accounting*, Oslo: Cappelen Akademisk Forlag, 80-97.
- Bergevärn, L.; Mellemvik, F. and Olson, O. (1995), Institutionalization of accounting – a comparative study between Sweden and Norway, *Scandinavian Journal of Management*, Vol. 11, No. 1, 25-41.
- Bourmistrov, A. (2001), *Accounting and Transition: A Study of Russian Local Government Accounting*. Ph.D. Dissertation, Norwegian School of Economics and Business Administration, Bergen.
- Bourmistrov, A. and Mellemvik, F. (1999), Russian local governmental reforms – autonomy for accounting development?, *The European Accounting Review*, Vol. 8, No. 4, 675-700.
- Bourmistrov, A. and Mellemvik, F. (2001), Accounting and Democratic Governance: A Comparative Study of one Norwegian and one Russian County, in Bac, A. (ed.) *International Comparative Issues in Government Accounting*, Boston: Kluwer Academic Publishers.
- Bourmistrov, A. and Mellemvik, F. (2002), Exploring accounting and democratic governance: a study comparing a Norwegian and a Russian county, *Financial Accountability and Management*, Vol. 18, No. 4, 33-353.
- Bourmistrov, A. and Mellemvik, F. (eds.) (2005), *International Trends and Experiences in Government Accounting*, Oslo: Cappelen Akademisk Forlag.
- Burchell, S.; Clubb, C. and Hopwood, A. G. (1985), Accounting in its social context: towards a history of value added in the United Kingdom, *Accounting, Organizations and Society*, Vol. 10, No. 4, 381-413.
- Carpenter, V. L. and Feroz, E. H. (2001), Institutional theory and accounting rule choice: an analysis of four US state governments' decisions to adopt Generally Accepted Accounting Principles, *Accounting, Organization and Society*, 26, 565-596.
- Chan, J. L. (2002), Global Government Accounting Principles, in Bräunig, D. and Eichhorn, P. (eds.), *Public Management, Accounting Standards and Evaluation Methods*, Baden-Baden, Germany: Nomos Verlagsgesellschaft.
- Charkov, V. P. and Choroshev, A. A. (2005), *Budgetary Accounting under the Present Conditions*, Finansy & Statistika Publisher, Moskva.
- Corporation Parus (2005), *A New Budgeting Instruction*, <http://www.parus.ru/printout.php?page=230>.
- Covaleski, M. A. and Dirsmith, M. W. (1988), An institutional perspective on the rise, social transformation, and fall of a university budget category, *Administrative Science Quarterly*, Vol. 33, 562-587.
- Czarniawska, B. and Joerges, B. (1996), Travels of Ideas, in Czarniawska, B. and Sevón, G. (eds.) *Translating Organizational Change*, Berlin; New York: de Gruyter.
- Czarniawska, B. and Sevón, G. (eds.) (1996), *Translating Organizational Change*, Berlin; New York: de Gruyter.
- Diamond, J. (2002), The new Russian budget system: a critical assessment and future reform agenda, *OECD Journal on Budgeting*, Vol. 2, No. 3, 119-147.
- Diamond, J. (2003), Budget system reform in transitional economies: the experience of Russia, *Emerging Markets Finance and Trade*.
- Diamond, J. (2005), Reforming the Russian budget system, *IMF Working Paper*, 05/104 (Washington: International Monetary Fund).
- Dillard, J. (1991), Accounting as a critical social science, *Accounting, Auditing and Accountability Journal*, Vol. 4, No. 1, 8-28.
- Dillard, J. F.; Rigsby, J. T. and Goodman, C. (2004), The making and remaking of organization context: duality and the institutionalization process, *Accounting, Auditing and Accountability Journal*, Vol. 17, No. 4, 506-542.
- DiMaggio, P. and Powell, W. W. (1983), The iron cage revisited: institutional isomorphism and collective rationality in organizational fields, *American Sociological Review*, 48, 147-160.

- FBK (2005), *A Conception of Budgetary Accounting and Financial Reporting in the Russian Federation: Draft*, Report No. 6, <http://www.roskazna.ru/store/conc.doc>.
- Finansovye Izvestia (Financial News) (2004), *The MoF will Carry out a Budgetary Revolution*, 15 April.
- Garrod, N. and McLeay, S. (1996), The Accounting Implications of Political and Economic Reform in Central Europe, in Garrod, N. and McLeay, S. (eds.) *Accounting in Transition: The Implications of Political and Economic Reform in Central Europe*, Routledge, London, 1-11.
- Gherardi, S. and Jacobsson, B. (2000), Managerialese as the Latin of our times: reforming Italian public sector organizations, *Scandinavian Journal of Management*, Vol. 16, 349-355.
- Hopwood, A. (1983), On trying to study accounting in the context in which it operates, *Accounting, Organizations and Society*, Vol. 8, No. 2/3, 287-305.
- Hopwood, A.; Burchell, S. and Clubb, C. (1994), Value-added accounting and national economic policy, in Hopwood, A. and Miller, P. (eds.) *Accounting as Social and Institutional Practice*, Cambridge University Press, Cambridge, 211-236.
- International Monetary Fund (IMF) (2001), *Government Finance Statistics Manual (GFSM 2001)*.
- International Monetary Fund (IMF) (2004), *Russian Federation: Report on the Observance of Standards and Codes – Fiscal Transparency Module*, IMF Country Report No. 04/288, Washington, D.C.
- International Monetary Fund (IMF) (2004), *Russian Federation: Report on the Observance of Standards and Codes – Fiscal Transparency Module*. IMF Country Report No. 04/288, Washington, D.C.
- Jönsson, S. (1988), *Accounting Regulation and Elite Structure*, John Willey & Sons, Chichester.
- Kommersant (2004), *The MoF is Starting a Budget Revolution*, No. 95, 28 May, p. 1.
- Kurunmäki, L. (1999), Making an accounting entity: the case of the hospital in Finnish health care reforms, *The European Accounting Review*, Vol. 8(2), 219-237.
- Laughlin, R. (1988), Accounting in its social context: an analysis of the accounting systems of the Church of England, *Accounting, Auditing and Accountability Journal*, Vol. 1, No. 2, 19-42.
- Lavrov, A. M. (2004), The Concept of the Budget Process Reform in the Russian Federation and its Implementation: From Administration of Resources to Management by Results. Paper presented at the Seminar “*The Budget Process Reform: Middle-Term Perspectives and the 2005 Federal Budget Formulation*”, 27-28 April, Moscow Region.
- Lüder, K. and Jones, R. (2003), The Diffusion of Accrual Accounting and Budgeting in European Governments – A Cross-country Analysis, in Lüder, K. and Jones, R. (eds.) *Reforming Governmental Accounting and Budgeting in Europe*, Fachverlag Moderne Wirtschaft, Frankfurt am Main, 13-58.
- Makleva, G. I. (2004), The Main Conceptions of Alterations in Russia's Budgetary Accounting. Paper presented at the Regional Workshop “*The Reforming of Budgetary Accounting and Financial Reporting in Russia*”, Ministry of Finance, Moscow, 24-42.
- Martinez-Vazquez, J. and Boex, J. (2001), Budgeting and Fiscal Management in Transitional Countries. *Journal of Public Budgeting, Accounting and Financial Management*, 13(3), 353-396.
- Mellemvik, F. and Olson, O. (1996), *Regnskap i Forandring*, Cappelen Akademisk Forlag, Oslo.
- Mellemvik, F.; Monsen, N. and Olson, O. (1988), “Functions of accounting – a discussion”, *Scandinavian Journal of Management*, Vol. 4, No. 3/4, 101-119.
- Meyer, J. and Rowan, B. (1977), Institutionalized organizations: formal structure as myth and ceremony, *American Journal of Sociology*, No. 83, 340-363.
- Miller, P. (1994), Accounting as Social and Institutional practice: An Introduction, in Hopwood, A. and Miller, P. (eds.) *Accounting as Social and Institutional Practice*, Cambridge University Press, Cambridge, 1-39.
- Mizuchi, M. S. and Fein, L. C. (1999), The Social Construction of Organization Knowledge: A Study of the Uses of Coercive, Mimetic, and Normative Isomorphism. *Administrative Science Quarterly*, Vol. 44, 653-683.

- Nesterenko, T. G. (2004), The Main Directions of Transforming the Budget Sector. Paper presented at the Regional Workshop “*The Reforming of Budgetary Accounting and Financial Reporting in Russia*”, Ministry of Finance, Moscow, 87-100.
- Odling-Smee, J. (2004), The IMF and Russia in the 1990. *IMF Working Paper*, 04/155 (Washington: International Monetary Fund).
- Oliver, C. (1991), Strategic Response to Institutional Processes. *Academy of Management Review*, Vol. 16, No. 1, 145-179.
- Olson, O.; Guthrie, J. and Humphrey, C. (eds.) (1998), *Global Warning: Debating International Developments in New Public Financial Management*, Oslo: Cappelen Akademisk Forlag.
- Preston, A. M.; Cooper, D. J. and Coombs, R. W. (1992), Fabricating budgets: a study of the production of management budgeting in the national health care service, *Accounting, Organizations and Society*, Vol. 17, 561-593.
- Roberts, J. (1991), The possibilities of accountability, *Accounting, Organizations and Society*, Vol. 16, No. 4, 355-368.
- Roberts, J. and Scapens, R. (1985), Accounting systems and systems of accountability – understanding accounting systems in their organizational contexts, *Accounting, Organizations and Society*, Vol. 10, No. 4, 443-456.
- Romanov, S. V. (2004), Peculiarities of Budgetary Accounting’s Organization in the Subjects of the Russian Federation and Municipalities. The Conception of Financial Reporting in the Russian General Government Sector. Paper presented at the Regional Workshop “*The Reforming of Budgetary Accounting and Financial Reporting in Russia*”, Ministry of Finance, Moscow, 43-54.
- Russia Journal (2004), *Budget Aim is to Double GDP*, 23 August.
- Sahlin-Andersson, K. (2001), National, International and Transnational Constructions of New Public Management, in Christensen, T. and Lægread, P. (eds.) *New Public Management: The Transformation of Ideas in Practice*, Ashgate: Aldershot, 43-72.
- Tambovtsev, V. L. (2004), *Regulation inside Government: The Theory, International Experience, Russian Reforms*, Russian European Centre for Economic Policy (RECEP), Moscow.
- Timoshenko, K. (2002), *Accounting Norms for the State: A Case of Russia*, Hovedfagsoppgave i bedriftsøkonomi, Høgskolen i Bodø, Bodø.
- Tokarev, I. N. (2000), *Accounting in Budget Institutions*, FBK-Press Publisher, Moskva.
- World Bank (2001), *Project Appraisal Document on A Proposed Adaptable Program Loan in the Amount of US\$ 231 Million to the Russian Federation for A Treasury Development Project in Support of the First Phase of the US\$ 400 Million Treasury Development Program*. 7 May, Report No. 23718–RU, Washington, D.C.
- World Bank (2002), *World Bank Supports Reform Of The Russia Treasury*. Press Release No. 2002/332/ECA, 6 June, Washington, D.C.
- World Bank (2003), *Russian Federation Country Financial Accountability Assessment*. Report No. 26839-RU, Washington, D.C.
- Zelenskiy, V. A. (2004), Basic Economic Terms Constituting a Concept of Budgetary Accounting in the Russian Federation. Paper presented at the Regional Workshop “*The Reforming of Budgetary Accounting and Financial Reporting in Russia*”, Ministry of Finance, Moscow, 6-23.

(Página deixada propositadamente em branco)

THE REFORM OF THE PUBLIC SECTOR ACCOUNTING IN ROMANIA: PAST, PRESENT AND FUTURE

Introduction

In recent years, reform of the public sector has been a major focus of policy makers and other specialists. The major changes in the European Union have significant influences over the public sector, as well. Thus, an increasing number of governments and public entities are adopting the accrual basis of accounting. The reform of the Romanian public sector accounting sets out four objectives against which the appropriateness of accounting policies to its particular circumstances should be judged:

- a. relevance;
- b. reliability;
- c. comparability;
- d. understandability.

The reform of the public sector accounting is being undertaken as the primary goal of making government transactions more transparent. In this context, the *relevance* is the most important objective. Accounts are to provide information about financial performance and financial position which is useful for assessing the stewardship of management and for making economic decisions. Financial information is *reliable* if it reflects the substance of transactions and other events which have taken place, is free from bias and from material error, is complete and, under conditions of uncertainty, has been prudently prepared. Also, information in an entity's financial statements gains greatly in usefulness if it can be *compared* with similar information about the entity for some other period or point in time, and with similar information about other entities. Finally, information provided by accounts needs to be capable of being *understood* by users having a reasonable knowledge of the business of the public sector and its economic activities, as well as accounting and a willingness to study with reasonable diligence the information provided (IFAC-PSC, 2002).

The transition from the cash accounting to accrual-based accounting in Romania is a major project with significant consequences. There are changes in both structure and accounting practice in the public sector accounting. This paper presents the major reform program for the public sector accounting system implemented by the Romanian

Government. Thus, this paper highlights some of the key steps of transforming the public sector accounting in Romania.

The structure of this paper is as follows: Section 1 outlines the conceptual basis for public sector accounting in Romania in the past; Section 2 explains the transformation of the Romanian public sector accounting during 1990-2005; whilst Section 3 summarizes the results of the reform and the possibilities of modernization.

The new legislation adopted between 1990 and 2005 represents key steps in the process of reforming the public sector accounting in Romania. After the second war, Romania adopted the soviet accounting system following the advice from the soviet leaders. Thus, the entire economy had a strong transformation toward the centralized system with the major goal of reporting to the centralized decision makers. Starting with year 2006, the public entities, excepting the credit institutions, can prepare also a distinct set of financial statements in accordance with the International Financial Reporting Standards (IFRSs) for their own need for information for the users, other than those for the state authorities, in accordance with their option, and if they have the corresponding capacity for implementation.

1. Romanian Public Sector Accounting in the past

Romanian public sector accounting was based on regulations adopted in 1984, when Romania had a centralized economy and the only property was the state one. Thus, the chart of accounts was very simple, completely different from the European Directives and different from the International Accounting Standards. There were no concepts as relevance, reliability, comparability or understandability. The accounting system was available for a small group of persons, who could use the accounting procedures and the financial information was available for specific persons with important position in the central administration or government. The public had no access to the financial or any kind of information regarding the public budget.

The old Chart of Accounts for public institution has been adopted in 1984 and amended after 1990. The Ministry of Public Finance published a manual in December 1984. This manual contains a full Chart of Accounts and the instruction of implementation for each institution or government unit. No single unit of government will use all the funds, activities and accounts contained in the Chart of Accounts. Smaller units will use only a few, but when one is used, it will be for the same purpose by each unit using it.

After 1990 the Chart of Accounts for public entities was developed, based on the old structure. The old Chart of Accounts was reflecting the planning and centralized economy at the period 1980s, but in 2003 a lot on new accounts were set up according with regulation from the Ministry of Public Finance. Thus, it was a discrepancy between the continuing developing economy and the old Chart of Accounts, not flexible and limited.

Generally, an accounting system should be designed to ensure that the outputs that it produces satisfy the information needs of the end users of the information. In a centralized economy, the main users of company accounts are the Government,

which uses the information for tax and statistical purposes. In a market economy, the user groups will be wider and will include the following:

- present and potential shareholders;
- investment analysts;
- management;
- tax authorities;
- employees;
- customers;
- suppliers;
- general public.

The bookkeeping of the public finances treasury was organized within the Ministry of Economy and Finance and its subordinate departments and it included:

- the operations related to the cash execution of the state budget, of the local budgets, of the state social insurance budget;
- the setting up and utilization of the extra-budgetary means and special destination funds;
- the administration of the domestic and external public debts as well as other financial operations on behalf of the central public administration bodies.

It is important to mention that Romania before 1990 had no public debts and this situation was achieved with great sacrifice from the Romanian people. According to the law, the organization and management of the bookkeeping of the public finances treasury were carried out according to the regulations issued by the Ministry of Economy and Finance. The ministries, the departments and the other central public administration bodies whose managers have the quality of main credit ordering persons as well as the public institutions having legal personality and subordinated to them organize and manage the bookkeeping of the collected incomes and of the expense made according to the approved budget, of the extra-budgetary means and of the special destination funds.

The bookkeeping of the local budgets was organized and managed at the level of counties and of Bucharest City, of the municipalities, and districts of Bucharest, of the towns and villages according to the regulations issued by the Ministry of Economy and Finance in order to record the operations related to:

- a) the collected incomes and payments within the execution of the local budgets and special destination funds set up according to the law;
- b) the record of the transfers from the state budget and treasury fund set up according to the law.

Before 1990 in Romania every local administration unit had organized the accounting system without using double-entry; just simple ledgers for tax and statistical purposes.

The bookkeeping of the budget of the State social insurance and of the other autonomous social insurance bodies, as well as of their subordinated enterprises was organized and managed by each social insurance enterprise. The Ministry of Economy and Finance prepared the balance of the whole national economy every year. The balance of the whole national economy is submitted to the Government at the same time with the general yearly account for the execution of the state budget.

The weakness of the accounting system for Romanian public entities before 1990 were:

- Reduced number of specialists or persons with an accounting culture;
- No information technology or computer systems;
- Most of the Romanian public entities did not use the double entry;
- The old chart of accounts was not flexible and reliable for the modern economy.

In a centralized economy is imposible to develop an accounting system because also the resources were limited. In the last few decades the “IT initiatives have been an important part of public sector reforms for some time, but has been given a fresh impetus in the current government’s modernization policies” (Lapsley *et al.*, 2003: 2).

2. The Transformation of the Romanian Public Sector Accounting during 1990-2005

Between 1990 and 2005, Romania has been characterized by significant transformational political and economic reforms. A new Constitution was adopted in December 1991, which set the groundwork for a democratic political system. Over the last few years increasing attention has been paid to the role of institutions, particularly legal systems, in the process of economic development. Very recently, Romania started public sector reforms in areas like education, healthcare, local government and public utilities.

Table 1 – The reform of the Public Sector Accounting –
Summary of Key Dates in the Reform Process

Key Dates	Reform legislation and regulation
1991	Accounting Law n. 82/1991
1997	Program for Accountancy Development in Romania with the support of the Department for International Development of the United Kingdom Government
1999	The Emergency Government Ordinance n. 75/1999 on the financial audit
July 11, 2002	The law of public finance n. 500/2002
August, 2003	The Government Ordinance n. 81/2003 on the reevaluation and amortization of the fixed assets from the public entities
January 12, 2005	Decision of Prime Minister to set up the Public Financial Management Reform Committee (PFMRC)
July 4, 2005	The Order of Ministry of Public Finance n. 946/2005 for Internal Control Code, comprising the internal management/control standards at the public entities
December 29, 2005	The Order of Ministry of Public Finance n. 1917/2005 for public entities accounting, chart of accounts and instructions
January 1, 2006	General accounts are to be prepared on the accrual-based accounting

After the first years of transition, Romanian economic and legal reforms have not however distinguished by their quality. Thus, Romania was trying to develop a new system consistent with the French origins for 12 years and the results were not

so significant. After 1996 appear the possibility to become a member of European Union (EU) and a member of NATO. At the end of year 2002 Romania was invited to be a member of NATO, so the reform process was accelerated. The key elements of Romania's reform agenda are effective actions to cut off economic sources of corruption, measures on conflict of interest, financial disclosure, access to information and increased transparency, as well as judicial reform¹. As January 1, 2007 Romania is member of the European Union.

The public finance was one of the most important priorities of the new government. Thus, the Law n.10/1991 on Public Finances was the initial attempt to rebuild the fiscal system in line with the independent status of economic agents and with the new role of State. The State and Social Security budgets are approved yearly by the Parliament. Taxes on profits, salaries and wages (complemented by the global income tax, which began in 2000) and the value-added tax are the main sources of public revenue. Only law can modify them. *Public finance was an area of permanent change during the last decade.* The frequent modifications of the existing legislation, the introduction of new taxes and the increasing number of regulations created a system difficult to administer and prone to abuses. Hence, it is not surprising that it is constantly mentioned as among the first obstacles to business in all surveys. Also, in the second part of year 2002 a new law on public finances was adopted concerning public funds, internal control and auditing. The implementation of the new legislation² started from January 1, 2003.

The transition to the accrual-based accounting is a long and complex project. However, we could notice some improvements in the last few years. The new legislation (see Tables 1 and 2) adopted the concept of *program budgeting*³. Program budgeting is primarily a system associated with corporate management which identifies alternative policies, presents the implications of their adoption and provides for the efficient control of those policies chosen⁴.

According to some experts' opinion (e.g. Jones and Pendlebury, 2000), the program structure provides the framework for linking the resource and activities to objectives. The relationship between ends and means has to be established and it may often be the case that the resources required to undertake a particular program are scattered over several departments.

In Romania the program budget was adopted for the first time in 2002. The new law of public finance issued by the Romanian Parliament in 2002 established the requirements for the program budget, based on the experience from the western European countries. According to the Law of Public Finance n. 500/2002, the program budget must to have a title, a presentation and a program structure. The main purpose of the program budget is to increase the accountability and the controlling system from the Ministry of Public Finance. Main credit holder will have the initiative to

¹ Romania's Reform Agenda - Ministry of Foreign Affairs, April 2002, Bucharest.

² The law of public finance n. 500/2002, OG: 2002. *Note: OG:2002 means Official Gazette year 2002.*

³ The Order of Ministry of Public Finance n. 1917/2005 for public entities accounting, chart of accounts and instructions, OG: 2005.

⁴ The Chartered Institute of Public Finance and Accountancy (UK), *Financial Information Service*, multi-volumed, regulary updated manual.

Table 2 – The reform of the Public Sector Accounting –
The objectives of the main key steps

Reform legislation and regulation	Objectives
Accounting Law n. 82/1991	The Accounting law and the accounting regulations issued in this area include a series of specific requirements for accountability.
Program for Accountancy Development in Romania with the support of the Department for International Development of the United Kingdom Government	The objective of this project is to increase the legal and administrative capacity of the Ministry of Public Finance (MoPF) in the elaboration and implementation of governmental budget policies by upgrading and modernizing the Romanian public accounting system in accordance with the standards currently in force in the European Union.
The Emergency Government Ordinance n. 75/1999 on the financial audit	Adopting the financial audit, public entities could have the examination of the financial statements and the publication of an independent opinion on whether or not those financial statements are relevant, accurate, complete, and fairly presented.
The law of public finance n. 500/2002	This law adopted new and modern concepts regarding the public finance and the budgetary classification.
The Government Ordinance n. 81/2003 on the reevaluation and amortization of the fixed assets from the public entities	Before 2003 in Romania the public entities did not use the amortization of the fixed assets. According to this Ordinance, the public managers have to evaluate and calculate depreciation for all the assets, as premises for management accounting.
Decision of Prime Minister to set up the Public Financial Management Reform Committee (PFMRC)	The task of the Committee was to draw up and supervise the implementation of a Strategic Development Plan (SDP) for Public Financial Management Reform covering the period 2005-2007.
The Order of Ministry of Public Finance n. 946/2005 for Internal Control Code, comprising the internal management/control standards at the public entities	According to this new law, all the managers of the public entities will dispose – taking into account the particularities of the legal, organizational, personnel, financing and other specific elements framework, as well as the standards and the necessary measures for the elaboration and/or development of the managerial control systems of each organization, including the procedures, formalized on activities.
The Order of Ministry of Public Finance n. 1917/2005 for public entities accounting, chart of accounts and instructions	Starting January 1, 2006 Romanian public entities have a new and modern chart of accounts and accrual-based accounting.

produce a program structure, but this is only the first step. The Ministry of Public Finance is responsible for providing the information for adopting decision.

Program analysis is concerned with the analysis of the costs and benefits of each program, so the decision could be made. There are many situations when the decision makers need to know the effects that proposed expenditure might be expected to have on objectives.

The main credit holders are responsible to provide the financial statements and other reports in order to analyze the objectives, the estimated results and the actual ones. This means that the output of each program must be measured in a particular manner that covers the entire beneficial impact of the program. The relationship between costs and benefits can be established and used as a basis for making choices between alternative programs.

The advantages can be summarized as follows:

- It provides information on the objectives of the organization;
- It cuts across conventional lines of responsibility and departmental structures by drawing together the activities that are directed towards a particular object;
- It exposes programs that are overlapping or contradictory in terms of achieving objectives;
- It concentrates on long-term effects;
- It provides information on the impact that existing and alternative programs will have on objectives, and the associated program costs;
- It enables resource allocation choice to be made on the basis of benefit/cost relationship;
- It increases the accountability and the control from the decision makers.

2.1. The Budget and its Coverage in Romania

One element of the reform of public sector in Romania is related to the new concepts of National Public Budget and General Consolidated Budget. Thus, according to the Constitution, the National Public Budget shall comprise the State budget, the State social security budget and the local budgets of communes, towns and counties. But, the General Consolidated Budget includes expenditures of central and local administration and of the special funds. The Government of Romania and the Parliament of Romania both play major roles in developing the budget.

The financial year in Romania begins on January 1 and ends on December 31. All the budgets in Romania after 1990 were approved with deficit. It is important to mention that before 1990 all the budgets adopted in Romania had no deficit. The Budget deficit is the amount by which budget expenditures exceed budget revenues during a budget year. Every year, the General Consolidated Budget becomes more and more complex because there are more and more expenditures and revenues. Also, new public institutions are developing and all the public system is more complex.

The annual budgetary laws can be altered during the budgetary exercise by rectification laws, elaborated no later than November 30. The same procedures shall apply to the rectification laws as to the initial annual budgetary laws, except for the terms of the budgetary calendar.

The formulation and approval of the annual budget is described according to Public Finance Law n. 500/2002. At the same time that the next year's budget is being formulated, the monitoring of current year budget execution takes place. Analysis and assessment of budget execution are important factors in developing budgets for the next year, since they permit tracking major trends in current year revenues and expenditures. Hence, throughout the budget year, as the approved budget is executed, execution reports on revenues and expenditures are prepared on a monthly, quarterly, and annual basis.

2.2. The implementation of the new Chart of Accounts (“Plan de Conturi General-PCG”) and the new accounting principles

The Accounting Law N. 81/1991 established basic accounting principles and the chart of accounts. For the year 2003 the Accounting Law is to be applied in conjunction with harmonization framework of accounting regulations with the European Directive and International Public Sector Accounting Standards (IPSASs) and also with IAS Framework issued by International Accounting Standards Board (IASB).

The PCG is Romanian's general chart of accounts. Even though the PCG has had different versions in the last years, it has preserved its original structure adopted from the French accounting system. According to the accounting regulation, it contains a numbered list of accounts, which are divided into eight classes⁵:

- Class 1: share capital
- Class 2: fixed assets
- Class 3: stocks
- Class 4: third party accounts
- Class 5: cash and other financial accounts
- Class 6: expenses by nature
- Class 7: revenue by nature
- Class 8: special accounts

2.2.1. Characteristics of Romanian Chart of Accounts for public entities

The Romanian PCG for public sector accounting presents some specific elements as follows:

1. These eight classes of accounts are different than the original French chart, because the PCG in France is also adaptable for a variety of industries in all sectors of the economy, whether public or private. In Romania the public sector has a different accounting system.
2. The chart of accounts is structured in such a way that the emphasis is placed on the analysis of costs not by their function or purpose but by their nature. The PCG contains no framework for cost accounts.

⁵ The Order of Ministry of Public Finance n. 1917/2005 for public entities accounting, chart of accounts and instructions, OG:2005

3. The PCG differentiates the needs of financial accounting and management accounting. For example, the financial accounting section contains the first eight classes of accounts and records the expenses without calculating the costs of goods and services. The management accounting could adapt and calculate the costs in a way they consider useful for their own analysis.
4. The PCG has been successful after the previous one. It is more accurate and adapted to the modern economy. In addition, the tax authorities require that all public entities follow the PCG when filing their accounts for tax purposes.

2.2.2. The Accounting Principles

An important element of the reform was the modernization of public sector according to the modern accounting principles:

- Going concern
- Consistency
- Prudence
- Accrual-based accounting
- Matching
- Valuation of asset and liability items
- Intangibility
- Set-off
- Substance over form
- Materiality

Going Concern

It is assumed that the ownership unit normally continues its operation in the foreseeable future without entering liquidation or significantly reducing its activity. When the administrators are aware of material uncertainties related to events or conditions which may cast significant doubt upon the company's ability to continue as a going concern, those uncertainties should be disclosed. When the financial statements are not prepared on a going concern basis, that fact should be disclosed together with the basis on which the financial statements are prepared and the reason why the company is not considered to be a going concern.

Consistency

It leads to the continuity in the application of the rules and regulations regarding the assessment, accounting and presentation of the ownership elements and of the results, thus ensuring the time comparability of the accounting information. The changes in accounting policies are permitted only if the law or an accounting standard requires them, or if they have as results more relevant or credible information concerning company's activities. It is very important to mention in the explanatory notes any changes of the accounting policies, in order to enable the users to appreciate if the new accounting policy is adequate and to evaluate the effects of the changes on the reported performance of the period and the real trend of company's performance.

Prudence

The amount of any item shall be determined on a prudent basis, in particular:

- (a) only profits recognized at the balance sheet date shall be included in the profit

and loss account (b) all liabilities and losses which have arisen or are likely to arise in respect of the financial year to which the financial statements relate or a previous financial year shall be taken into account, including those which only become apparent between the balance sheet date and the date on which it is signed on behalf of the administrators (c) account must be taken of all depreciation, whether the result of the financial year is a loss or a profit.

Matching

All income and charges relating to the financial year to which the accounts relate shall be taken into account, without regard to the date of receipt or payment.

Valuation of assets and liability items

In determining the aggregate amount of any item the amount of an individual asset or liability that falls to be taken into account shall be determined separately.

Intangibility

The opening balance sheet of a financial year must correspond to the previous financial year closing balance sheet.

Set-off

Amounts in respect of items representing assets or income may not be set off against amounts in respect of items representing liabilities or expenditure (as the case may be), or vice versa, except for the setting off between assets and liabilities admitted by the International Accounting Standards.

Substance over form

The information presented in the financial statements should reflect the economic substance of events and transactions and not merely the legal form.

Materiality

Each material item should be presented separately in the financial statements. Immaterial amounts should be aggregated with amounts of a similar nature or function and need not be presented separately.

For the items with an unsure value and which have to be included in the financial statements, should be made the best accounting estimates. Sometimes, in this respect, it is necessary to review their values in order to reflect the events subsequent to the balance sheet date, changes in circumstances or finding new information, whenever those values are material. The effects of such changes shall be included in the same balance sheet item and profit and loss account, respectively, with the initial accounting estimate. The events subsequent to the balance sheet date may offer further information concerning the estimates made by the management at the balance sheet date. If that information would have been known at the balance sheet date, the management could have done better estimates. Therefore, if the financial statements are not approved yet, they have to be adjusted to reflect the extra information.

3. The results of the reform and the possibilities of modernization

The weakness of the accounting system for Romanian public entities between 1990-2005 were:

- Increasing number of legislation and regulation in the public sector accounting;
- Poor communication and informatic systems;

- Deficit of accountants in public sector area, especially in the rural area (towns and villages);
- Difficulties in adopting the new public finance concepts and accounting principles.

Despite all the difficulties the implementation of the reform has been a great success and the modernization of the public sector accounting is a necessity.

The results of the accounting reform in Romania opened new possibilities for medium-term budget-fiscal policy:

- Revenue policy will continue the disinflation process and will implement the commitment made by Romania within the EU accession process by harmonizing laws with EU laws;
- Budget expenditures will be justified and adjusted to the levels of non-inflationary revenues realized;
- Fiscal transparency will be increased by gradually decreasing financial transactions outside the budget and eliminating special purpose revenues currently included in the budget;
- New budget approaches for developing program and sector policies based on objectives, performance indicators, and results will make the allocation and the use of public funds more effective; and
- Maintaining control of the general consolidated budget deficit at about 2.65% of GDP.

3.1. Analyzing the Weakness of the Accounting System for public entities

Since 1991 the Romanian system of public finance has been substantially modified. However, the new system still faces various deficiencies:

- prior to the public administration reform, there was no comprehensive management information system and no monitoring system, either for revenues or for expenditures;
- accounting standards and the classification of accounts were insufficient and there was a lack of information exchange between the different levels within the system of public finance;
- forecasting methods for the budget and treasury balances were virtually non-existent;
- proposed reform measures could not be validated due to the lack of appropriate model units.

For these reasons was created a new department in the Ministry of Public Finance: Directorate General of Public Accounting and Treasury. This department is responsible to implement a program for economic development- public administration development and reform.

This program aimed at a considerable improvement of the monitoring of budget implementation for receipts as well as for expenditure and a better classification of operations in the accounts of the treasury. Internal administrative procedures within the system of public finance were to be streamlined in order to achieve greater efficiency and existing forecasting methods were to be improved. Administrative procedures

between the different levels of the treasury system were to be standardized and two regions to be computerized in order to serve as models for the whole of Romania.

At the beginning of 2003 Romania was developing a new system of public sector accounting, mixed cash accounting and accrual accounting. From the beginning of 2005 a group of public entities implemented the accrual based accounting and from 2006 all the public sector in Romania will follow the same system.

More generally, all non-pure cash accounting system pose problems when two sets of payments are made in parallel: one from the budget itself, and the other from the liability accounts or the suspense accounts that contain accrued expenditures of the previous year not yet paid. A number of countries with non-cash accounting systems do not disclose their payments in a transparent and comprehensive manner.

3.2. Reforming the Romanian Accounting System for European Integration

Reforming the accounting system for European integration one objective became crucial: comparability. All the European countries must adopt the European Directives and in the near future the International Public Sector Accounting Standards (IPSASs) on the accrual basis of accounting. Whatever the basis of accounting (cash-accounting or accrual accounting), the following information is needed at each stage of expenditure cycle (Allen and Tommasi, 2001):

- Confirmation of the legal basis for spending;
- Adequate recording of appropriations, revisions in appropriations, transfers between appropriations and apportionment is a prerequisite for good financial management. In countries with non-automated budget management system, it is sometimes difficult to know exactly which budget is being implemented, because decisions concerning allocations and reallocations of appropriations are contained in various circulars and are not gathered into a single document. The budget implementation plan should be updated regularly to take into account decisions concerning appropriations;
- Accounting for commitments, including multi-year commitments is essential for keeping budget implementation under control. Such information provides the basis for budget revisions. Decisions to increase or decrease appropriations and the preparation of cash plans must take into account commitments already made. For internal management, spending agencies need to follow up accurately orders made and the contracts that have been awarded;
- Accounting for expenditures at the verification stage is important to program and agency management. It gives valuable information for assessing costs, although these data need to be combined with information on depreciation, inventories, etc. Expenditures at the verification stage show how far program and project implementation has progressed. Recording expenditures is also required for managing payables and contracts, and assessing liabilities arising from budget execution (arrears);
- Transparency requires reporting all payments over the accounting period and the fiscal year in accordance with the expenditure classification system, including payments related to expenditures made in a previous period.

Transactions that are to be recorded must be clearly defined in the financial regulations. Sound budgetary accounting requires information to record transactions between:

- budgetary accounts, namely, budgetary resource accounts;
- commitments;
- expenditures at the verification stage;
- and payment accounts.

Obviously, double-entry bookkeeping system is required from the stage at which the expenditure is recognized (verification in the accrual basis of accounting). In most countries, commitments are registered (if at all) in single entry books, like in Romanian regional units. However, including information on commitments and appropriations in a double-entry bookkeeping system has the advantage of ensuring consistency of movements between budgetary accounts (particularly when budget execution is not fully computerized).

The next priority for the Romanian government is to adopt International Public Sector Accounting Standards (IPSASs) and to pay attention to the performance measurement. There has been a substantial training program which started in 2002 with courses in the MoPF Public Finance School, the National Institute for Administration (covering Central Government) and eight regional units. There is a twinning project with PHARE funding named: *“Improve the organization and performance of public accounting system”* between Romanian MoPF, Italian Ministry of Economy and Finance, and French Ministry of Economy and Finance. The main objectives envisage the transfer to accrual accounting to analyze the costs of approved programs and to create a domestic reimbursement system of the State Treasury. The project has also covered familiarization with IPSASs and presentations on IPSAS 1, IPSAS 16 and IPSAS 17; the rest have to be presented in the future. The next twinning program will cover Consolidated Financial Statements. Although considerable progress has been made, three basic problems persist⁶:

- Shortage of staff;
- Low salaries (these are obviously closely related);
- Lack of an integrated IT system.

By decision of January 12, 2005 the Prime Minister set up the Public Financial Management Reform Committee (PFMRC). The Committee is composed of representatives at State Secretary level of nine line ministries (LM) and of the Prime Minister’s Office, the Secretariat General of Government and the National Agency of the Public Service. The task of the Committee was to draw up and supervise the implementation of a Strategic Development Plan (SDP) for Public Financial Management Reform covering the period 2005-2007. The central aim of the SDP is to focus attention on the key elements of Public Financial Management Reform, to assess what has already been implemented in terms of management and operational reform, to evaluate the contribution of previous, on-going and planned technical assistance, and to identify the operational objectives for the period 2005-2007 taking particular account of the requirements which will need to be met in the context of EU accession.

⁶ www.mfinante.ro – Strategic Development Plan for public Financial Management Reform 2005-2007.

Finally, Romania should focus further efforts on pursuing the alignment of the national legislation with the “*acquis communautaire*”. On the medium term Romania should adopt the legislation regarding central bank independence, the prohibition of privileged access of public sector authorities to financial institution and the prohibition of direct financing of the public sector.

Conclusion

The accounting system in Romania is still changing. In the last seventeen years Romania switched from the old accounting system used before 1990 to the French one and after year 2000 to the European Directives and International Accounting Standards. The accounting reform is the result of transition from the communism context to the market economy. Recently, the Romanian economy is starting to function as a market economy. Romania has repeatedly tried and failed to obtain the same recognition from The European Union. Moreover, Romania has not been scheduled for the first wave of EU enlargement in 2004. But Romania had made significant progress of the nature to encourage investments and generate an increasing interest in the Romanian economy.

The reform is an ongoing in the Eastern European countries. So, the laws that presently exist maybe seen as transitional and therefore are subject to be improved. Some of the common features in the accounting reform are as follows:

- A distinction between accounting for user needs and accounting for taxation purposes;
- The release of accounting for internal purposes from statutory regulation;
- The retention of statutory regulation of accounting for taxation purpose;
- Recognition of the needs of the state for accounting information;
- The development of accounting and auditing professional.

The public sector accounting reform in Romania is characterized by difficulties like in any country from Eastern Europe, but for Romania the possibility to become a member of EU after 2000 accelerated this process. Nowadays, we could notice the benefits of reforming the public sector accounting in Romania, like relevance, reliability, comparability and understandability. The main objective of the reform of the public sector accounting was to make government transactions more transparent. The increasing number of the user groups for the financial statements determined the importance of transparency and understandability for financial information. In these days, the public sector accounting represents a complex and important issue.

As Romania expects, after the date of January 1, 2007, the post-adhesion structural funds, public sector accounting gains new capacity. Thus, a special focus shall be identified with regard to the way the post-adhesion funds are accessed and used, financing that shall beneficially influence the Romanian economy, from the point of view of the development of both the social environment and the business environment, in general.

References

- Allen, R. and Tommasi, D. (2001), *Managing Public Expenditure*, Sigma.
- Antony, R. and Young, D. (2003), *Management Control in Nonprofit Organization*, McGraw-Hill, 7th edition.
- Clark, P. (1994), *European Financial Reporting: Luxemburg*, Routledge, London.
- International Federation of Accountants (1998), *Preface to Statements of International Public Sector Accounting Standards*, IFAC, New York.
- International Federation of Accountants (2000), *Governmental Financial Reporting: Accounting Issues and Practices*, IFAC, New York.
- International Federation of Accountants Public Sector Committee (2002), *Resource Accounting: Framework of Accounting Standard Setting in the UK Central Government Sector*, IFAC, New York.
- International Federation of Accountants Public Sector Committee (2003), *The Modernization of Government Accounting in France: the Current Situation, the Issues, the Outlook*, IFAC, New York.
- Ionescu, L. (2003), *The Reform of Public Budget and Accounting for Public Institutions in Romania*, Economica, Bucharest.
- Jones, R. and Pendlebury, M. (2000), *Public Sector Accounting*, Pitman, 5th edition.
- Lambert, V. and Lapsley, I. (2006), Redefining the boundaries of Public Sector Accounting research?, *The Irish Accounting Review*, Vol. 13, Special Issue, 85-105.
- Lapsley, I. and Pettigrew, A. (1994), Meeting the Challenge: Accounting for Change, *Financial Accountability and Management*, Vol.10, N.3, 79-92.
- Lapsley, I. (2000), Accounting, management and organizational change: A comparative study of local government *Management Accounting Research*, Vol. 11, 213-229.
- Lapsley, I. (2000), Management accounting and the state: Making sense of complexity, *Management Accounting Research*, Vol. 11, 169-173.
- Lapsley, I. and Wright, E. (2004), The diffusion of management accounting innovations in the public sector: a research agenda, *Management Accounting Research*, Vol.15, 355-374.
- Lapsley, I.; Brown, T.; Jackson, A.; Oldfield, R. and Pong, C. (2003), *The transformation of the Public Sector: The Role of Accounting in Sustaining Change*, ICAS, Edinburgh, 2.
- Likierman, A. (1988), *Public Expenditure*, Penguin.
- Lyden, J. and Miller, E. G. (1982), *Public Budgeting – Program Planning and Implementation*, Prentice Hall, Hemel Hempstead, 4th edition.
- Official Gazette of Romania (OG: 1991-2006).
- www.mfinante.ro – Strategic Development Plan for public Financial Management Reform 2005-2007.

(Página deixada propositadamente em branco)

STUDYING THE IMPLEMENTATION OF GOVERNMENTAL ACCOUNTING REFORMS – REFLECTIONS ON POSSIBLE CONTRIBUTIONS OF THE ACTOR-NETWORK THEORY*

Introduction

The Comparative International Governmental Accounting Research (CIGAR) network was created on the basis of contingent studies on governmental accounting reforms (Lüder, 1992, 1994 and 2002; Monsen and Nasi, 1998). Such studies give interesting insights into the context of accounting reforms and the conditions of their implementation through the analysis of environmental factors. At present, in the public sector, contingency models are notably used to provide comparative studies on accounting reforms at an international level (Jaruga and Nowak, 1996; Lüder, 1992 and 1994, Elwood, 2002) or national studies on the development of accounting reforms or new accounting systems (Yamamoto, 1999; Ter Bogt, 2006).

However, these approaches do not study the reform in itself and seem limited in terms of the implementation processes used (Chan *et al.*, 1996; Monsen and Näsi, 1998; Ridder *et al.*, 2005): for e.g., What does the reform become when confronted with resistance? How do the actors involved in the implementation process influence the contents of the reform and the techniques on which the reform is based and, conversely, how transformations of the reform influence actors? How and why actors with divergent interests confronted with a new accounting system cooperate in order to implement it? How reforms have come to be ‘settled’ as they are?

This paper is an answer to the call of Chan *et al.* (1996, quoted in Monsen and Näsi, 1997: 281) for further research on such questions as: Who came up with the original idea for an accounting innovation? How did he or she persuade others to adopt the new idea? What factors influenced the adoption decision? But instead of

* The author would like to acknowledge, with thanks, the help of Audrey Milton, Senior Lecturer, School of Business, James Cook University, Australia, for the numerous helpful comments she made on this paper. The author would also like to thank the anonymous referees for their comments on previous drafts of this paper.

looking for answers based on positivistic orientations, the emphasis of this paper is on a constructivist approach of accounting reform. A socio-technical view of the construction of accounting reforms is employed and reference is made to Actor-Network Theory (ANT) (Callon, 1981 and 1986; Latour, 1987; Latour and Woolgar, 1979).

The aims of this article are to present the strengths of ANT in the study of the implementation of governmental accounting reforms, and to discuss how this approach could help to bring a complementary view of accounting reforms in the public sector at an international level.

The paper is organized as follows: in the next section, some limits of the Contingency Model are briefly discussed; then, some contributions of ANT to the study of accounting system implementation are presented before concluding remarks.

1. Some Limits of the Contingency Model of Governmental Accounting Reforms

Many criticisms are directed towards the Contingency Model used in the study of governmental accounting reforms and contingency studies in general. Even if the application of the contingency model offers the possibility to make international comparison and has created a whole new field of research in public accounting, and even if the contingency model of governmental accounting innovations has never ceased to evolve since its first version by incorporating more and more variables (Lüder, 1992, 1994 and 2002; Jaruga and Nowak, 1996; Godfrey *et al.*, 2001; Monsen and Näsi, 1997), it still presents major limits.

Among them, four main limits can be evidenced. Firstly, many contingency studies provide disparate results, sometimes completely contradictory (See, for example, the criticisms addressed by Chapman, 1997, and Gerdin and Greve, 2004). The main consequence of this is the difficulty of building a common framework on which further studies could be built.

Secondly, contingency studies rely on a static view of innovation. Indeed, contingency studies are based on a rationalistic and deterministic view of innovations, based on well-defined techniques, accepted on the basis of their intrinsic characteristics and their capacity to overcome any resistance with which they may be confronted (Chapman, 1997; Ter Bogt, 2006). Contingency studies in accounting are no exception. In accordance with Robson (1991: 547) “most contingency-type models of accounting are synchronic, in that they relate a certain static mode of accounting functioning to the existence of particular environmental variables”.

Thirdly, contingency studies on governmental accounting reforms consider reforms as ‘black boxes’ (Monsen and Näsi, 1998; Chan *et al.*, 1996; Chan, 2002; Lüder, 2002). In accordance with Callon and Latour (1981: 285) “a black box contains that which no longer needs to be reconsidered, those things whose contents have become a matter of indifference”. In other words, reforms at the basis of contingency studies are rarely explored or analysed. Many authors agree on the necessity to overcome this third limit (Chan *et al.*, 1996; Chan, 2002; Lüder, 2002; Rocher, 2006). Chan (2002: 25) argues that if “the CIGAR literature has so far tended to stress ‘context’ over ‘content’, content is important: it tells us about what a government accounting and reporting system does. For example, who supplies what financial information to whom? When?

How? And to what ends? Answers to these questions in different national contexts would reveal the sources of the similarities and differences in the scope and function of accounting.”

Fourthly, besides the addition of behavioural criteria in the contingency model used to study governmental accounting reforms (Lüder, 2002), the relation between the reform and the actors remains incomplete. The distinction made between users and producers of accounting information is questionable. Monsen and Näsı (1998: 283) proposed to modify it because actors can play two or more roles simultaneously or in different time periods: “For example, an administrative actor is simultaneously a citizen. He/she is therefore also a member of the electorate as well as a service receiver from the governmental organization. He/she may also occupy the role of politician” (1997: 283). Yet, it seems also possible to criticize the distinction between users and producers based on the results of accounting studies, which show that users and producers of accounting studies are not definitive positions. For example, certain users temporarily transform the original usage of accounting information (information and decision-making) when they use it as a tool of legitimation, rationalization or argumentation (Burchell *et al.*, 1980; Hopwood, 1990). In so doing, they temporally become producers of a ‘different’ accounting information. Moreover, many studies highlight that actors involved in the implementation of an accounting system, independently seen as users or producers, are not passive vectors: they can refuse it, accept it, modify it by adding elements of their contents or adapt it by integrating it in new environments (Robson, 1991; Preston *et al.*, 1992; Lowe 2001a and 2001b; Quattrone and Hopper, 2005).

Lüder (2002: 6), answering critics of the weaknesses of the Contingency Model, recalls, however, that the model “is exclusively aimed to permit an assessment of conduciveness of relevant environmental factors prevailing in a country to governmental accounting innovations. Its aim, however, is not to explain the whole reform process including all relevant factors” and sees all these critiques as new directions for future studies.

It appears that the Actor-Network Theory (ANT) could provide interesting answers to the limits of the Contingency Model and respond to some expectations of researchers involved in the CIGAR network and to practitioners confronted with governmental accounting reforms.

2. An alternative approach: the Actor-Network Theory

Because ANT has already been used in many accounting studies (Chua, 1995; Lowe, 2001a and 2001b; Quattrone and Hopper, 2005; Lowe and Koh, 2007) and introduced to accounting researchers, this approach will not be discussed in detail here (see, for example, Robson, 1991; Preston *et al.*, 1992; Lowe, 2001a; Baxter and Chua, 2003). Only its implication to the understanding of the implementation of governmental accounting reforms will be presented.

In accordance with Chua (1995) the reference to ANT is justified because “ANT can help to understand the change of the organisational reality engendered by the controversies of the experimentation of new accounting techniques or reforms; to overcome the positivistic assumption that a set of accounting numbers is rationally

accepted because it more accurately represents reality. Instead, the ANT approach is based on the idea that reality is socially constructed.”

2.1. An approach based on a ‘dynamic’ vision of innovation

The ANT is based on a ‘dynamic’ vision of innovations, contrary to the static vision advocated by contingency studies. It rests on a socio-technical view of innovation, that is to say a combination of social and technical aspects. Indeed, ANT is based on the idea that any innovation is the result of a continuous process of *interessment* of an increasing number of actors with different origins (professional, social, human or not human...) ² and divergent interests around the same project. The creation and the consolidation of such networks is the key to the development of an innovation. However, the search for the cooperation of actors with divergent interests gives birth to controversies which lead to ‘translation’ processes. Latour (1987: 108) defines translations as the “interpretation given by the fact builders of their interests and that of the people they enrol”. The concept of translation refers to the process through which divergent interests of actors in conflict are transformed into facts in order to reach a common interest. Only after this process is the possibility of the emergence of a network of actors around the same project. In accordance with this definition, Quattrone and Hopper (2005: 737), referring to ANT, underline that “accounting representations [...] only emerge after a process of translation involving mediations between various interests and existing technologies that redefine their attributes and why they were introduced.”

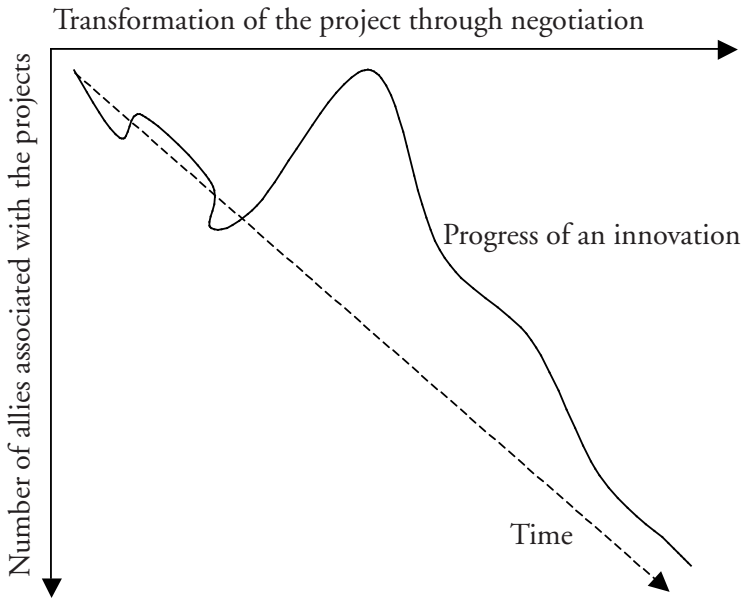
So, contrary to contingency studies which are based on a positivist point of view, the ANT is founded on a constructivist view of the innovation.

2.2. An approach centred on the continuous interactions between actors and techniques

Consequently, the acceptance of, and the institution of an accounting system can be represented as the adequacy between the number of allies associated with the project and the necessary transformations of the project to reach that point, in accordance with Latour (1988: 33) who stated that “every socio-technical imbroglio may be defined by two dimensions. First, how many people are convinced and take it as an incontrovertible black box; secondly, (if it is interrupted by people who doubt it and wish to open the box), what sort of transformations has the project to undergo in order to convince more people, that is, what sort of fresh non-human allies have to be fetched?” (Figure 1).

² Latour (1996) refers to the concept of ‘actants’ to extend the word actor to non-human, non-individual entities. An actant is “something that acts or to which activity is granted by others. It implies no special motivation of human individual actors or of humans in general”. This definition is derived from the semiotic definition of the term ‘actor’ by Greimas (1979): “Whatever unit of discourse is invested of a role” (Callon and Latour, 1981).

Figure 1 – The innovation process



Source: Adaptation from Latour (1988).

The search for an increasing number of actors interested in the accounting system leads to negotiations, displacements and modifications of the project in order to make it correspond to an increasingly large whole of the interests involved. As stated by Latour (1988: 34) “From the beginning to the end it [the innovation process] never stops being the resultant of a fourfold strategy: Whom should I convince? How strong is the resistance of those I choose to convince? What new resources should I enrol? What transformations should the project undergo?”

2.3. An approach based on the understanding of how black boxes are instituted

The temporal dimension in Figure 1 highlights how the successive transformations of the project make it become progressively the gathering point of the actors interested in it. So, in accordance with Latour (1987: 258), in order to study the fabrication of technical artefacts, it is necessary to “study science in action and not ready made science or technology; to do so, we either arrive before the facts and machines are blackboxed or we follow the controversies that reopen them.” ANT provides a good way to explain ‘what happens’ by focusing on the progressive construction of objects which are taken for granted in most studies, as governmental accounting reforms are taken for granted in contingency studies, for example.

3. Contributions of the Actor-Network Theory to the Study of Governmental Accounting Reforms

Referring to ANT could bring alternative answers to the limits of contingency studies and provide interesting insights of governmental accounting reforms by: (1) highlighting the motivations of actors and the evolution of the reform and (2) providing an understanding of reforms at an international level.

(1) By applying ANT rather than a contingency model, the aim is not now to identify the external factors which influence the introduction or the implementation of an accounting reform without any consideration of the reform itself, but to analyse simultaneously the success or the failure of the constitution of networks of actants and the transformations (the translations) the reform has to undergo to 'keep alive' the interest of the actors involved. For example, instead of focusing on the external conditions of the introduction of accrual accounting in different government organisations, it is of interest to understand who were the actors involved? What were their interests in the reform? How do they remain interested or how do new actors become interested following transformations of the reform? How does the reform evolve, from its first ambition to its latest application? Why and how the actors transformed it?

These transformations could concern the operation framework or the usage framework which are constitutive of any accounting system. The operation framework refers to the knowledge and know-how which is utilised in the technical activity, while the usage framework relates to the real or perceived usage of the technique, whether it is about technical or social usage. Thus, in the case of accounting (seen as a technique), its operation framework calls upon much knowledge (the rule of the double part, the accounts subdivision...) and know-how (classification of the amounts in the adapted accounts, elaboration of standardized documents...). However, its use can be defined, on the one hand, in regard to the desired technical usage and, on the other hand, in comparison with the usage which is expected from it (respect of the laws, information of the internal and external actors, help in the decision-making process...). Nevertheless, operation framework and usage framework are not fixed. The interaction of one of these two frameworks implies, irremediably, an evolution of the other one, even if it was not aimed at initially. For example, the search for better accounting information in regard to the needs of users (which can be interpreted as a desired improvement of the usage framework) has consequences for accounting rules (modification of the operation framework). In France, the reform of budgetary instructions applied by local governments since January 1, 2007, is justified by the need to bring a response to the informational gaps of the accounting information (to have a healthy and effective use of credits, facilitate the understanding of budgets for elected officials and citizens, reduce the production costs...). But the achievement of these objectives was not possible without an evolution of the rules, which are the knowledge and know-how constitutive of the operation framework: transformation of the budgeting rules, evolution of the contents of the documents...

(2) Governmental accounting reforms could also be studied as their capacity to become a 'boundary object'. On the basis of ANT, Star and Griesemer (1989) show in the

study of the creation of a museum of zoology on the American west coast, that cooperation of actors characterized by divergent interests and different representations passes through the emergence of 'boundary objects' common to the various categories of actors interested in the development of the museum. According to these authors, the emergence of boundary objects is the key of the cohesion of several social worlds around the same shared objective. Such objects are the results of the successive transformations of the reforms in order to regroup all the different interests of the actors in a shared representation.

Star and Griesemer (1989: 393) define boundary objects as "objects which are both plastic enough to adapt to local needs and the constraints of the several parties employing them, yet robust enough to maintain a common identity across sites. They are weakly structured in common use, and become strongly structured in individual site use. [...] They have different meanings in different social worlds but their structure is common enough to more than one world to make them recognizable, a means of translation. The creation and management of boundary objects is a key process in developing and maintaining coherence across intersecting social worlds."³ Briers and Chua (2001: 242) quote the example of the Activity-Based Costing (ABC) method and highlight the fact that many actors speak about this method because they share a common vision of what ABC is. However, the application of the method differs from one company to another. Consequently, the ABC method is a 'hard' unit, shared by all, with malleable contents, adaptable to each particular situation.

So, governmental accounting reforms could be understood in light of ANT. For example, even if many countries apply accrual accounting at present, few of them share the same definition of what it is and, in most cases, differences appear between expectations, rules and practices (Lüder and Jones, 2003). How does accrual accounting become a boundary object in (and for) many countries? What are the controversies and the translations it has been exposed to in order to be accepted? Answers to these questions in different national contexts would reveal the sources of the similarities and differences in the definition, the scope and the application of accrual accounting. Such studies could be done at an international level in order to give comparative insights of the transformations, the controversies, the resistances, the actors involved and their interactions with accrual accounting. The aim is not anymore to recognize the external factors which influenced the implementation of accrual accounting in different countries but rather looking for the path accrual accounting follows to be accepted in a particular manner in each country. These questions also seem relevant in the study of the application of international accounting norms, and the application of ANT could provide alternative explanations of the differences between the norms and their national application in term of 'translation', alliances of 'actants' or 'boundary objects'.

³ Star and Griesemer (1989: 410) distinguish four main categories of boundary objects (Repositories, Ideal Standard, Coincide Boundaries and Standardized Forms) which are illustrated in an accounting context by Briers and Chua (2001).

Discussion

According to Chan (2002: 25), “by definition, the task of CIGAR is to study how government accounting works in different nation-states.” ANT provides an alternative framework to study ‘accounting in action’ and study the complexity of reform processes instead of simplifying it through a limited number of variables. By looking at the emergence of controversies between actors, transformations and evolutions of the reform which lead reciprocally to the evolution of the actors (in strengthening or weakening their interest in the reform and their participation to the reform process), ANT is a way, on one hand, to understand how innovations occur (Chan *et al.*, 1996) and on the other hand, to pinpoint that what ‘works’ is the result of many unplanned negotiations and transformations (Lowe, 2001b).

Thus, it appears that ANT offers an interesting theoretical framework for studying analytical exploratory studies (to better understand the case studied) and for searching for a deeper explanation of common definitions and designs. These two directions are amongst the main directions Chan (2002) believes that future studies by CIGAR scholars should follow, rather than relying on descriptive exploratory studies or on the search for differences in definitions and designs. ANT also gives answers to some rhetorical questions asked by Chan (2002: 24), for example: How can the process of change be captured? How does government accounting work?

Finally, the application of ANT raises also methodological issues: because ANT is based on a constructivist view of innovation, the understanding of the evolution of a reform, the construction of networks of actors requires deep involvement of the researchers and raises the question of ethnographic studies as a way to study governmental accounting reforms.

References

- Baxter, J. and Chua, W.F. (2003), Alternative Management Accounting Research – whence and whither, *Accounting, Organizations and Society*, Vol. 28, 97-126.
- Briers, M. and Chua, W. F. (2001), The Role of Actor-networks and Boundary Objects in Management Accounting Change: A Field Study of an Implementation of Activity-based Costing, *Accounting, Organizations and Society*, Vol. 26, 237-269.
- Burchell, S.; Clubb, C.; Hopwood, A.; Hughes, J. and Nahapiet, J. (1980), The Roles of Accounting in Organizations and Society, *Accounting, Organizations and Society*, Vol. 5, No. 1, 5-27.
- Callon, M. (1981), Struggles and Negotiation to Define what is Problematic and what is not: the Sociology of Translation, in Knorr, K. D., Khon, R. and Whitley, R. (eds.), *The Social Process of Scientific Investigation*, Dordrecht: D. Reidel Publishing Company.
- Callon, M. (1986), Some Elements of a Sociology of Translation: Domestication of the Scallops and the Fishermen of St Brieuc Bay, in Law, J. (ed.), *Power, Action and Belief: A New Sociology of Knowledge*, Routledge & Kegan Paul, London and New York, NY, 196-223.
- Callon, M. and Latour, B. (1981), Unscrewing the big Leviathan: How Actors Macro-structure Reality and how Sociologists Help them to do so, in Knorr, Karin D. and Cirourel, Aron (dir.), *Advances in Social Theory and Methodology. Toward an Integration of Micro and Macro Sociologies*, London: Routledge & Kegan Paul, 277-303.

- Chan, J. L. (2002), Comparative International Government Accounting Research (CIGAR) methodology: issues and strategy, in Montesinos, V. and Vela, J. M. (eds.), *Innovations in Governmental Accounting*, Kluwer Academic Publishers, 23-29.
- Chan, J. L.; Jones, R. H. and Lüder, K. G. (1996), Modelling Governmental Accounting Innovations: An Assessment and Future Research Directions, *Research in Governmental and Nonprofit Accounting*, 9, 1-19.
- Chapman, C. S. (1997), Reflections of a Contingent View of Accounting, *Accounting, Organizations and Society*, Vol. 22, No. 2, 189-205.
- Chua, W. F. (1995), Experts, Networks and Inscriptions in the Fabrication of Accounting Images: A Story of the Representation of Three Public Hospitals, *Accounting, Organizations and Society*, Vol. 20, No. 2/3, 111-145.
- Elwood, S. (2002), Towards a Contingency Theory for Hospital Cost Accounting Systems: A Comparison of the UK and New Zealand, in Montesinos, V. and Vela, J. M. (eds.), *Innovations in Governmental Accounting*, Kluwer Academic Publishers, 265-281.
- Gerdin, J. and Greve, J. (2004), Forms of Contingency Fit in Management Accounting Research-A Critical Review, *Accounting, Organizations and Society*, Vol. 29, 303-326.
- Godfrey, A. D.; Devlin, P. J. and Merrouche, M. C. (2001), A Diffusion-contingency Model for Government Accounting Innovations, in Bac, A. (eds.), *International Comparative Issues in Government Accounting*, Boston et al: Kluwer, 279-296.
- Hopwood, A. G. (1990), The Organizational and Behavioural Aspects of Budgeting and Control, in Arnold, J., Carsberg, B. and Scapens, R. (eds.), *Topics in Management Accounting*, University of Manchester, Philip Allen, 221-240.
- Jaruga, A. and Nowak, W. A. (1996), Toward a General Model of Public Sector Accounting Innovations, *Research in Governmental and Nonprofit Accounting*, 9, 21-31.
- Latour, B. and Woolgar, S. (1979), *Laboratory Life*, Sage, Los Angeles.
- Latour, B. (1987), *Science in Action. How to Follow Scientists and Engineers Through Society*, Cambridge, MA: Harvard University Press.
- Latour, B. (1988), The Prince for Machines as Well as for Machinations, in Elliot, B. (eds.) *Technology and Social Change*, Edinburgh University Press.
- Latour, B. (1996), On Actor-network Theory: A Few Clarifications, *Soziale Welt*, 47, 369-382.
- Lowe, A. (2001a), Reform of the New Zealand Health System: Problematization, Mobilization and Change, *Policy Studies*, Vol. 22, Nos 3/4, 233-249.
- Lowe, A. (2001b), After ANT: An Illustrative Discussion of the Implications for Qualitative Accounting Case Research, *Accounting, Auditing & Accountability Journal*, Vol. 14, No. 3, 327-351.
- Lowe, A. and Koh, B. (2007), Inscribing the Organization: Representations in Dispute between Accounting and Production, *Critical Perspectives on Accounting*, 18, 952-974.
- Lüder, K. G. (1992) A Contingency Model of Governmental Accounting Innovations in the Political-administrative Environment, *Research in Governmental and Nonprofit Accounting*, 7, 99-127.
- Lüder, K. G. (1994) The "Contingency Model" Reconsidered: Experiences from Italy, Japan and Spain, in Buschor, E. and Schedler, K. (Eds.) *Perspectives on Performance Measurement*, Berne: Haupt, 1-15.
- Lüder, K. G. (2002), Research in Comparative Governmental Accounting over the Last Decade – Achievements and Problems, in Montesinos, V. and Vela, J.M. (eds.), *Innovations in Governmental Accounting*, Kluwer Academic Publishers, 1-21.
- Monsen, H. and Näsi, S. (1998), The Contingency Model of Governmental Accounting Innovations: A Discussion, *The European Accounting Review*, 7:2, 275-288.
- Preston, A. M.; Cooper, D. J. and Coombs, R. W. (1992), Fabricating Budgets: A Study of the Production of Management Budgeting in the National Health Service, *Accounting, Organizations and Society*, Vol. 17, No. 6, 561-593.

- Quattrone, P. and Hopper, T. (2005), A "Time-Space Odyssey": Management Control Systems in Two Multinational Organisations, *Accounting, Organizations and Society*, Vol. 30, 735-764.
- Robson, K. (1991), On the Arenas of Accounting Change: The Process of Translation, *Accounting, Organizations and Society*, Vol. 16, No 5/6, 547-570.
- Star, S. L. and Griesemer, J. (1989), Institutional Ecology, 'Translation' and Coherence. Amateurs and Professionals in Berkeley's Museum of Vertebrate Zoology, 1907-1939, *Social Studies of Sciences*, 19, 387-420.
- Ridder, H-G.; Bruns, H-J. and Spier, F. (2005), Analysis of Public Management Change Processes: the Case of Local Government Accounting Reforms in Germany, *Public Administration*, Vol. 83, No. 2, 443-471.
- Rocher, S. (2006), *La consolidation des risques dans le secteur public local*, unpublished doctoral thesis, University of Limoges, France.
- ter Bogt, H. J. (2006), Financial Management of Housing Corporations in a Changing Environment: Economic and Social Rationality?, *Financial Accountability & Management*, Vol. 22, Iss. 2, 107-132.
- Yamamoto, K. (1999), Accounting System Reform in Japanese Local Governments, *Financial Accountability & Management*, Vol. 15, Iss. 3/4, 291-307.

- PART 3 -

LOCAL GOVERNMENT STUDIES

(Página deixada propositadamente em branco)

Paul Windels

Johan Christiaens

THE ADOPTION OF ACCRUAL ACCOUNTING IN FLEMISH PUBLIC CENTRES FOR SOCIAL WELFARE: EXAMINING THE IMPORTANCE OF AGENTS OF CHANGE

Introduction

In many western countries, governmental change programmes at varying levels have been the focus of policy makers. New accounting systems and techniques have received a central place in these initiatives of change. A considerable number of studies in different contexts has dealt with the adoption of these new forms and presented a critical assessment of the unfolded changes (Pallot, 2001; Ellwood, 2003). Some of this research has stressed the importance of agents of change, such as management consultants, in processes of renewal (Saint-Martin, 1998; Pollit and Bouckaert, 2000). Yet, only a few studies have focused on the role of these agents in the adoption of new accounting forms (Lapsley and Oldfield, 2001; Christensen, 2005). Likewise, limited attention has been paid to the importance of public sector officials in pursuing an accruals-based accounting reform (Humphrey, 2005). This study aims to address this research gap by examining a large accounting reform at the Flemish local governmental level. By means of a large-scale assessment on the reform adoption, the importance of a number of prominent agents is empirically tested and further explained.

The research draws on the recent adoption of accrual accounting in the Public Centres for Social Welfare (OCMWs¹), representing local authorities connected to the municipalities. During the last decade, one of the most far-reaching programmes of reforms was enacted at the Flemish local governmental level in relation to these organisations. Public Centres for Social Welfare are designed to provide a diverse range of social services while being subject to a specific legislative framework. Although

¹ An OCMW (literally: Official Centre for Mutual Welfare) is a governmental entity providing a number of additional municipal services such as health care, care for the elderly, social support, etc. Each OCMW is related to just one municipality and vice versa. In Flanders, being the largest District in Belgium, there are 308 OCMWs. To improve the readability of the article the term OCMW is translated to 'Public Centre for Social Welfare'.

these organisations are charged with policy implementation and mainly funded by the municipalities, they operate as quasi-autonomous structures without an immediate hierarchical relationship (van Helden and Jansen, 2003). Through issue of a new Decree in 1997, the centres were required to seriously alter their system of financial and economic management. This reform initiative has become known as NOB (in Dutch: 'Nieuwe OCMW Beleids- en beheersinstrumenten'). Next to diverse changes relating to the planning and control structure, the introduction of accrual accounting received a central place (Windels and Christiaens, 2006).

Starting from the reform legislation, this study investigates the adoption of a regulatory imposed accounting reform from an empirical point of view. The analysis of the reform adoption is based on a formal compliance check with the accounting legislation and related regulations (see Lin *et al.*, 1993). However, the study also aims to examine if there are cross-sectional variations in the extent of accounting adoption of local governments, and if so, what are factors that account for this local variation (Ingram, 1984). Particularly, consideration is given to the importance of different agents of change in the context of the reform (Ridder *et al.*, 2006). To construct a framework that underpins the research questions and a set of related hypotheses, the study draws on the institutional theory. Recently, institutional theory has shown a renewed interest in concepts of empowered actorhood and interest-driven agency to explain how profound change takes place (Hwang and Powell, 2005). In this view, the rhetoric and action of skilled agents of change is necessary to justify and support the diffusion of new forms and practices. However, little quantitative research has been found that illustrates the importance of such agents in a regulatory driven change environment. By examining the adoption of an accounting reform, this study aims to add empirical detail and explanation as to how different actors can become important agents of change in public sector renewal.

The paper is structured in the following manner. A brief outline is presented of the accounting changes in Flemish local government and its linkages to a new public financial management. The next sections discuss the importance of agents of change in processes of renewal and the used perspective for examination based on the institutional theory. These are presented as a basis for the empirical work that is subsequently reported and discussed.

1. Theoretical Context

1.1. NPFM in Flemish Local Government

Since the beginning of the 1990s, an ongoing set of reform initiatives has been introduced in Flemish local government. As a start, a first and modest reform initiative was enacted in 1995 in relation to the municipalities. This was quickly followed by a more extensive programme of reforms in relation to the Public Centres for Social Welfare. In order to enhance the administrative activity at the local level, these local authorities were required to implement a large set of modern instruments of governance. This was outlined in 1997 in the form of a new Decree on local government reform, which represented a new managerial model of public administration (NOB). The Public Centres

for Social Welfare had the choice to step in between 1998 and 2002 with the implementation of the reform project. As a result, different changes, such as the adoption of activity centres, long-range planning, quarterly reporting and budget controllership have taken place. The transition from cameral accounting to accrual accounting formed the cornerstone of this modernisation project of local government.

The importation of business accounting and budgeting techniques in the public sector has been referred to as 'new public financial management' (NPFM) (Guthrie *et al.*, 1999). Generally, a NPFM is pursued to realize some serious changes in the scope, scale and style of public sector administration and activity (Guthrie, 1998). This is driven by the belief that accrual accounting will deliver more accurate information, which should improve organisational planning, controlling and accountability (Chan, 2003). In line with this view, as an integral part of an overall management change, a new accounting and reporting system has been introduced in the Public Centres for Social Welfare. However, profound change not only requires the introduction of new structures, but also an adjustment in organisational practice and in the enduring values and conventions (Lowndes and Leach, 2004). In order to realize these changes the relevant skills and expertise are needed and mobilized into concrete action. This expertise may be brought about by dedicated agents in the organisation's context or, when absent in the public sector, may be imported from private sector specialists such as management consultants (Lapsley and Oldfield, 2001). It is clear that much is still unknown on the mechanisms of change in public sector renewal.

This research draws on the Public Centres for Social Welfare's annual reports to examine the extent of compliance with a regulatory driven accounting reform. This examination offers insights in the way Flemish local governments have applied the new principles of accrual accounting. The index methodology has proven to be a useful method for this as it permits a general research into a wide spectrum of elements (Christiaens, 1999). The annual reports are scrutinized on a number of technical and regulatory aspects but also on elements relating to the adequacy and usefulness of the reporting. Furthermore, this approach allows to scrutinize the importance of a prominent number of agents in the context of the local government reform. Through a large quantitative assessment, their influence on the level of reform adoption can be tested in a cross-sectional way. In this way, the research aims to examine and discuss the importance of key levers in the process of adopting a new financial management.

1.2. The Importance of Agents of Change

As many governmental reform movements, this project on public sector accrual accounting has been constituted through a regulatory initiative. In such a case, redesign interventions are not deliberately initiated by local actors who pursue their own interests in relation to existing organisational arrangements and agendas (Fligstein, 2001). Instead, new sets of rules and relations between different groups are imposed by a higher authority, consequently hammered out and enforced. Such an approach to reform involves some risks on the process of adoption. The mere enactment of a new law on local government reform forms a weak basis for the establishment of new techniques and practices. New rules and procedures may bring about technical

changes, but only have an indirect impact on the informal processes in place (Burns and Scapens, 2000). Recently, serious questions have risen on the implementation of compelling new ways of working in the public sector (Humphrey, 2005; Connolly and Hyndman, 2006). Diverse research has shown some significant problems with respect to the adoption of accrual accounting in local government (Christiaens, 1999; Caperchione, 2003; Ridder *et al.*, 2005).

The introduction of public sector accrual accounting has been recognized as an instance of significant change with riling public sector management traditions (Guthrie *et al.*, 1999). The proposed businesslike accounting forms often are associated with principles and values that differ strongly from the established cultural accounts (Suchman, 1999). In a highly institutionalized context, such as local government, the adoption of new practices and institutions requires a process of adaptation, sometimes referred to as institutionalisation. The innovations need to become justified and aligned with the existing perceptions in order to acquire legitimacy, and more generally, acceptance (Munir, 2005). In this process, dedicated agents of change are assumed to take up an important role (Hwang and Powell, 2005). Powerful actors have to translate the new rules, ideas and structures into the broader cultural understandings that have guided the existing ways of working and thinking (Fligstein, 2001). Several authors have emphasized the role of change agents in public sector renewal (Osborne and Gaebler, 1992; Hood, 1995). However, little research has been conducted on the identity and importance of these agents in the context of large accounting reforms (Humphrey, 2005).

It is widely recognized that management consultants have been important players in the reforms in a number of countries (Pollitt, 2001). There has been some research dealing with the role and influence of private sector consultants in public sector renewal (Saint-Martin, 1998; Lapsley and Oldfield, 2001). Some authors for instance have drawn on the notion of 'epistemic communities' (Haas, 1992) to explain how management consultants have advanced the adoption of new accounting forms (Laughlin and Pallot, 1998; Christensen, 2005). However, academic research has been more interested in the involvement of these agents in the initial stages of conceptualization than in the subsequent stages of implementation and administrative action (Pollitt, 2001). Likewise, little is known on the role and actions of other agents such as public sector officials when implementing profound change programmes. This study addresses this research agenda by examining the importance of a wide set of agents in the introduction of change. Referring to Pollitt's (2002) framework of public sector renewal this article mainly focuses on the second stage of change, the stage of the reform adoption.

2. An Institutional Perspective for Examination

Traditionally, the introduction of businesslike styles and techniques in government has been regarded as an answer of public sector entities to an external change in expectations and formal rules. As accounting forms an important part of the rule making within organisations, it can help to legitimate these organisations with the controlling external environment (Meyer and Scott, 1983: 235). Local governments would be

strongly affected by legitimacy problems and related pressures to adopt rationalized concepts of modern governance (Lapsley and Pallot, 2000: 217). New accounting rules and procedures then only are incorporated as impersonal rules to be in compliance or to fulfil the external expectations (Meyer and Rowan, 1977). Whilst the information provided by the new accounting system is hardly used for decision-making and control. However, the institutional theory has been criticised for this focus on homogenizing institutional analysis and rather simplistic view on agency (Greenwood and Hinings, 1996; Hensmans, 2003). So lately, a renewed interest has been placed on the independent role of agents in social change and reproduction.

From an institutional perspective, the adoption of a NPFM is representative for a new 'institutional template for organizing' (Powell and DiMaggio, 1991: 27). The businesslike principles contrast with the prevailing archetypical template of working and thinking that has become embedded in the local systems and structures. Particularly, in a highly structured field such as local government a tight coupling of traditional assumptions of public administration could produce resistance to change (Greenwood and Hinings, 1996: 1027-1031). As the existing accounting and reporting practices have been in place for decades they somewhat have become sedimented. As a result, a very consistent set of expectations and beliefs have become rooted in the existing institutional context, which are most difficult to break with. Alternatively, the newly proposed practices and institutions may be largely unknown and need to be explained to find entrance. An extended process of institutional meaning making is thus required to change the embedded ways of working and thinking.

Institutional theory is very concerned with explaining how and which agents are able to envision and effectuate alternative modes of action (Greenwood and Suddaby, 2006: 29). Several researchers have drawn on 'accounts of institutional entrepreneurship' to explain how institutions are purposively created and changed in varying settings (Suddaby and Greenwood, 2005). Institutional entrepreneurs can be seen as strategic actors who use their social skills to facilitate a wide adoption of new practices and institutions, which are often complex or organisationally sensitive (DiMaggio, 1988). These agents dispose of the ability to motivate the cooperation of others by providing them with common meanings and identities in an attempt to alter the existing institutional logic (Fligstein, 2001). The institutional theory thus offers a valuable perspective to examine the role of agents of change in processes of renewal. However, in line with the current research objectives, a broad institutional perspective rather than a fully worked out literature framework is used, in order to remain as open as possible for diverse explanations on the particular importance of different agents of change in the reform adoption.

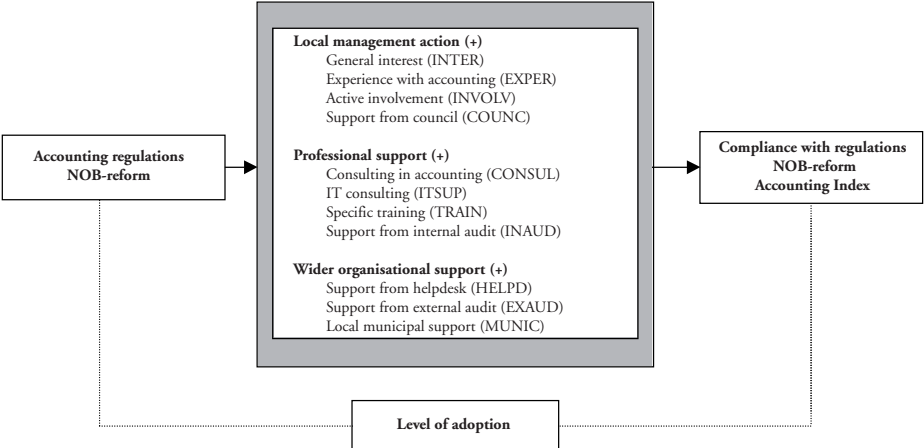
3. Research Design

3.1. Constructs and Hypotheses

The paper departs from the assumption that the attainment of profound accounting change is largely function of the interest and skilful action of agents of change (Seo and Creed, 2002: 240). A constructivist perspective on change is taken in which institution

building is seen as a cumulative process “in which different sets of agents participate and have a different stake in the outcome” (Beckert, 1999; Hwang and Powell, 2005: 185). In line with institutional theory, a distinction is made between local organisational action and external support that resides in the wider organisational context (Greenwood and Hinings, 1996). A number of hypotheses are formulated relating to the interest and action of different parties, which might feasibly be associated with alternative implementation scenarios adopted by different local governments. Figure 1 shows the research framework drawn for this study, representing the hypotheses and variables used for analysis, with expected signs for the univariate testing.

Figure 1 – Research Framework



As a main driver and primary responsible for innovation, a first set of propositions relates to local executive management and some characteristics that may influence their interest and willingness to engage in transformative change (Dacin *et al.*, 2002). Previous research has shown that management plays a crucial role in the implementation of various accounting instruments (Gurd and Thorne, 2003; Ridder *et al.*, 2006). Yet, there is also research illustrating that managers sometimes impede and resist the diffusion of accounting practices (Jackson and Lapsley, 2003). By examining the differing role and actions of local management, this study aims to provide a greater understanding of the importance of managers and yield better explanations for the success or failure of implementing accrual accounting.

Based on previous research, it is expected that general interest with the reform initiative (Kearney *et al.*, 2000: 538), prior experience with the accounting practices (Ingram, 1984: 129; Ridder *et al.*, 2005: 465-466), active involvement in the field (Teske and Schneider, 1994: 336-337) and support from the council (Jones, 2002: 43; Hepworth, 2003: 39) for the managers will positively affect the level of reform

adoption. General interest with the reform² is measured by the number of attendances to the series of reform related seminars and interregional taskforces organised by the provinces and the Flemish higher government. Prior experience³ with accrual accounting is dichotomously measured by the extent to which management and its team disposes of related private sector experience or hired experienced employees as a result of the reform (Christiaens, 1999: 30). Active involvement⁴ in the field is also dichotomously measured by participation as an early adopter, presentations on related seminars or publications in professional journals or books. Ten statements on the interest and involvement of the council are used to capture the extent of local political support⁵.

- H1(a) General interest of local management with the reform initiative positively affects the level of reform adoption.
- H1(b) Prior experience of local management with accrual accounting positively affects the level of reform adoption.
- H1(c) Active involvement in the field for local managers positively affects the level of reform adoption.
- H1(d) The extent to which the council supports local management with the reform initiative positively affects the level of reform adoption.

² The operationalisation of 'general interest' was not based on previous research. However, Hepworth (2003: 42) has emphasized the importance of a comprehensive management-training programme for line managers in how to use an accrual accounting system, so they can derive the benefits of its operation. In this regard, the participation to reform related seminars and workshops by management have been defined as a precondition for a successful introduction of accrual accounting.

³ Lüder (1992: 115) has argued that specialist training or accounting qualifications, which cover knowledge and experience of private sector accounting, give reasons to expect a more positive basic attitude to the introduction of a more informative system. Clearly, he suggested the importance of private sector experience as these systems usually are regarded as more strongly oriented toward the private sector approach. In line with Christiaens (1999: 31) a dichotomous approach is taken for operationalising the mentioned relationships. It is of little importance how many accounting employees possess a business accounting experience as long as there has been an introduction of business accounting principles, know-how and techniques. The number of years of business accounting experience is neglected since there are mixed effects regarding the professionalism.

⁴ Evans and Patton (1983: 162) showed that municipalities with professionally active municipal officers are more likely to participate to a Certificate of Conformance programme in order to be in compliance with GAAP. However, local officials have a wide array of potential professional activities and as in the case of 'general interest' no direct measure of 'active involvement' is available. Therefore, the 'active involvement' of a local government's official is measured by observing whether he has presented on reform related seminars, published in professional journals or books or his organisation has participated as an early adopter while functioning as a test case.

⁵ For this construct, a summated scale is used, which is formed by combining 10 individual variables into a single composite measure. For the questions, a five point Likert scale is used, with a score of 1 for 'very much disagree' and 5 for 'very much agree'. A number of questions were negatively formulated to minimize possible response bias and accordingly recoded. To test the reliability of the total item scale a factor analysis is conducted. For the 10 items a reliability coefficient Cronbach's alpha is found of 0.8073.

A second set of propositions relates to the professional support from external agents largely purposively consulted to enable change within the local organisational context: it is in this milieu that entrepreneurial activities impact directly and most influentially on the reform's agenda. Very often, professional assistance is called in to install or facilitate new systems and structures until these are technically up and running. This study aims to test the role of consultants in the setting up and implementation of the new accounting system. Support from accounting consultants is expected to positively affect the level of reform adoption (Christiaens, 1999). Various studies also reveal the importance of IT consultants in the construction of new accounting systems (Bloomfield and Danieli, 1995; Järvinen, 2006). In order to respond to the new requirements relating to the introduction of accrual accounting a sufficient IT capacity is assumed necessary in bedding down the new system (Hepworth, 2003: 43). However, next to structural changes, there is also a need to change the processes by which public entities work (Lapsley and Oldfield, 2001). Previous research has drawn attention to the importance of training courses in which professional experts propose new practices, recipes for compliance and interpretations of laws (Hepworth, 2003; Windels and Christiaens, 2006). Furthermore, as a form of "enforced self-regulation" (Hood *et al.*, 2000), the internal audit is expected to foster the adoption of new requirements and best practices.

Support from accounting consultants⁶ is measured by the average level of consulting support with respect to the drawing up of the first balance sheet, the preparation of the annual reports and the current bookkeeping. The extent of software support and satisfaction with the new applications is taken for support from IT consultants⁷. Specific training from professional experts is measured by taking the compound average of training received in accrual accounting. Internal audit support is measured by the total number of financial and compliance audits conducted since the start of the reform (Giroux and McLelland, 2003: 217).

- H2(a) Support from accounting consultants positively affects the level of reform adoption.
- H2(b) Support from IT consultants positively affects the level of reform adoption.
- H2(c) Professional training in accrual accounting positively affects the level of reform adoption.
- H2(d) Support from the internal audit positively affects the level of reform adoption.

A third set of hypotheses examines the importance of guidance and support activities conducted by wider institutional agents on local governments' responsiveness to the

⁶ This indicator has been used previously by Christiaens (1999: 29), albeit through a categorical approach.

⁷ The indicator 'support from IT consultants' has never been incorporated in other referenced governmental accounting studies. Support from IT consultants is measured by taking the average level of satisfaction with IT consulting on a five point Likert scale, weighted by a coefficient, which relates to the extent of external IT support (0 = no support, 1 = restrictive support, 2 = extensive support).

reform. Next to the establishment of a special helpdesk at a higher governmental level (Cel Nieuw Gemeente- en OCMW-beleid) the external audit is assumed to facilitate the adoption of the new accounting system through periodic analytic reviews (Ingram, 1984: 129). Although these actors are not grounded in specific localities, a significant influence of them can be expected as they are formally appointed to guide, assist or monitor the ongoing implementation process (Boyne, 2000; Andrews *et al.*, 2005). Lastly, the extent of local support from the municipalities, albeit mainly financially, is assumed to strongly affect the modernising local government project (Andrews *et al.*, 2005: 645).

Support from the helpdesk is measured by the average number of differing services consulted. Support from the external audit⁸ is measured by 10 statements on the actions and the perceived added value of the external audit. The ratio of the municipal contributions divided by the general fund revenues is taken as a financial surrogate for local municipal support (see Robins and Austin⁹, 1986: 417-418). By taking this ratio a possible bias coming from differences in municipal population characteristics is minimized. In Table 1, the independent variables used for the analysis are briefly summarized.

- H3(a) Support from the special helpdesk positively affects the level of reform adoption.
- H3(b) Support from the external audit positively affects the level of reform adoption.
- H3(c) Local municipal support positively affects the level of reform adoption.

⁸ Also for this construct, a summated scale of 10 items is used, based on a five point Likert scale, with a score of 1 for 'very much disagree' and 5 for 'very much agree'. A number of questions were negatively formulated to minimize possible response bias and accordingly recoded. The reliability of the item scale is tested using a factor analysis and a reliability coefficient Cronbach's alpha is found of 0.8054 for the 10 items.

⁹ Robbins and Austin (1986) found that the reliance on intergovernmental revenues, measured by the surrogate intergovernmental revenue divided by total revenue, significantly explained variations in the financial disclosure quality across local governmental reporting units. It should be noted that Robbins and Austin's (1986) study assessed the disclosure practices, while our study focuses on the compliance practices at the local level. In the current context, the municipal subsidies represent the largest part of the intergovernmental transfers.

Table 1 – Variables used for Analysis

Variables		Definition	Prediction
Panel A: dummy variables			
Active involvement	(INVOLV)	Dummy variable, where 1 = participation as early adopter, presentations on seminars or publications in professional journals or books	(+)
Experience with accounting	(EXPER)	Dummy variable, where 1 = employees with related private sector experience or additionally hired	(+)
Panel B: continuous variables			
General interest	(INTER)	Number of attendances to the reform related seminars and interregional taskforces	(+)
Support from accounting consultants	(CONSUL)	Average level of consulting support with respect to the drawing up of the first balance sheet, the preparation of the annual reports and the current bookkeeping	(+)
Support from council	(COUNC)	Compound average of perceived support from the local council (10 Likert items)	(+)
Support from IT consultants	(ITSUP)	Compound average of IT support and satisfaction with new software applications	(+)
Specific training	(TRAIN)	Compound average of training received in accrual accounting	(+)
Support from internal audit	(INAUD)	Number of financial and compliance audits conducted since the start of the reform	(+)
Support from special helpdesk	(HELPPD)	Average number of consulted services from the special helpdesk	(+)
Support from external audit	(EXAUD)	Average level of perceived support from the external audit (10 Likert items)	(+)
Local municipal support	(MUNIC)	Municipal contributions divided by the general fund revenues, FYE 2001	(+)

Note: FYE = fiscal year ended.

3.2. Accounting Index

This study uses an accounting index to focus on the adoption of a drastic accounting reform. Since Ingram (1984) originally constructed and applied an index in the disclosure of accounting practices of US state governments, the approach has directly or in a modified way been used in a number of accounting studies (e.g. Giroux and McLelland, 2003). Following Coy *et al.* (1993) “the index amounts to a qualitative based instrument designed to measure a series of items which, when aggregated, gives a surrogate score indicative of the level of compliance, disclosure, accountability, etc... in the specific context for which the index was devised”. In this study, an accounting index is

set up to examine if the adopted changes in accounting meet the prescribed accounting regulations as retrieved in the reform legislation. However, apart from explicit requirements and some related implicit assumptions, the index also focuses on the range of accounting information disclosed by the local governments. With this last notion the study wants to investigate the usefulness of the reported information and verify the adequacy of the financial instruments for the organisations' management.

For the construction of the accounting index the study draws on the former concept of the 'compliance index' used for examining the municipal accounting reform (Christiaens, 1999: 26-29). The relevant categories and items of the accounting index have been determined with due care and, if necessary, adjusted in relation to the new requirements. In total, the index consists of 9 main components and 90 elements constituting technical accounting and transparency issues. Technical accounting components include issues typically related to the making-up of the annual accounts, such as completeness, valuation, cut-off, classification and mechanical accuracy. Transparency components group elements checking for timeliness, adequacy and usefulness, formalistic requirements and disclosure of the required information. Each annual report is reviewed and an extent of compliance is assigned for each of the 90 information elements. The elements are mostly measured dichotomously with a score of 1 if in compliance and a score of 0 if not. Some of the elements are measured qualitatively¹⁰ and one element is measured quantitatively¹¹. Annex 1 gives a detailed overview of the elements of the accounting index and their method of measurement.

The accounting index used in this study is computed in several steps. First, each element of the accounting index is scored by the corresponding extent of compliance in the annual report. The scores for elements are added together for each component to arrive at a component total score. This number is expressed as a percentage of the possible maximum for the component. Then the scores are summed for all 90 elements for a given local government. To provide for comparability among governments, each government's measure for the entire report is converted to a percentage of the maximum compliance possible (i.e. 100%). The latter percentage (i.e. the accounting index) represents a single numeric compliance indicator for each report. The maximum extent of compliance is full compliance of the 90 elements. As an example, Table 2 presents the calculation of the accounting index for Centre X.

¹⁰ Some information items, such as 'doubtful debtors and writing downs', 'budgets' and 'valuation rules', require written disclosure in varying degrees of specificity. In order to measure the extent of compliance, a qualitative scoring is chosen. Furthermore, the items 'pages consecutively numbered', 'binded annual accounts' and 'redundancy' are scored qualitatively: the attributed scores are 1 if disclosed completely, 0.5 if disclosed partly and 0 if no compliance.

¹¹ Timeliness is defined as the time lag in days between April 30, 20N1 (i.e. the official deadline) and the date of Enactment of the annual reports by the local Council. The study actually examines the compliance with accounting regulations and the accounting task ends with the enactment by the local Council. The timeliness is measured per month stepwise starting with a score of 1 if enacted before the end of April 2002, 0.9 if before the end of May 2002, ...and finally 0.1 if enacted before the end of December 2002. For the rest of the months the score remains 0.

Table 2 – Calculation of the Accounting Index for Centre X

Example: Annual report 20N1 Centre X			
Component	Number of items	Total items score	Average (%)
1. Completeness	9	4.5	50
2. Valuation	3	2	66.7
3. Cut-off	5	3	60
4. Classification	14	8.5	60.7
5. Mechanical accuracy	17	15	88.2
6. Timeliness	1	0	0
7. Disclosure	24	22	91.7
8. Formalistic requirements	6	4.6	76.7
9. Adequacy and usefulness	11	7	63.6
Accounting index	90	66.6	74

Note: As each item is scored on one point, a total items score of 90 is possible for each annual report.

4. Methodology

The research uses three major types of data. Firstly, a questionnaire survey is issued to the financial managers of the Public Centres for Social Welfare. Essentially, the survey represents the operationalisation of the proposed hypotheses described earlier. Secondly, archival data are gathered for the composition of the accounting index. A copy of the annual report and the trial balance in 2001 are used. For a limited number of items, the information is directly obtained from the first balance sheets. Lastly, a series of interviews are conducted with three financial managers and three management consultants to discuss the quantitative findings and the proposed conclusions. The research is based on a random sample of 100 organisations, which started to implement the reform between 1998 and 2001 out of a population of 308 local entities. The data analysis concentrates on the adoption of the accounting requirements and on the importance of a number of agents of change. Apart from the descriptive statistics, ordinary least squares regression analysis is used to test the proposed hypotheses.

For the interviews, a sample of three local governments is selected that satisfied following criteria. All organisations obtained a high level of adoption of the accounting requirements and for this purpose repeatedly called upon professional assistance. Temporal comparability (i.e. adoption within the first three years of the reform) and willingness to support the study were given from the financial managers. Next to this, three management consultants were approached, who had functioned as senior advisors in the reform project and provided support to a wide range of local governments in the setting-up of new accounting systems. All participants had extensive public-sector experience and significant experience in their present roles. Partly responsible for the implementation process, all interviewees were in a unique position to comment extensively on the role of key agents in processes of change. Generally lasting between one and two hours, six semi-structured interviews were held in the second half of 2006. Based on previous research, an interview guide was drawn up in advance, being modified and elaborated in the course of the interviews. All interviews were recorded and transcribed verbatim.

5. Data Analysis

While the annual reports of 93 entities could be captured, totally 86 organisations returned the survey. By means of an intensive follow-up (third requests and telephone calls) complete archival data could be gathered and analysed for 83 organisations. This rather high response rate indicates that the obtained results may be quite representative of the population of Public Centres for Social Welfare.

5.1. Main results of the index

By use of the accounting index a quantitative impression is gained of the extent to which the local governments are compliant with the new accounting regulations. The main figures related to the accounting index and its 9 components are shown in Table 3.

Table 3 – Main Measures of the Accounting Index and the Different Components

	Mean (%)	Std. Dev. (%)	Min. Score (%)	Max. Score (%)
Accounting Index	64.4	9	43.9	80.7
Technical Components				
Completeness	54.4	16.6	11.1	94.4
Valuation	70.7	21.1	33.3	100
Cut-off	28.7	26	0	80
Classification	74.4	12.9	39.3	100
Mechanical Accuracy	75.5	10.3	47.1	94.1
Transparency Components				
Timeliness	40.4	32.4	0	100
Adequacy & Usefulness	51.8	13.9	22.7	86.4
Formalistic Requirements	61.9	19.5	23.3	100
Disclosure	68.6	24.3	12.5	96.7

The total extent of accounting scores varies from a high of 80.7% to a low of 43.9%. On average, each organisation demonstrates compliance with 57.9 items or 64.4% of the maximum possible total of 90 the organisation is expected to score. The results indicate that, generally, the organisations signal a moderate level of compliance with the prescribed reform requirements. However, from a theoretical point of view, each organisation could reach an accounting index of 100%, as there appears to be at least one entity scoring the maximum for each item of the index.

When looking closer at the different components of the accounting index a diversity of scores can be observed. For three components, a generally positive score of adoption (>70%) is retrieved (i.e. valuation, classification and mechanical accuracy). For the other components the adoption of the accounting requirements appears to be moderate while two components, timeliness and cut-off, display rather poor results (<50%). When comparing the technical and transparency components, the scores seem generally higher for the implementation of technical accounting requirements

(barring cut-off). Remarkably, only 4% of the entities have enacted the annual reports by the Municipal Council before the official deadline while 23% of the organisations did not enact before the end of that year. On the whole, these findings suggest that some specific elements of the accounting reform have found entrance while some other aspects appear to have received less attention.

5.2. Factors Affecting the Index

Table 4 reports the OLS regression results. The observed F-statistic of the regression is 5.383 and significant at alpha = 0.000 which suggests an acceptable goodness-of-fit. The validity threat of multicollinearity is examined with a Pearson correlation test and by calculating the tolerance and variance inflation factors for all the independent variables. No indication of multicollinearity is found between the different variables. Regression residual tests for normality and constancy of variance and a check on the existence of outliers indicate no significant distortions from the assumed regression conditions. An interpretation of the proposed model seems to be appropriate. The model has two significant variables with the theoretically expected sign, INTER and CONSUL. The variables TRAIN and INAUD signal a positive 'trend' while, although not significant, a negative relationship is shown for six of the remaining variables.

Table 4 – Ordinary Least Squares Linear Regression Results for the Proposed Model

R	R ²	Adjusted R ²	Std. Error of the Estimate				
0.674	0.455	0.370	0.071				
ANOVA	Sum of squares	df	Mean Square	F	Sig.		
Regression	0.300	11	0.027	5.383	0.000		
Residual	0.360	71	0.005				
Total	0.660	82					
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	β	Std. Error	β			Tolerance	VIF
(Constant)	0.693	0.070		9.875	0.000		
INTER	0.024	0.007	0.340	3.524	0.001***	0.824	1.214
EXPER	0.020	0.017	0.111	1.138	0.259	0.812	1.232
INVOLV	-0.011	0.019	-0.058	-0.589	0.558	0.790	1.266
COUNC	-0.058	0.077	-0.072	-0.751	0.455	0.828	1.208
CONSUL	0.154	0.026	0.545	5.835	0.000***	0.882	1.134
ITSUP	-0.013	0.048	-0.025	-0.277	0.783	0.916	1.092
TRAIN	0.013	0.007	0.178	1.902	0.061*	0.881	1.136
INAUD	0.018	0.010	0.174	1.937	0.057*	0.954	1.048
MUNIC	-0.039	0.039	-0.091	-0.991	0.325	0.911	1.097
HELPD	-0.026	0.050	-0.052	-0.510	0.611	0.732	1.366
EXAUD	-0.117	0.072	-0.154	-1.625	0.109	0.855	1.170

Note: Significant at 0.01 (***), 0.05 (**) and 0.10 (*). One tailed test for directional predictions.

The regression provides persuasive results for some of the proposed hypotheses. With respect to local management action, the variable INTER is found as a strongly positive indicator ($\alpha = 0.01$). General interest of local management with the reform initiative through participation to related seminars and dedicated workshops has a significant positive effect on the accounting index. However, prior experience with the accounting practices (EXPER), active involvement in the field (INVOLV) and support from the council (COUNC) are not significant. When looking at the importance of professional support, consulting in accounting (CONSUL) is found as a very important explanatory factor for the accounting index ($\alpha = 0.01$). More a 'trend' ($\alpha = 0.10$) can be observed for the variables INAUD as an indicator for the support from the internal audit and TRAIN measuring the extent of specific training from experts. In this study, support from IT consultants (ITSUP) seems not to be associated with the accounting index. With respect to wider organisational support, the findings indicate no significant relationship for the proposed hypotheses. The guidance and monitoring activities from central government, executed by the regional helpdesk (HELPD) and the external audit (EXAUD), as well as local financial support from the municipalities (MUNIC) do not seem to deliver an explanation for the cross-sectional differences.

6 Discussion

6.1. Research Findings

According to Connolly and Hyndman (2006) the implementation of accrual accounting can be depicted as a process featuring an introduction stage (setting-up of system and reporting framework), a development stage (resolving application and user problems) and a maturity stage (information usage and system refinement). Within this process the local governments can be situated somewhere on the continuum of the development stage or at the end of the introduction stage. The research findings show a quite divergent adoption of the new accounting regulations with some more attention for the technical accounting aspects (i.e. mechanical accuracy, classification, and valuation). The notable lower scores for the cut-off component reflect an inadequate use of the suspense and transitional accounts. The results of the transparency components clearly indicate that various entities have struggled to find an appropriate reporting framework for the new accounting information.

At first sight, many annual reports appear untransparent as much information is presented with little clarification. From an institutional perspective, one could assume that the local governments merely have tried to be in compliance with the new regulations. However, many organisations seemed to have put much effort in the disclosure of the required information (through numerous tables and figures). Only, it appears that limited attention has been paid to the usefulness of this information as some principal characteristics such as comparability, comprehensibility and relevance often are not met. At the same time, many organisations show serious difficulties to enact the annual reports on time. It is far from clear how the enacted annual reports can be adequate instruments for decision-making and control. Hence, questions rise on the

causes or reasons for these rather ineffective reporting styles. Albeit that there are a number of notable exceptions, which have shown a high level of reform adoption.

The cross-sectional differences in adoption signal the importance of different agents of change in processes of renewal. This research confirms that local management's interest and expectations on changing financial management have a strong influence on the adoption processes (Ridder *et al.*, 2006). Furthermore, substantial evidence is found for the importance of external consultants in providing professional assistance in accounting. While of minor significance, support from the internal audit and professional training also tend to have a positive effect on the level of adoption. These findings are fairly consistent with results from previous research on governmental accounting change (Christiaens, 1999). However, further research needs to clarify these particular results, as differential modes of cooperation with several other agents seem not to account for cross-sectional differences in adoption.

6.2. Clarifications from the Interviews

The financial managers revealed that the existing interests and capabilities at the local governmental level were generally inadequate to match the significant increase of legislative requirements. In many organisations, the new accounting obligations were considered as a substantial amount of supplementary work next to the daily operations. The offered support from the helpdesk and the provincial workshops was appreciated but perceived as insufficient to cover all problems in the start-up period. For many new and often technical issues, these instances could not offer any ready-made solutions. A similar remark was made in relation to the external audit, which appeared to be understaffed to provide an extensive support. Many organisations did not dispose over the time or the personnel to perform the internal audit obligations. Governments that decided to quickly attract additional employees not only were hampered with the existing administrative procedures, but also with a rather unfavourable employment situation. In this perspective, the importance of consultants was recognized because of their professional support, their technical know-how and their ability to quickly provide the requested services. Some managers also stressed the image and the legitimating role of consultants as the innovations needed to be 'sold' within their organisation.

The consultants were aware of the problems and difficulties at the local governmental level and developed a prominent role in provisioning reform assistance. External support services were mainly called in by organisations, which had problems with the setting-up of the accounting system or with the reporting obligations. In many authorities, the development of several new accounting aspects, such as the initial balance sheet and the valuation rules, had come up for discussion. Some organisations also requested assistance for a number of complementary changes in their processes of management control. The consultants were mainly approached to offer an acceptable answer to the fairly complex and sometimes incomplete legislative requirements. It should be noted here that several consultants have taken up an important role at the conceptual level, i.e. in the refinement and further adaptations of the existing reform legislation. However, a number of local governments remained somewhat reluctant to invoke

the aid from external consultants or other professionals. These organisations were not inclined or interested to obtain advice in the private sector market. Whilst other organisations seemed not very concerned to move into an extended adoption of the new accounting and reporting requirements.

The interviewees realized that the establishment of a profound change scenario only holds true for a certain group of organisations. To a large extent this seemed a function of local management's interest and motivation to change the existing situation. In many organisations, local political and executive management were not accustomed to work with accruals-based accounting information for decision-making and control. Through this reform initiative, they neither developed a strong need or appetite to work with this kind of information. Clearly, the Public Centres for Social Welfare did not face a lot of pressures to engage in new styles of working or to move towards best practices. In this perspective, a positive influence to change the existing situation certainly has come from the professional consultants. By means of various service offerings consultants have tried to capture local governments' interest for the reform. Both individual questions as well as collective problems have been addressed in different ways. A large consultancy firm for instance organised periodic group meetings to address particular development and implementation needs that existed in several authorities. In these cases, the consultants gradually experienced a changing role from developers of new accounting forms towards instigators and sometimes coaches of best practices. Evidently, the consultants were also interested in a further development of the new market segment of the local government sector. However, several consultants were convinced that the local governments gradually would become acquainted with the new accounting forms. Whilst some interviewees claimed that only entities which were really involved in an *ongoing change trajectory* could be considered as modernizing organisations that eventually would profit from the aspired benefits of this reform project.

6.3. Interpreting the Evidence

With this project on local governmental reform, the legislator has prescribed a large set of new accounting instruments without considering sufficiently the processes of implementation. In line with institutional theory, this research illustrates that a top-down replacement of an accounting system is not a neutral merely technical undertaking. The local governments need to accommodate and incorporate the new ways of working. This could be expected in the case of a regulatory reform, where new practices and institutions not routinely emerge to complement some latent needs or opportunities (Suddaby and Greenwood, 2005). As many local governments are largely unacquainted with the new accounting principles, they need to develop the right skills for implementing the changes (Lowndes and Leach, 2004). This research shows that this is not merely a question of expertise but also a matter of sufficient interest and support to turn the legislative requirements into concrete action.

Local management's interest in the change project seems a critical success factor for the adoption of public sector accrual accounting. Their participation to reform related seminars, workshops and training sessions has a significant effect on the extent

of adoption. The organisation of varying reform events as well as management's engagement to these initiatives is considered important. Furthermore, attention is drawn to the provisioning of an appropriate support process when implementing a drastic reform. This implies that each organisation needs to dispose over sufficient resources (in terms of time, finance, personnel, etc) and adequate competences (in terms of knowledge, skills, expertise) to effect the desired changes. From an institutional perspective, this involves a learning process in which organisations have to acquire new skills and practices, but also accommodate new institutional expectations (Greenwood and Hinings, 1996). Clearly, it is at this point that professional agents of change such as private sector consultants can play an important role. Local governments, which have drawn on the professional expertise of consultants have made a significant progression vis-à-vis the other organisations. A close collaboration with professional experts and other organisations in transition seems to have fostered a more reform oriented interest.

The importance of consultants can be understood in relation the wider governmental approach to this reform. At the higher governmental level, a number of support initiatives have been undertaken to assist local governments with the adoption process. However, these initiatives predominantly focused on the technical conversion of the accounting system and some related problems. Organisations that were looking for more general professional assistance or more extended support could not be helped. These authorities were more or less driven towards private sector specialists with their problems. Generally, the legislator seems to have provided insufficient support activities with respect to the reform implementation. Indeed, a large group of local governments have not consulted private sector consultants and clearly have shown some lower levels of adoption. Some of these organisations seemed to have considered this reform initiative as a rather technical change project.

Conclusions

This study suggests uncomfortable lessons for current Flemish public policy on local government change, its implementation and monitoring. The present aspirations towards a new public financial management appear to be very different to the existing accounting and reporting practices at the local level. What has been found is a set of diverging annual reports that are mainly drawn up to be in compliance, but with little considerations to aspects such as timeliness, adequacy and usefulness. The results on reform compliance may be attributed to a lack of adequate considerations and preparations in relation to the adoption process. In line with the institutional theory, this research illustrates that public sector accounting change involves a profound process of change, unfolding over time, in which different agents have a significant role to play (Hwang and Powell, 2005).

This involves a dedicated interest from the local management in the reform initiative as a sort of necessary condition for the implementation process (Ridder *et al.*, 2006). By a number of related activities management's interest and engagement can be ensured and strengthened. Next to this, adequate guidance and support activities should be ensured and provided by skilled professionals such as management consultants (Pollitt, 2001).

Generally, this important part of the adoption process seems to be underrated. With respect to the provisioning of adequate support, the Flemish higher government may have taken up a more proactive role. Furthermore, a sound monitoring process should be developed in order to ensure a sufficient control on the further adoption of the reform requirements (Power, 1997). With regard to this, the current efforts by the external audit are considered as largely insufficient. The research concludes that without adequate guidance and monitoring the anticipated objectives of a large reform may become seriously obscured or even forgotten.

The adoption of accrual accounting, and more widely NOB, in the Public Centres for Social Welfare is still ongoing. Whether this reform project will ever deliver the aspired for benefits remains to be seen. What is known is that the adoption of the new accounting forms is considered as a complex and time demanding process in many organisations. This research has examined the adoption of the accrual accounting requirements and the importance of different agents of change. However, further research is needed to analyse the specific role of these change agents in more detail and to examine how local political and executive management eventually is using the new accounting instruments.

References

- Andrews, R.; Boyne, G. A.; Law, J. and Walker, R. M. (2005), External constraints on local service standards: the case of comprehensive performance assessment in English local government, *Public Administration*, 83(3), 639-656.
- Beckert, J. (1999), Agency, entrepreneurs, and institutional change. The role of strategic choice and institutionalized practices in organizations, *Organization Studies*, 20(5), 777-799.
- Bloomfield, B. P. and Danieli, A. (1995), The role of management consultants in the development of information technology: the indissoluble nature of socio-political and technical skills, *Journal of Management Studies*, 32(1), 23-46.
- Boyne, G. (2000), External regulation and Best Value in local government, *Public Money and Management*, 20(3), 7-12.
- Burns, J. and Scapens, R. W. (2000), Conceptualizing management accounting change: an institutionalist framework, *Management Accounting Research*, 11(1), 3-25.
- Caperchione, E. (2003), Local government accounting system reform in Italy: a critical analysis, *Journal of Public Budgeting, Accounting and Financial Management*, 15(1), 110-145.
- Chan, J. (2003), Government accounting: an assessment of theory, purposes and standards, *Public Money and Management*, 23(1), 13-20.
- Christensen, M. (2005), The 'third hand': private sector consultants in public sector accounting change, *European Accounting Review*, 14(3), 447-474.
- Christiaens, J. (1999), Financial accounting reform in Flemish municipalities: an empirical investigation, *Financial Accountability and Management*, 15(1), 21-40.
- Connolly, C. and Hyndman, N. (2006), The actual implementation of accruals accounting: caveats from a case within the UK public sector, *Accounting, Auditing and Accountability Journal*, 19(2), 272-290.
- Coy, D.; Tower, G. and Dixon, K. (1993), Quantifying the quality of tertiary education annual reports, *Accounting and Finance*, 33(2), 121-130.
- Dacin, M. T.; Goodstein, J. and Scott, W. R. (2002), Institutional theory and institutional change: introduction to the special research forum, *Academy of Management Journal*, 45(1), 45-57.

- DiMaggio, P. J. (1988), Interest and agency in institutional theory, in: L.G. Zucker (Ed.) *Institutional Patterns and Organizations: Culture and Environment*, 3-22 (Cambridge: Ballinger).
- Ellwood, S. (2003), Bridging the GAAP across the UK public sector, *Accounting and Business Research*, 33(2), 105-121.
- Evans, J. H. and Patton, J. M. (1983), An economic analysis of participation in the municipal finance officers association certificate of conformance program, *Journal of Accounting and Economics*, 5(2), 151-175.
- Fligstein, N. (2001), Social skill and the theory of fields, *Sociological Theory*, 19(2), 105-125.
- Giroux, G. and McLelland, A. J. (2003), Governance structures and accounting at large municipalities, *Journal of Accounting and Public Policy*, 22(3), 203-230.
- Greenwood, R. and Hinings, C. R. (1996), Understanding radical organizational change: bringing together the old and the new institutionalism, *Academy of Management Review*, 21(4), 1022-1054.
- Greenwood, R. and Suddaby, R. (2006), Institutional entrepreneurship in mature fields: the big five accounting firms, *Academy of Management Journal*, 49(1), 27-48.
- Gurd, B. and Thorne, H. (2003), The transformation of an accounting system during organisational change: a longitudinal study, *Financial Accountability and Management*, 19(1), 21-43.
- Guthrie, J. (1998), Application of accrual accounting in the Australian public sector – rhetoric or reality?, *Financial Accountability and Management*, 14(1), 1-19.
- Guthrie, J.; Olson, O. and Humphrey, C. (1999) Debating developments in New Public Financial Management: the limits of global theorising and some new ways forward, *Financial Accountability and Management*, 15(3/4), 209-228.
- Haas, P. (1992), Introduction: epistemic communities and international policy coordination, *International Organisation*, 46(1), 1-35.
- Hensmans, M. (2003), Social movement organizations: a metaphor for strategic actors in institutional fields, *Organization Studies*, 24(3), 355-381.
- Hepworth, N. (2003), Preconditions for successful implementation of accrual accounting in central government, *Public Money and Management*, 23(1), 37-43.
- Hood, C. (1995), The “New Public Management” in the 1980s: Variations on a Theme, *Accounting, Organizations and Society*, 20(2/3), 93-109.
- Hood, C.; James, O. and Scott, C. (2000), Regulation of government: has it increased, is it increasing, should it be diminished? *Public Administration*, 78(2), 283-304.
- Humphrey, C. (2005), The questionable nature of ‘third hand’ public sector accounting solutions: a case for change?, *European Accounting Review*, 14(3), 475-485.
- Hwang, H. and Powell, W. W. (2005), Institutions and entrepreneurship, in: Alvarez, S. A.; Agrawal, R. and Sorenson, O. (eds.) *Handbook of Entrepreneurship Research*, 179-210 (New York: Springer).
- Ingram, R. W. (1984), Economic incentives and the choice of state government accounting practices, *Journal of Accounting Research*, 22(1), 126-144.
- Jackson, A. and Lapsley, I. (2003), The diffusion of accounting practices in the new managerial public sector, *International Journal of Public Sector Management*, 16(5), 359-372.
- Järvinen, J. (2006), Institutional pressures for adopting new cost accounting systems in Finnish hospitals: two longitudinal case studies, *Financial Accountability and Management*, 22(1), 21-46.
- Jones, R. (2002), Leading change in local government: the tension between evolutionary and frame-breaking reform in NSW, *Australian Journal of Public Administration*, 61(3), 38-53.
- Kearney, R. C.; Feldman, B. M. and Scavo, C. P. F. (2000), Reinventing government: city manager attitudes and actions, *Public Administration Review*, 60(6), 535-548.
- Lapsley, I. and Pallot, J. (2000), Accounting, management and organizational change: a comparative study of local government, *Management Accounting Research*, 11(2), 213-229.
- Lapsley, I. and Oldfield, R. (2001), Transforming the public sector: management consultants as agents of change, *The European Accounting Review*, 10(3), 523-543.

- Laughlin, R. and Pallot, J. (1998), Trends, patterns and influencing factors, some reflections, in: Olson, O.; Guthrie, J. and Humphrey, C. (eds.), *Global Warning: International Financial Management Changes*, 376-399 (Bergen: Cappelan Akademisk Forlag).
- Lin, Z. J.; Baxter, G. C. and Murphy, G. J. (1993), Improving government financial reporting in Canada: an evaluation of compliance with the PSAAC's accounting and reporting standards for governments, *Financial Accountability and Management*, 9(4), 235-254.
- Lowndes, V. and Leach, S. (2004), Understanding local political leadership: constitutions, contexts and capabilities, *Local Government Studies*, 30(4), 557-575.
- Lüder, K. G. (1992), A contingency model of governmental accounting innovations in the political-administrative environment, *Research in Governmental and Non-profit Accounting*, 7, 99-127.
- Meyer, J. W. and Rowan, B. (1977), Institutionalized organizations: formal structure as myth and ceremony, *American Journal of Sociology*, 83(2), 340-363.
- Meyer, J. W. and Scott, W. R. (1983), Centralization and the legitimacy problems of the local government, in: Meyer, J. W. and Scott, W. R. (eds.), *Organizational Environments: Ritual and Rationality*, 199-215 (Beverly Hills: Sage).
- Munir, K. A. (2005), The social construction of events: a study of institutional change in the photographic field, *Organization Studies*, 26(1), 93-112.
- Osborne, D. and Gaebler, T. (1992), *Reinventing Government: how the entrepreneurial spirit is transforming the public sector* (Reading: Addison-Wesley).
- Pallot, J. (2001), A decade in review: New Zealand's experience with resource accounting and budgeting, *Financial Accountability and Management*, 17(4), 383-400.
- Pollitt, C. (2001), Convergence: The useful myth? *Public Administration*, 79(4), 933-947.
- Pollitt, C. (2002), Clarifying Convergence: striking similarities and durable differences in public management reform, *Public Management Review*, 4(1), 471-492.
- Pollitt, C. and Bouckaert, G. (2000), *Public Management Reform: A Comparative Analysis* (Oxford: Oxford University Press).
- Powell, W. W. and DiMaggio, P. J. (1991), *The New Institutionalism in Organizational Analysis* (Chicago: University of Chicago Press).
- Power, M. (1997), *The audit society* (Oxford: Oxford University Press).
- Ridder, H.-G.; Bruns, H.-J. and Spier, F. (2005), Analysis of public management change processes: the case of local government accounting reforms in Germany, *Public Administration*, 83(2), 443-471.
- Ridder, H.-G.; Bruns, H.-J. and Spier, F. (2006), Managing implementation processes, *Public Management Review*, 8(1), 87-118.
- Robbins, W. A. and Austin, K. R. (1986), Disclosure quality in governmental financial reports: an assessment of the appropriateness of a compound measure, *Journal of Accounting Research*, 24(2), 412-421.
- Saint-Martin, D. (1998), The new managerialism and the policy influence of consultants in government: an historical-institutionalist analysis of Britain, Canada and France, *Governance: An International Journal of Policy and Administration*, 11(3), 319-356.
- Seo, M. and Creed, W. E. D. (2002), Institutional contradictions, praxis, and institutional change: a dialectical perspective, *Academy of Management Review*, 27(2), 222-247.
- Suchman, M. C. (1995), Managing legitimacy: strategic and institutional approaches, *Academy of Management Review*, 20(3), 571-610.
- Suddaby, R. and Greenwood, R. (2005), Rhetorical strategies of legitimacy, *Administrative Science Quarterly*, 50(1), 35-67.
- Teske, P. and Schneider, M. (1994), The bureaucratic entrepreneur: the case of city managers, *Public Administration Review*, 54(4), 331-340.

- van Helden, G. J. and Jansen, E. P. (2003), *New Public Management in Dutch local government, Local Government Studies*, 29(2), 1-88.
- Windels, P. and Christiaens, J. (2006), *Management reform in Flemish public centres for social welfare: examining organisational change, Local Government Studies*, 32(4), 389-411.

Annex 1

Elements of the Accounting Index

Components (Total 90 points)	Measure	Source
<i>Technical components</i>		
1. Completeness		
Inventories disclosed	Dichotomously	Balance sheet consolidated
Doubtful debtors and writing downs recorded	Qualitatively	Trial balance consolidated
Provisions pensions recorded	Dichotomously	Balance sheet consolidated
Provisions others recorded	Dichotomously	Balance sheet consolidated
Exceptional cost/revenue recorded	Dichotomously	P/L account consolidated
Contingencies (rights and obligations) recorded	Dichotomously	Trial balance consolidated
Vacation salary	Dichotomously	Trial balance consolidated
Intero balance sheet activity centres (416_486)	Dichotomously	Trial balance per activity centre
Intero P/L account activity centres (618_73)	Dichotomously	Trial balance per activity centre
2. Valuation		
Symbolic valuation	Dichotomously	Balance sheet consolidated
Total assets = total liabilities	Dichotomously	Balance sheet per activity centre
Accruals/deferrals first balance sheet	Dichotomously	Balance sheet consolidated
3. Cut-off		
Deferred charges recorded	Dichotomously	Trial balance consolidated
Deferred income recorded	Dichotomously	Trial balance consolidated
Accrued charges recorded	Dichotomously	Trial balance consolidated
Accrued income recorded	Dichotomously	Trial balance consolidated
Suspense accounts	Dichotomously	Trial balance consolidated
4. Classification		
Sign assets correct	Dichotomously	Balance sheet consolidated + per activity centre
Sign liabilities correct	Dichotomously	Balance sheet consolidated + per activity centre
Sign P/L account correct	Dichotomously	Balance sheet consolidated + per activity centre
Classification of subsidies	Dichotomously	Trial balance consolidated
Sign total assets and liabilities positive	Dichotomously	Balance sheet per activity centre
Classification of interco accounts	Dichotomously	Trial balance consolidated
Software 21-24	Dichotomously	Balance sheet consolidated
Cumulated results and municipal contribution	Dichotomously	First balance sheet
Amounts receivable within one year	Dichotomously	Trial balance consolidated
Debts falling due within one year or financial debts	Dichotomously	Trial balance consolidated
Trade creditors	Dichotomously	Trial balance consolidated
Taxation, salaries and social security	Dichotomously	Trial balance consolidated
Other amounts payable	Dichotomously	Trial balance consolidated
Accruals/deferrals	Dichotomously	Trial balance consolidated
5. Mechanical Accuracy		
Total results 1	Dichotomously	P/L account consolidated
Total results 2	Dichotomously	P/L account consolidated
Total results 3	Dichotomously	P/L account consolidated
Reconciliation results t-1	Dichotomously	Annual accounts consolidated
Reconciliation results t	Dichotomously	Annual accounts consolidated
Reconciliation capital	Dichotomously	Annual accounts consolidated
Reconciliation reserves	Dichotomously	Annual accounts consolidated

Components (Total 90 points)	Measure	Source
Reconciliation cash municipal contribution	Dichotomously	Annual accounts consolidated
Reconciliation result municipal contribution	Dichotomously	Annual accounts consolidated
Reconciliation results cash flow	Dichotomously	Annual accounts consolidated
Accumulated amortizations subsidies	Dichotomously	Trial balance consolidated
Promised subsidies	Dichotomously	Trial balance consolidated
Reconciliation inventories	Dichotomously	Annual accounts consolidated
Reconciliation interco balance sheet	Dichotomously	Trial balance per activity centre
Reconciliation interco P/L account	Dichotomously	Trial balance per activity centre
Reconciliation P/L consolidated	Dichotomously	Annual accounts consolidated + Trial balance per activity centre
Reconciliation provisions	Dichotomously	Annual accounts consolidated
<i>Transparency components</i>		
6. Timeliness	Quantitatively	Query
7. Disclosure		
Disclosure budgets	Qualitatively	Annual accounts
Mutation table fixed assets disclosed	Dichotomously	Notes
Details amounts receivable	Dichotomously	Notes
Details investments	Dichotomously	Notes
Details accruals and deferrals assets	Dichotomously	Notes
Details accruals and deferrals liabilities	Dichotomously	Notes
Details investment subsidies	Dichotomously	Notes
Details provisions	Dichotomously	Notes
Detail amounts payable	Dichotomously	Notes
Details other revenues	Dichotomously	Notes
Details staff costs	Dichotomously	Notes
Details impairments	Dichotomously	Notes
Details other operational costs	Dichotomously	Notes
Details other financial revenues	Dichotomously	Notes
Details exceptional results	Dichotomously	Notes
Valuation rules disclosed	Qualitatively	Notes
Details O-accounts	Dichotomously	Notes
Intero balance sheet eliminated	Dichotomously	Balance sheet consolidated
Intero P/L account eliminated	Dichotomously	P/L account consolidated
Profits or losses previous years	Dichotomously	P/L account consolidated
Profits or losses to next year	Dichotomously	P/L account consolidated
Withdrawal and addition municipal subsidies	Dichotomously	P/L account consolidated
Eliminations resulting in consolidation	Dichotomously	Annual accounts consolidated
Previous year figures	Dichotomously	Annual accounts consolidated
8. Formalistic Requirements		
Annual report general	Dichotomously	Annual accounts
Annual report descriptive	Dichotomously	Annual accounts
Annual report financial	Dichotomously	Annual accounts
Scheme of financial flows	Dichotomously	Annual accounts
Enactment officially disclosed	Dichotomously	Annual accounts consolidated
Classification activity centres	Dichotomously	Annual accounts
9. Adequacy and Usefulness		
Guidelines annual accounts	Dichotomously	Annual accounts
Landscape annual accounts activity centre	Dichotomously	Annual accounts
Analysis budgetary accounts	Dichotomously	Annual accounts
Analysis annual accounts	Dichotomously	Annual accounts
Pictorial & graphical presentations	Dichotomously	Annual accounts
Different colours	Dichotomously	Annual accounts
Pages consecutively numbered	Qualitatively	Annual accounts
Table of contents	Dichotomously	Annual accounts
Bound annual accounts	Qualitatively	Annual accounts
Trial balance	Dichotomously	Trial balance consolidated
Redundancy	Qualitatively	Annual accounts

Note: P/L account = profit and loss account

(Página deixada propositadamente em branco)

Pedro Camões*

Susana Jorge

João Baptista Carvalho

Maria José Fernandes

MEASURING PORTUGUESE LOCAL GOVERNMENT RELATIVE EFFICIENCY: A RE-ANALYSIS*

Introduction

In last decades one has witnessed a worldwide increasing interest in the issues of public sector efficiency. Problems of controlling public expenditure have led to a growing emphasis on the public sector output and productivity (Ganley and Cubbin, 1992). Within the EU context, growing attention has been given to the quality and efficiency of public spending, given the overall financial constraints faced by governments in most countries (EC, 2004). With regard to local government, the debate over spending efficiency has been renewed with the implementation of decentralisation policies designed to refocus public decision-making from central to municipal levels of government (Afonso and Fernandes, 2003). Regardless of the level of government considered, the efficiency issue is central since it concerns making better use of the taxpayers' money by maximising the relationship between the available resources and the products or services provided.

The purpose of this paper is to evaluate Portuguese municipalities' relative efficiency, based on 2004 data of Continental Portugal, in order to rank their performance. The methodology of data envelopment analysis (DEA) is applied, combining different indicators and considering 'undertaken commitments' as inputs and accomplished activities as outputs. A cross-section comparison is performed obtaining a relative efficiency measure. The objective is not to present absolute values for each municipality ('best values'), but instead to reach an efficiency frontier that limits Portuguese municipalities' efficiency perimeter. This defines the maximum level of outputs that could have been produced by the most efficient municipalities with the resources available or the minimum level of inputs necessary to maintain the level of services offered.

* Sponsored by **FCT** Fundação para a Ciência e a Tecnologia (POCTI/CPO/58391/2004)
MINISTÉRIO DA CIÊNCIA, TECNOLOGIA E ENSINO SUPERIOR Portugal

The paper makes a contribution by offering new evidence on municipalities' performance and adds to other important studies (e.g., Afonso and Fernandes, 2003 and 2005) the use of input measures that are not strictly cash-based – undertaken commitments instead of payments –, as well as a different perspective of performance and efficiency analyses having in mind an investors' perspective.

The remainder of the paper is organised as follows. Section 1 offers an overview of Portuguese local government framework, namely addressing organisation, responsibilities, funding and the accounting system. In Section 2, issues concerning efficiency in the public sector are considered, such as measurement problems, reference values, measures suggested by international organisations and difficulties in establishing input and output indicators. Some relevant empirical analyses on local government efficiency are summarised in Section 3. Section 4 presents the empirical study addressing the data and methodology and discussing the results. The paper concludes with final considerations.

1. Portuguese Local Government Framework

Unlike other Western European countries that have several intermediate tiers of government between central government and municipalities, Portugal has a three-tier administrative public sector system that includes central government, municipalities and parishes. The absence of intermediate tiers of government makes the link between central government and municipalities stronger (a positive credit factor) as it ensures tight central government controls, on the one hand, and, on the other, it allows direct negotiations between the two tiers of government (FitchRatings, 2005).

Municipalities are the local authorities assuming more importance, either with respect to political decision power or to financial expression. Parishes are small jurisdictions with few own competencies, performing tasks that are delegated from the respective municipalities (Bravo and Vasconcellos e Sá, 2000).

Portuguese municipalities' current main responsibilities are set out in Law 159/99, which sets the framework for the decentralisation process. The decentralization of competencies aims at reinforcing national cohesion and inter-regional solidarity, as well as promoting public management efficiency and effectiveness, assuring the best way of fulfilling citizens' needs and rights.

Table 1 presents the evolution of Portuguese municipalities' competencies so far established in three legal decrees (Carvalho *et al.*, 2006b). A clear enlarging tendency may be observed, which, in line with the Constitution, has been followed by adequate transfers from central government. According to the latest information, there are currently no known plans to transfer further responsibilities.

Table 1 – Municipalities' competencies evolution

Decree-Law n. 79/1977	Decree-Law n. 100/1984	Law n. 159/1999
<ul style="list-style-type: none"> • Managing property under the entities' jurisdiction • Public supplying • Culture and social assistance • Public sanitation 	<ul style="list-style-type: none"> • Managing property both owned and under the entities' jurisdiction • Development and public supplying • Public and basic sanitation • Health • Teaching and education • Culture, leisure and sports • Defence, environment protection and residents' quality of life assurance • Civil protection 	<ul style="list-style-type: none"> • Rural and urban infrastructures • Energy • Transports and communication • Education • Heritage, culture and science • Leisure and sports • Health and social support • Housing • Civil protection • Environment and basic sanitation • Consumer defence • Development promotion • Territorial an urban planning • Municipal police • External cooperation

Municipalities' political and administrative organisation is also established by law, namely in Decree-Law 169/99 (amended by law 5A/2002), as well as in the Local Autonomy European Charter (subscribed by Portugal via Parliamentary Instruction 28/90), in order to assure more effective management, adapting to specific needs of the citizens.

Traditionally, the bulk of Portuguese municipalities' revenue (excluding new borrowing) is operating revenue, averaging 79% for the last five years, which is mainly composed of taxes and fees from services provided; the remaining is capital revenue. Operating expenditure averaged 57% of total expenditure between 2000 and 2003, but declined to 50% in 2004. Consequently, capital expenditure has also been important for Portuguese municipalities (FitchRatings, 2005). Table 2 displays the main local operating revenue.

Table 2 – Municipalities main operating revenue (Local Finance Act – 1998)

Type	Description
Central government mandatory transfers	Reallocating 33% of the average of the three main taxes – VAT, corporate tax and personal income tax – collected by central government two years previously
Municipal taxes (particular revenue)	Collected by the Central Government and then returned to each municipality (property ownership tax, vehicle tax, property sales tax and a surcharge on corporate income)*
Fees and prices	Directly collected by municipalities as they provide services to be directly paid

* Parliament retains legislative power to modify local taxes, while municipalities have some limited discretion on modifying tax rates. The last major national tax reforms occurred in 2002 and were related to two main taxes – tax on property ownership and selling.

As to accounting, the current system of municipalities' accounting in Portugal consistently integrates three subsystems, using double-entry bookkeeping method – cash-based budgetary accounting, together with accrual-based financial and cost accounting¹. In short, the system combines different perspectives to reach general objectives, as in Table 3.

Table 3 – Objectives of municipalities' accounting system

Objective	Description
Accountability	Offering information for municipalities to prepare the annual accounts as other statements to be disclosed for different users, namely The Court of Accounts and the Municipal Legislative Assembly
National Statistics	Providing information to compute the aggregated data for National Accounts, particularly concerning Local Administration
Decision-making	Offering enough financial and economic information to support decision-making both of political and management nature
Transparency	Improving transparency in managing financial resources and the whole property that municipalities manage or control

Within the whole system, expenditures and revenues are compulsorily classified according to several categories, as in Table 4.

The functional classification is particularly important in assessing municipalities' efficiency, since output measures must relate to these categories. In fact, expenditures classification per functions allows us to understand the financial effort municipalities carry out in several intervention areas following their responsibilities. From the time it is considered, at macro level, the functional classification aggregates total expenditure of all sectors of public administration, it has embraced information concerning the resources applied amongst the whole of public administration activities.

In assessing efficiency, Cost Accounting is fundamental. Cost Accounting in the Public Administration is a consequence of new informational needs within the context of the *New Public Management*, namely because it provides information that, together with planning and control systems, allows the analysis of how each governmental unit contributes to economy, efficiency and effectiveness while using public resources (Torres, 2002).

As addressed above, a Cost Accounting subsystem is now a part of the Portuguese municipalities' accounting system. Nevertheless, a large majority of municipalities have not implemented the new system yet (Carvalho *et al.*, 2006b). Therefore, the efficiency of Portuguese municipalities might be assessed not in terms of resources consumed or expenses (cost – accruals perspective), but in terms of undertaken commitments

¹ For further information regarding the current main features of Portuguese municipalities' accounting system and how they represent significant improvements compared to the previous one, see Carvalho *et al.* (2006a and 2006b), Jorge *et al.* (2006) and Jorge (2003).

Table 4 – Expenditure and revenue classification

Type	Description
Economic classification	Per nature, according to the specification principle
Departmental classification	It is an additional classification only for expenditures, recommended by the Budgetary Framework Law (Law 91/2001)
Functional classification	Only for expenditures; each function corresponds to a broad category of municipal activities (Decree-Law 54A/99); this classification comprises four broad categories (general functions*, social functions**, economic functions*** and other****), detailed enough in order to consider all municipalities' responsibilities and allowing subsequent consolidated information at local, regional and national level ^a

* General administrative services; and security and public order.

** Education; health; social assistance; housing and collective services; and cultural, leisure and religious services.

*** Agriculture, farming, hunting and fishery; industry and energy; transports and communication; commerce and tourism; other economic functions.

**** Municipal debt; transfers between administrations; and other non-specified.

^a Moreover, since functional categories are adopted from the International Monetary Fund and OECD classification, Carvalho *et al.* (2006c) support that cross-country comparisons are possible as well as consolidated information at supranational level.

(expenditures) or merely in terms of money spent (payments – cash perspective). In addition, although the reform of municipalities' financial and accounting system has intended to improve efficiency evaluation, there is still no national framework, namely a set of performance indicators to be followed by governmental entities. Currently, municipalities only present budgetary and financial ratios in their management reports and there is a great diversity amongst the measures presented, seriously compromising the overall comparisons (Carvalho *et al.*, 2005, Fernandes, 2004).

As to control and supervision, the municipalities' level of reporting to both Central Government and the Supreme Audit Office (The Court of Accounts), which was already high, increased further in 2000. Since then, they have to present, on an annual basis, a four-year investment programme and an annual provisional budget. Municipalities also need to present, on an annual basis, balance sheets, fund balances and profit and loss accounts merged into two documents: Annual Accounts and Management Report. As explained, financial statements are presented on an accruals basis while budgetary statements are cash-based. The Court of Accounts, together with several sub-agencies of the Ministry of Finance, oversees the activities of municipalities. This close monitoring of municipalities' finances might be favourable to credit rating (FitchRatings, 2005).

2. Efficiency in the Public Sector

Efficiency is defined as the relationship between used inputs and results obtained in the process of creation of value within an entity. As Bac (1994) highlights, efficiency criteria are based on business management and presume a positive balance in the relationship output/input, i.e., maintaining quality standards, which imply consumption rationality, eliminating waste.

Nevertheless, given that public sector entities, except governmental enterprises, are not profit oriented, efficiency criteria used in the private sector cannot be directly applied to the public sector, where the services provided are market-aside and difficult to value. Still, efficiency in the public sector is frequently defined as the relationship between goods and services provided and resources applied, emphasising output maximisation given a certain input or input minimization given a certain quantity and quality of output (Torres, 2002).

INTOSAI (1995) enlarges the definition, highlighting that efficiency is intimately related to the concept of 'productivity'² and it needs a reference board to be adequately evaluated, either through benchmarking or establishing best-practice standards.

As a consequence of the difficulties in setting maximums and minimums levels of inputs and outputs, Torres (2002: 60) defines efficiency as "the most adequate relationship between outputs and the necessary resources to obtain them". It means reaching the objectives established, minimising the resources used or, given the resources available, maximising the objectives. From this point of view, efficiency and effectiveness are two alternative, though interrelated, concepts, but not necessarily hierarchic.

Evaluating public sector outputs and results, although not without difficulties, is less problematic than evaluating programmes' general impacts (outcomes). In this case, it is necessary to determine to what extent the effects are attributed to the programme and not to other factors, which demands an analysis of causal relationships, identifying and controlling all external factors that might somehow affect that relationship (Ballart, 1992).

On the other hand, Simon (1994) highlights an additional problem derived from existing different measurement units for inputs and outputs, which brings difficulties for comparisons and implies that efficiency should be evaluated in relative terms. Therefore, he emphasises the need to enlarge the efficiency concept to include all factors implied in the process of creating value within an entity that are not susceptible of monetary measurement. This would allow the determination of whether a governmental entity is or is not efficient without necessarily following exclusively monetary criteria (AECA, 1997).

Afonso *et al.* (2006: 9) explain that applying the concept of efficiency to the spending activities of government, "we can say that public expenditure is efficient when, given the amount spent, it produces the largest possible benefit for the country's population."

² Rosen (1993: 4) explains that public productivity, in general terms, is an efficiency measure – it tells how well resources have been used. "The more produced with a given set of resources, the higher the productivity. (...) A productive organisation,..., is one that turns out a high level of good quality product with its resources. Public productivity focuses on the efficiency of governmental (...) administrative agencies and their subunits."

The implicit relationship between benefits and costs requires both to be measured in acceptable ways. “This is easy, or easier, for machines (...) but difficult for governmental activities. It is often difficult to measure the benefits from a governmental expenditure. But, one could assume that at least the costs (i.e., the resources used) should be easy to determine. Unfortunately, this is not always so. Deficient budgetary classifications, lack of reliable data, difficulties in allocating fixed costs to a specific function, and failure to impute some value to the use of public assets used in the activity can also hamper the determination of real costs” (Afonso *et al.*, 2006: 9).

One of the most common techniques in efficiency evaluation is using management indicators. Their analysis helps to detect those programmes or services that deserve special attention, since they do not reach the standard or average levels of effectiveness, efficiency, economy and quality. Management indicators also allow comparisons between similar entities and across time within the same entity, identifying trends (Rutherford, 2000).

Fernandes (2004) summarises that management indicators within governmental entities are management instruments supporting accountability as well as decision-making oriented towards reducing public deficit and increasing value-for-money. They allow the evaluation of those activities contributing towards creating value and, therefore, understanding the relationship between resources applied, activities developed and results obtained, displaying information both to internal and external users. Accordingly, management indicators, frequently used in private companies, play a twofold role in the public administration (Fernandes, 2004): internal (supporting the establishment of public policies, controlling their implementation and evaluating final results), and external (offering information to assess entities’ performance and account for public managers responsibilities).

In terms of information requirements, management indicators must facilitate information on efficiency, effectiveness and economy of public sector entities following the qualitative characteristics generally required and accepted for financial reporting information, namely reliability, relevance, comparability and opportunity (Smith, 1993; Likierman, 1994). As to methodological issues, the establishment of indicators requires taking into account the information to be facilitated by each one as well as how to get the data. Therefore, the use of several combined indicators that offer a global vision, while evaluating governmental entities’ activities, is recommendable. There are, however, problems in selecting indicators to represent the most significant issues amongst entities’ activities, justifying the lack of reference frameworks (Torres, 2002).

Developing and classifying management indicators in public sector entities is rather flexible, depending on what is intended to be evaluated. Consequently, there are several categories and criteria for classification (Torres, 1991). Many authors have addressed the subject, proposing alternative classifications for public management indicators. AECA (1997) and Torres (1991) offer a classification as follows in Table 5.

Table 5 – Classification of Public Sector Management Indicators

Classification Criteria	Categories
According to their nature	Economy
	Effectiveness
	Efficiency
	Equity
	Excellence
According to the object to be measured	Result
	Process
	Structure
	Strategy
According to the information offered	Budgetary
	Accounting (Financial Statements)
	Organisational
	Social
According to their scope	Envelopment and Impact
	Internal
	External

The above categories are somehow related to a dual-fold classification into input (means) and output (results or realisations) indicators, central for assessing efficiency. Input indicators are measures that allow us to know the nature and quantity of the factors used directly or indirectly by entities in order to carry out their activities. They are the basis to evaluate economy and efficiency in managing public services. Most information to compute these measures comes from cost accounting. Input measures comprise the main resources used by governmental entities, namely human, material and financial resources. Problems may arise concerning the exact resource consumption.

As to output measures, they allow the assessment of the level of services provided, therefore requiring a detailed knowledge of the entire entities' activities. Considering the complexity in finding a single indicator of output or results (given that objectives and outcomes are difficult to measure), it might be possible to combine several indicators – multidimensional series (Torres, 2002).

Relating to the above-mentioned problems of finding a set of indicators that would offer the best representation of the main activities within the entity, Fernandes (2004) refers to the scarce use of management indicators in practice, justifying the prevalence of traditional financial measures. Since financial ratios merely measure and highlight specific aspects concerning financial income (namely those that might be quantified in cash), they are not adequate decision-making support instruments in the present public sector management context. In fact, a performance analysis focused on financial issues might have dysfunctional consequences for both the entities management and the accomplishment of their main objectives.

According to Afonso and Santos (2005: 2), “the proper measurement of public sector performance, particularly in what concerns service provision is a delicate empirical issue and the related literature, principally when it comes to aggregate data, is still

limited.” But the development and analysis of performance indicators is no more than a first step in the task of measuring the efficiency of public sector. The use of statistical analysis, such as regression analysis, can be seen as a significant improvement but not yet the ideal methodology (Barrow and Wagstaff, 1989). The third, and more satisfactory, phase is the evaluation using a group of methods based on the concept of frontier, hence the reason why they are called frontier methods. The idea is to identify and evaluate those organisations operating on the cost or production frontier (efficient organisations) and those operating below that frontier (inefficient organisations). The so-called data envelopment analysis (DEA) is probably the most commonly used frontier analysis technique, namely in the case of applications to measure public sector efficiency.

Afonso *et al.* (2006) analysed public sector efficiency in the new member states of the European Union compared to that in emerging markets. They compute efficiency scores and rankings by applying a range of measurement techniques, namely using composite efficiency indicators (combining information on administrative, education, health, income distribution, economic stability, and economic performance outcomes) and non-parametric analysis techniques such as free disposal hull (FDH) and DEA.

“The study finds that expenditure efficiency across new EU member-States is rather diverse especially as compared to the group of top performing emerging markets in Asia. Econometric analysis shows that higher income, civil service competence and education levels as well as the security of property rights seem to facilitate the prevention of inefficiencies in the public sector” (Afonso *et al.*, 2006: 4).

The results from DEA analysis particularly reveal “that a small set of countries define or are very close to the theoretical production possibility frontier: Singapore, Thailand, Cyprus, Korea, and Ireland. From an input perspective, the highest ranking country uses 1/3 of the input that the bottom ranking one uses to attain a certain Public Sector Performance score. The average input scores suggest that countries could use around 45 per cent less resources to attain the same outcomes if they were fully efficient. Average output scores suggest that countries are only delivering around 2/3 of the output they could deliver if they were on the efficiency frontier” (Afonso *et al.*, 2006: 42).

3. Empirical Analyses of Local Government Efficiency

Data envelopment analysis (DAE) is a performance measurement technique and is used to evaluate the relative efficiency of a group of producers or units of an organisation. These are commonly designated as decision-making units (DMUs). The emphasis on relative efficiency needs to be made, since DEA is a poor technique in estimating absolute efficiency. Simply put, DEA tells us how well a given DMU is doing compared to the others, but not compared to a theoretical maximum.

While a typical statistical analysis is based on a central tendency approach, DEA is an extreme point method. In the first case, comparisons are made to the average. In an extreme point method, comparisons are made with the best producers or units. This is based on the idea that if a given unit A is capable of producing $Y(A)$ units of output with $X(A)$ inputs, then the other units should also be able to do the same

if they are operating efficiently. Moreover, the units can be combined to form a composite unit with composite inputs and composite outputs. This is a virtual unit, since this composite unit does not necessarily exist. The main goal of DEA is to find the best virtual unit for each real DMU. The efficiency frontier defines the maximum combinations of outputs that can be produced for a given set of inputs. If the virtual unit is capable of making the same output with less input or making more output with less input, the real DMU is considered inefficient. On the contrary, if the virtual unit is alike the real DMU (lies in the frontier line), it is declared to be efficient. In technical terms, this virtual unit is formulated as linear program. This is why DEA is a linear programming technique.

The analysis has to make several options regarding the way concrete problems are formulated. The first is opting between an input-oriented and an output-oriented analysis. An input-oriented analysis quantifies the reduction in the inputs that is necessary to become efficient holding the outputs constant. On the contrary, an output-oriented analysis quantifies the necessary output expansion holding the inputs constant. A non-oriented analysis quantifies the improvements when both inputs and outputs can be improved simultaneously.

Another important issue is how to deal with different sizes of the DMUs. It is widely acknowledged that efficiency may increase or decrease with size, that is, returns to scale. If a constant return to scale constraint is imposed, it means that no efficiency gains can be obtained with size. Usually, a variable returns to scale formulation is admitted in concrete problems relating to efficiency in the public sector.

The number of studies performing DEA in the public sector setting is far too extensive to be reviewed here. Therefore, we concentrate on studies that consider local governments or municipalities as DMUs.

Borger and Kerstens (1996) compare three approaches to evaluate the cost efficiency of Belgian local governments: FDH, DEA, and econometric approaches. The advantage of this study is the ability to compare the different parametric and non-parametric approaches and to evaluate their sensitivity with respect to the rankings of municipalities (589 in this case). Two main conclusions were reached: first, large differences in mean efficiency scores and, second, rank correlations between the parametric and non-parametric measures were relatively low. The authors suggest prudently “to analyse efficiency questions using a broad variety of methods to check the robustness of the results” (Borger and Kerstens, 1996: 167-8).

Two more recent studies of the Finnish municipalities are also worthy of mention, both by Loikkanen and Susiluoto (2004 and 2006). The 2004 study compares DEA and econometric (Tobit) methods and its main virtue is the fact that it uses a panel (1994-2002) of 353 municipalities. As expected, they estimated efficiency scores and found considerable differences. Namely, a group of peripheral municipalities clearly tend to perform worse. On the other hand, the efficiency scores tend to remain fairly stable over time. The 2006 study basically corroborates the previous study, finding the small municipalities as the most efficient.

Another relevant study explores efficiency in local government service provision in Norway, using panel data. The total output measure “... is very comprehensive and based on a large number of indicators of production for the different service sectors. Efficiency is measured as the ratio between total output and available resources. The efficiency

measure is global in the sense that it relates to overall service provision, and not to provision of a particular service” (Borge *et al.*, 2007: 2).

Three efficiency measures all revealing substantial variation in efficiency across local governments were constructed, and the aggregate efficiency potential is around 33-35%. Firstly, a regression analysis was carried out between the aggregated output and local governments’ revenue, revealing a high positive correlation. Having also observed substantial variation in aggregate output between local governments with similar levels of revenue, i.e. some local governments are able to get more services out of their revenues than others, the author pointed out that the variation in output conditioned on revenues may reflect variation in efficiency. Two additional efficiency measures were alternatively developed considering possible weaknesses in the baseline efficiency measure.

Aiming at investigating whether efficiency in public service provision is affected by political and budgetary institutions, fiscal capacity, and democratic participation, Borge *et al.* (2007) has concluded that high fiscal capacity and a high degree of party fragmentation contributes to low efficiency; furthermore, increased democratic participation tends to increase efficiency, while a centralized top-down budgetary process is associated with low efficiency. His most robust result points toward two opposing future trends in public sector efficiency. “On the one hand, the ageing of the population in many European countries is likely to increase public sector efficiency by causing fiscal stress, thereby facilitating the handling of the wave of the elderly. On the other hand, the tendency of reduced support for the largest political parties will increase party fragmentation and work in the opposite direction” (Borge *et al.*, 2007: 24-25).

Afonso and Fernandes (2003 and 2005) studied the Portuguese case. The 2005 paper extends the DEA to the entire group mainland municipalities³. They perform a 1 input to 1 output analysis. The input is the per capita budgetary spending while the output is a composite measure. The Local Government Output Indicator (LGOI) is a normalized measure giving equal weight to a set of performance indicators taken directly from the local government activities. In addition, they perform the analysis by region: Algarve, Alentejo, Lisbon region, Center, and North. They found that the southern regions of Alentejo and Algarve perform more efficiently than the remaining country.

4. Empirical study

In our analysis of local government efficiency, we also use DEA but we choose a different menu of inputs and outputs. This is due to the use of own collected data rather than official data that is always on a cash basis.

³ The 2003 analysis refers to the Lisbon region only.

4.1. Computing Efficiency Scores

We collected data from the 2004 municipal annual accounts, either from the archives of The Court of Accounts (Supreme Audit Office) or, wherever necessary, from the municipalities themselves. Of the 278 mainland municipalities, only three were excluded due to unavailability of data. So our DEA includes 275 DMUs.

The input measures to perform our analysis are given by the financial resources used, that is, local expenditures. This procedure follows the standard procedure in this literature (Afonso and Fernandes 2003, 2005). As we explained in the first section, the reform of the local government accounting towards an accrual-based system makes the presentation and use of different types of financial information possible. Financial statements are presented on an accruals basis while budgetary statements are cash-based. The input measures are not strictly cash-based (payments) but undertaken commitments. Given the widely recognised problems relating to the use of cash information, this is clearly a better way to represent the use of resources. Regarding inputs, we use two model specifications. The first (M1) with only one input and the second (M2) with three inputs, those related to the municipal activity, consumption and investment outlays (see Table 6).

Table 6 – List of Municipal Inputs

Model	Variable	Indicator
M1	Xt	Total expenditure
M2	X1	Personnel expenditure
	X2	Expenditure with goods and services
	X3	Capital expenditures

It is widely acknowledged that the main challenge for these analyses of efficiency is how to measure output (Barrow and Wagstaff, 1989). While most studies use composite measures of output (Afonso and Fernandes, 2003 and 2005), we opted for a different strategy of including seven separate, and more direct, indicators of output. This avoids the measurement problems related to the construction of the composite measure itself. According to the legal framework, the municipal spending functions are the following: rural and urban equipment; energy, transport and communications; education, patrimony, culture and science; sports and leisure; healthcare and social services; housing and civil protection; environment and basic sanitation; consumer protection, social and economic development; territory organisation and external cooperation. In this sense, the municipal indicators are surrogate measures of municipal services demand. The idea is that we should expect similar performance from those municipalities with similar demand for services (Afonso and Fernandes 2005). Naturally, the selection of output indicators was also determined by the availability of published data, in this case by the National Statistics Institute. Table 7 shows the seven selected output indicators.

Table 7 – List of Municipal Outputs

Variable	Indicator
Y1	Local inhabitants under 15 or 15 years old
Y2	Local inhabitants 65 or over 65 years of age
Y3	Number of basic or elementary schools
Y4	Number of students enrolled in the elementary schools
Y5	Water consumption
Y6	Number of building permits issued in the year
Y7	Social development indicator, according to the Local Finance Law and officially published

We use an input-oriented approach since the public sector focus has been more on controlling expenditure than on the increasing of outputs. In fact, the EU context of overall financial constraints faced by governments imposes an attention oriented towards expenditure reduction, not output expansion. Regarding returns to scale, we follow the standard procedure of adopting the more flexible option of variable returns to scale.

Model 1 (Table 8 – Annex 1) presents the results of the 1 input (total expenditure) analysis while Model 2 (Table 9 – Annex 2) relates to the 3 inputs (partial expenditure) analysis. Since DEA produces relative efficiency scores, more important than the computed score is the rank order of the municipality. The rankings are also presented in the tables. The two models do not differ very much. The main difference is the number of municipalities declared to be efficient. As expected, the number of efficient municipalities is higher in the second model. It is acknowledged that the higher the number of factors included in the analysis, the higher the number of DMUs declared efficient.

Regarding substantive results, the main differences are observed with regard to size, here measured in terms of population. Since resident population is one of the factors used to determine intergovernmental grants (Local Finance Law 42/98), we grouped municipalities according to population size as follows:

- Small – $\leq 20,000$ residents;
- Medium – 20,000-100,000 residents;
- Large – $\geq 100,000$ residents.

Table 10 shows the average efficient scores when the three groups of municipalities based on size are considered. The results for both models strongly suggest that larger municipalities tend to be more efficient.

Table 10 – Average Efficiency Scores by Size

Group	Model 1	Model 2
Small Size	70.65%	74.68%
Medium Size	75.66%	81.29%
Large Size	92.14%	93.29%

4.2. Assessing the Robustness of the Scores

In what follows, we run different efficiency rankings in order to check for major changes in the number of municipalities deemed efficient, and, in this way, test the sensitivity of our original efficiency score (labeled ‘Score 1’). These rankings differ as to the number of outputs specified. Table 11 displays the correlation scores of several different trial efficiency rankings. In the first seven rankings, one output (corresponding to the ranking label) is subtracted from the total number of outputs (shown in Table 7). As we can see in the first column of correlation scores, several of these different outputs cause little change in the municipal efficiency rankings. Three of these rankings are practically the same, “pop15” ($r = .999$), “pop 65” ($r = .9763$), “enrol” ($r = .999$).

Table 11 – Correlation Chart of Different Efficiency Score Rankings

	Score1	Pop15	Pop65	Bschool	Enrol	Watcons	Permit	Ids	Educ	Housing	Pop	Doutput
Score1	1.0000											
Pop15	0.9998	1.0000										
Pop65	0.9763	0.9758	1.0000									
Bschool	0.9537	0.9530	0.9134	1.0000								
Enroll	0.9993	0.9990	0.9744	0.9537	1.0000							
Watcons	0.9557	0.9563	0.9213	0.9004	0.9543	1.0000						
Permits	0.9271	0.9267	0.8991	0.8729	0.9263	0.8869	1.0000					
Ids	0.9201	0.9201	0.8924	0.8737	0.9203	0.8678	0.8387	1.0000				
Educ	0.9485	0.9477	0.9059	0.9979	0.9501	0.8941	0.8671	0.8677	1.0000			
Housing	0.9219	0.9223	0.8828	0.8593	0.9205	0.9722	0.9197	0.8256	0.8526	1.0000		
Pop	0.9758	0.9757	0.9998	0.9121	0.9738	0.9213	0.8982	0.8928	0.9045	0.8826	1.0000	
Doutput	0.7724	0.7713	0.7737	0.8293	0.7786	0.6775	0.6776	0.6706	0.8444	0.6226	0.7727	1.0000

Tables 12 and 13 (Annexes 3 and 4, respectively) display the municipalities considered efficient (scoring one) in seven of the remaining rankings with the lowest correlations scores (equal to or lower than .95). Table 13 displays the different municipalities considered efficient according to theoretical combinations of outputs subtracted from the total number of outputs. “Educ” refers to the two outputs related to elementary schooling (Y3 and Y4 in Table 7). “Housing” refers to the two outputs related to housing (Y5 and Y6 in Table 7). Finally, “Doutput” reflects only those outputs that are strictly attributed to municipal activity (Y3, Y6, and Y7). As we can see, this is the ranking that differs the most in comparison to our original ranking ($r = .77$). This is not surprising since two or three are subtracted. Nevertheless, the changes do not fundamentally alter the main conclusions regarding the most efficient municipalities.

Conclusion

While exploratory, given the nature of the data used, the results presented in this paper are a step towards ranking Portuguese municipalities according to their efficiency. The main results presented in Tables 11, 12 and 13 demonstrate that the efficiency

scores are relatively resistant to different combinations of output. This is specially important given the widely known difficulty of choosing the outputs. Therefore, we can confidently say that it is not the choice of output indicators that determines the final results.

The reasons for strong effect with respect to size observed in Table 10 may lie in the qualification of their human resources. The lack of municipal human capabilities is widely known in Portugal, namely with respect to the smaller municipalities. The priority to investment in human capital is at stake and cannot be delayed. The efficiency of municipal use of resources depends on that to great extent.

This paper also integrates the larger project of analysing the effects of the reform of the municipal accounting system. Knowing whether this new system makes municipalities more efficient is very important, given that the main objectives of the reforms were precisely a better use of public resources.

An exploratory study leaves ample space for future improvements. One is the replication of these results using other parametric and non-parametric techniques. This would improve the check of robustness of the present results. Given the well known sensitivity of the frontier techniques, this is a fundamental task.

A second future path could be the explanation of the differences of efficiency among municipalities, for example, whether or not a higher level of conformity with the new accounting system (Jorge *et al.*, 2006; Carvalho *et al.*, 2007) has a positive effect on the efficiency score. Since an endogeneity problem is certainly present here, it would have to be taken into account separately.

References

- AECA, Asociación Española de Contabilidad y Administración de Empresas (1997), *Indicadores de Gestión para las Entidades Públicas*, Documento n. 16, Principios de Contabilidad de Gestión, Julio.
- Afonso, A. and Santos, M. (2005), Students and Teachers: a DEA Approach to the Relative Efficiency of Portuguese Universities, *NEP: New Economics Papers Education*.
- Afonso, A. and Fernandes, S. (2003), Efficiency of Local Government Spending: Evidence from the Lisbon Region; *NEP: New Economics Papers Education*.
- Afonso, A. and Fernandes, S. (2005), Assessing and Explaining the Relative Efficiency of Local Government: Evidence for Portuguese Municipalities, *NEP: New Economics Papers Education*.
- Bac, A. D. (1994), Performance Measurement in the Dutch National, Provincial and Local Government, in Buschor, E. and Schedler, K. (eds.), *Perspectives on Performance Measurement and Public Sector Accounting*, Berne, Stuttgart, Vienna: Paul Haupt Publishers, 309-324.
- Ballart, X. (1992), *Cómo evaluar programas y servicios públicos? Aproximación sistemática y estudios de caso*. Ministerio para las Administraciones Públicas (MAP).
- Barrow, M. and Wagstaff, A. (1989), Efficiency Measurement in the Public Sector: An Appraisal, *Fiscal Studies* 10 (1), 72-97.
- Borge, Lars-Erik; Falch, T. and Tovmo, P. (2007), Public Sector Efficiency: The Roles of Political and Budgetary Institutions, Fiscal Capacity and Democratic Participation. Working Paper, Norwegian University of Science and Technology.
- Borger, B. de and Kerstens, K. (1996), Cost Efficiency of Belgian Local Governments: A Comparative Analysis of FDH, DEA, and Econometric Approaches, *Regional Science and Urban Economics*, no. 26, 145-170.

- Bravo, A. B. and Vasconcellos e Sá, J. A. (2000), *Autarquias Locais: Descentralização e Melhor Gestão*, Verbo, Lisboa, Novembro.
- Brignall, S. and Modell, S. (2000), An Institutional Perspective on Performance Measurement and Management in the “New Public Sector”, *Management Accounting Research*; Vol. 11, No. 3, 281-306.
- Carvalho, J.; Camões, P.; Jorge, S. and Fernandes, M. J. (2007), Conformity and Diversity of Accounting and Financial Reporting in Portuguese Local Government, *Canadian Journal of Administrative Sciences*, Vol. 24, N. 1, March (May), 2-14.
- Carvalho, J. C.; Fernandes, M. J. and Teixeira, A. (2006c), *POCAL Comentado*, Editora Rei dos Livros, Lisboa, 2ª edição.
- Carvalho, J.; Fernandes, M. J.; Camões, P. and Jorge, S. (2006b), *Anuário Financeiro dos Municípios Portugueses – 2004*; edição própria; publicação da Câmara dos Técnicos Oficiais de Contas (CTOC).
- Carvalho, J.; Jorge, S. and Fernandes, M. J. (2006a), New Local Government Accounting in Portugal, *Public Money and Management*; Vol. 26; No. 4, September 2006, 211-216.
- Carvalho, J.; Fernandes, M. J.; Jorge, S. and Guzmán, C. A. (2005), El Uso de los Indicadores de Gestión en las Cuentas Anuales de los Ayuntamientos Portugueses, *XIII Congreso de la Asociación Española de Contabilidad y Administración*, Oviedo, Septiembre.
- Dittenhofer, M. (1994), Auditing to Improve Performance in Government Support Functions, in Buschor, E. and Schedler, K. (eds.), *Perspectives on Performance Measurement and Public Sector Accounting*, Berne, Stuttgart, Vienna: Paul Haupt Publishers, 101-115.
- EC (2004), *Public Finances in EMU – 2004*, European Commission, Brussels.
- Fernandes, M. J. (2004), *La Nueva Gestión Pública y los Indicadores de Gestión en los Ayuntamientos Portugueses: estructura teórica y análisis empírico*, Tesis Doctoral en Ciencias Empresariales, Universidad de Santiago de Compostela, España.
- FitchRatings (2005), *International Public Finance – Report on City of Porto*, August, www.fitchratings.com
- Ganley, J. A. and Cubbin, J. S. (1992), *Public Sector Efficiency Measurement – Applications of Data Envelopment Analysis*, Elsevier Science Publishers, Amsterdam, North-Holland.
- Garcia-Alegre, E., Lopez-Casasnovas, G. (2004), The Effects of Poor Financial Information Systems on the Long Term Sustainability of Local Public Services. Empirical Evidence from the Catalan Municipalities, *working paper 746*; Research Centre on Health and Economics; University of Connecticut.
- Gearhart, J. (1999), Activity Based Management and Performance Measurements, *Government Finance Review*; Vol. 15; No. 1, February, 13-16.
- Hailstones, F. (1994), Performance Measures – A Practitioner’s Perspective, in Buschor, E. and Schedler, K. (eds.), *Perspectives on Performance Measurement and Public Sector Accounting*, Berne, Stuttgart, Vienna: Paul Haupt Publishers, 189-195.
- Harris, J. L. (2000), Best Value and Performance Management: Lessons Learned from the United Kingdom, *Government Finance Review*; Vol. 16; No. 4, August, 27-32.
- Hepworth, N. P. (1994), Performance Measurement in Local Government in the United Kingdom, in Buschor, E. and Schedler, K. (eds.), *Perspectives on Performance Measurement and Public Sector Accounting*, Berne, Stuttgart, Vienna: Paul Haupt Publishers, 137-162.
- Carvalho, J.; Camões, P.; Jorge, S. and Fernandes, M. J. (2007), Compliance with the New System of Local Government Accounting in Portugal, forthcoming in Lande, E. and Scheid, J. C. (eds.), *Accounting Reform in the Public Sector: Mimicry, Fad or Necessity?*, Vol 24, N. 1, March (May), 2-14.
- INTOSAI, International Organisation of Supreme Audit Institutions (1995), *Normas de Auditoria*, Washington, D. C., U.S.A.
- Jorge, S.; Carvalho, J. and Fernandes, M. (2006), Compliance with the New System of Local Government Accounting in Portugal, forthcoming in Lande, E. and Scheid, J. C. (eds.), *Accounting Reform in the Public Sector: Mimicry, Fad or Necessity?*, Expert Comptable Media, 145-162..

- Jorge, S. M. (2003), *Local Government Accounting in Portugal in Comparative-International Perspective*, PhD Thesis, Birmingham Business School, The University of Birmingham, September.
- Kaplan, D. (2000), Evaluating and Improving Local Government Performance: What the US can Learn from the UK, *working paper from the Institute of Local Government Studies*, School of Public Policy, University of Birmingham.
- Kloot, L. and Martin, J. (2000), Strategic Performance Measurement: A Balanced Approach of Performance Management Issues in Local Government, *Management Accounting Research*, Vol.11, No. 2, 231-251.
- Likierman, A. (1994), Performance Indicators in the United Kingdom Public Sector: Early Lessons from Managerial Use, in Buschor, E. and Schedler, K. (eds), *Perspectives on Performance Measurement and Public Sector Accounting*, Berne, Stuttgart, Vienna: Paul Haupt Publishers, 129-135.
- Loikkanen, H. A. (2006), Cost Efficiency of Finnish Municipalities in Basic Service Provision 1994-2002, *discussion paper*, Helsinki Centre of Economic Research.
- Loikkanen, H. A. (2004), Cost Efficiency of Finnish Municipalities 1994-2002. An Application of DEA and Tobit Methods, *44th Congress of the European Regional Science Association*, Porto, Portugal.
- Montesinos Julve, V. and Vela Bargues, J. M. (1994), Performance Measurement in the Public Sector: Some Implications of Spanish Accounting Regulation, in Buschor, E. and Schedler, K. (eds.), *Perspectives on Performance Measurement and Public Sector Accounting*, Berne, Stuttgart, Vienna: Paul Haupt Publishers, 397-416.
- Peuch-Lestrade, P. and Geuser, E. (1995), How to Improve the Performance of Local Authorities, *working paper presented at the V CIGAR Conference*, Paris, May.
- Pina, V. and Torres, L. (2003), Reshaping Public Sector Accounting: An International Comparative View, *Canadian Journal of Administrative Sciences*, December.
- Rosen, E. D. (1993), *Improving Public Sector Productivity: Concepts and Practices*, Sage Publications, Thousand Oaks, California.
- Rutherford, B. A. (2000), The Construction and Presentation of Performance Indicators in Executive Agency External Reports; *Financial Accountability and Management*; 16(3); August, 225-249.
- Simon, H. (1994), The Criterion of Efficiency, in McKeivitt, D. and Lawton, A. (eds.), *Public Sector Management. Theory, Critique and Practice*, Sage Publications, London, 37-53.
- Smith, P. (1993), Outcome-related Performance Indicators and Organizational Control in the Public Sector, *British Journal of Management*, Vol. 4, 135-151.
- Torres, Lourdes (1991), Indicadores de Gestión para las Entidades Públicas, *Revista Española de Financiación y Contabilidad*, vol. XX, n.67, abril-junio, 535-558.
- Torres, Lourdes (2002), *La Auditoria Operativa: Un Instrumento para la Mejora de la Gestión Pública*; Monografías de AECA, Madrid, España.

Annex 1

Table 8 – Data Envelopment Analysis Results (1 input; 7 outputs)

Municipality	Efficiency Score	Rank	Municipality	Efficiency Score	Rank
Abrantes	65.11%	182	Beja	57.15%	225
Águeda	100.00%	1	Belmonte	68.90%	161
Aguiar da Beira	66.22%	176	Benavente	72.18%	140
Alandroal	44.24%	265	Bombarral	70.12%	157
Albergaria-a-Velha	78.41%	114	Borba	70.59%	151
Albufeira	66.17%	177	Boticas	66.41%	175
Alcácer do Sal	92.84%	64	Braga	100.00%	1
Alcanena	74.27%	128	Bragança	59.88%	203
Alcobaça	62.85%	191	Cabeceiras de Basto	100.00%	1
Alcochete	72.62%	137	Cadaval	87.56%	80
Alcoutim	49.42%	249	Caldas da Rainha	100.00%	1
Alenquer	100.00%	1	Caminha	67.37%	170
Alfândega da Fé	52.88%	238	Campo Maior	90.28%	70
Alijó	78.88%	107	Cantanhede	79.90%	104
Aljezur	76.49%	120	Carrizosa de Ansiães	89.69%	71
Aljustrel	70.07%	158	Carregal do Sal	100.00%	1
Almada	100.00%	1	Cartaxo	58.03%	223
Almeida	52.27%	239	Cascais	100.00%	1
Almeirim	82.54%	94	Castanheira de Pêra	38.66%	270
Almodôvar	57.05%	226	Castelo Branco	73.82%	132
Alpiarça	64.30%	187	Castelo de Paiva	59.23%	210
Alter do Chão	73.19%	135	Castelo de Vide	68.89%	163
Alvaiázere	86.61%	83	Castro Daire	100.00%	1
Alvito	100.00%	1	Castro Marim	66.87%	173
Amadora	83.,83%	90	Castro Verde	62.60%	193
Amarante	85.80%	86	Celorico da Beira	58.37%	219
Amares	96.48%	58	Celorico de Basto	92.67%	65
Anadia	91.53%	67	Chamusca	56.85%	227
Ansião	54.11%	235	Chaves	59.12%	212
Arcos de Valdevez	68.10%	166	Cinfães	100.00%	1
Arganil	78.45%	113	Coimbra	97.52%	56
Armamar	69.21%	160	Condeixa-a-Nova	70.44%	152
Arouca	95.28%	59	Constância	74.97%	125
Arraiolos	67.64%	168	Coruche	55.47%	232
Arronches	75.24%	121	Covilhã	46.86%	257
Arruda dos Vinhos	58.54%	217	Crato	78.71%	109
Aveiro	56.68%	229	Cuba	72.59%	138
Avis	71.55%	143	Elvas	50.98%	241
Azambuja	71.35%	144	Entroncamento	100.00%	1
Baião	90.31%	69	Espinho	83.24%	93
Barcelos	100.00%	1	Esposende	100.00%	1
Barrancos	100.00%	1	Estarreja	64.83%	184
Barreiro	88.17%	75	Estremoz	59.41%	206
Batalha	100.00%	1	Évora	58.35%	220

Municipality	Efficiency Score	Rank
Fafe	77.04%	119
Faro	46.66%	259
Felgueiras	70.35%	153
Ferreira do Alentejo	58.64%	216
Ferreira do Zêzere	59.41%	205
Figueira da Foz	61.29%	200
Figueira de Castelo Rodrigo	78.52%	111
Figueiró dos Vinhos	60.74%	201
Fornos de Algodres	54.12%	234
Freixo de Espada à Cinta	81.37%	98
Fronteira	58.78%	215
Fundão	31.80%	274
Gavião	85.16%	89
Góis	72.57%	139
Golegã	87.96%	77
Gondomar	100.00%	1
Gouveia	72.80%	136
Grândola	55.64%	231
Guarda	48.16%	251
Guimarães	100.00%	1
Idanha-a-Nova	70.25%	155
Ílhavo	92.52%	66
Lagoa (Algarve)	73.42%	133
Lagos	61.54%	198
Lamego	58.53%	218
Leiria	100.00%	1
Lisboa	100.00%	1
Loulé	47.20%	256
Loures	100.00%	1
Lourinhã	100.00%	1
Lousã	82.32%	95
Lousada	94.35%	60
Mação	61.77%	196
Macedo de Cavaleiros	61.92%	194
Mafra	100.00%	1
Maia	58.31%	221
Mangualde	58.08%	222
Manteigas	100.00%	1
Marco de Canaveses	37.82%	271
Marinha Grande	100.00%	1
Marvão	78.14%	116
Matosinhos	83.60%	92
Meda	65.04%	183
Melgaço	59.03%	213
Mértola	35.28%	273
Mesão Frio	64.33%	186
Mira	99.86%	51
Miranda do Corvo	75.00%	124

Municipality	Efficiency Score	Rank
Miranda do Douro	47.65%	253
Mirandela	69.26%	159
Mogadouro	50.65%	245
Moimenta da Beira	68.78%	164
Moita	87.65%	79
Monção	74.08%	130
Monchique	37.50%	272
Mondim de Basto	98.27%	55
Monforte	50.89%	242
Montalegre	42.99%	266
Montemor-o-Novo	81.91%	96
Montemor-o-Velho	61.74%	197
Montijo	71.16%	145
Mora	73.22%	134
Mortágua	100.00%	1
Moura	46.15%	260
Mourão	45.17%	263
Murça	74.85%	126
Murtosa	71.66%	142
Nazaré	47.89%	252
Nelas	88.21%	74
Nisa	50.76%	243
Óbidos	41.85%	268
Odemira	59.15%	211
Odivelas	96.91%	57
Oeiras	74.52%	127
Oleiros	65.55%	179
Olhão	78.80%	108
Oliveira de Azeméis	87.42%	81
Oliveira de Frades	83.80%	91
Oliveira do Bairro	62.63%	192
Oliveira do Hospital	87.13%	82
Ourém	73.87%	131
Ourique	45.27%	262
Ovar	64.50%	185
Paços de Ferreira	100.00%	1
Palmela	71.00%	149
Pampilhosa da Serra	61.91%	195
Paredes	100.00%	1
Paredes de Coura	50.61%	246
Pedrógão Grande	77.59%	118
Penacova	99.84%	52
Penafiel	78.27%	115
Penalva do Castelo	70.24%	156
Penamacor	42.83%	267
Penedono	100.00%	1
Penela	67.46%	169
Peniche	100.00%	1

Municipality	Efficiency Score	Rank
Peso da Régua	79.61%	105
Pinhel	70.80%	150
Pombal	100.00%	1
Ponte da Barca	61.37%	199
Ponte de Lima	100.00%	1
Ponte de Sor	67.10%	172
Portalegre	39.03%	269
Portel	88.08%	76
Porto	78.58%	110
Porto de Mós	89.52%	72
Póvoa de Lanhoso	100.00%	1
Póvoa de Varzim	59.41%	207
Proença-a-Nova	67.74%	167
Redondo	88.87%	73
Reguengos de Monsaraz	50.54%	247
Resende	58.86%	214
Ribeira de Pena	59.29%	209
Rio Maior	53.57%	237
Sabrosa	71.01%	147
Sabugal	75.08%	123
Salvaterra de Magos	100.00%	1
Santa Comba Dão	67.22%	171
Santa Maria da Feira	92.97%	62
Santa Marta de Penaguião	80.46%	102
Santarém	59.38%	208
Santiago do Cacém	56.84%	228
Santo Tirso	80.78%	101
São Brás de Alportel	85.20%	87
São João da Madeira	100.00%	1
São João da Pesqueira	100.00%	1
São Pedro do Sul	52.11%	240
Sardoal	47.52%	254
Sátão	68.14%	165
Seia	47.51%	255
Seixal	100.00%	1
Sernancelhe	93.30%	61
Serpa	65.21%	181
Sertã	59.98%	202
Sesimbra	78.51%	112
Setúbal	54.09%	236
Sever do Vouga	85.98%	85
Silves	48.75%	250
Sines	25.47%	275
Sintra	100.00%	1
Sobral de Monte Agraço	81.07%	99
Soure	90.71%	68

Municipality	Efficiency Score	Rank
Sousel	66.78%	174
Tábua	81.70%	97
Tabuaço	71.01%	148
Tarouca	49.88%	248
Terras de Bouro	79.60%	106
Tomar	54.84%	233
Tondela	65.37%	180
Torre de Moncorvo	46.81%	258
Torres Novas	59.72%	204
Torres Vedras	92.93%	63
Trancoso	55.64%	230
Trofa	63.19%	190
Vagos	100.00%	1
Vale de Cambra	77.90%	117
Valença	74.09%	129
Valongo	68.90%	162
Valpaços	70.34%	154
Vendas Novas	99.41%	53
Viana do Alentejo	100.00%	1
Viana do Castelo	100.00%	1
Vidigueira	66.13%	178
Vieira do Minho	100.00%	1
Vila de Rei	87.75%	78
Vila do Bispo	100.00%	1
Vila do Conde	50.76%	244
Vila Flor	85.19%	88
Vila Franca de Xira	98.88%	54
Vila Nova da Barquinha	100.00%	1
Vila Nova de Cerveira	64.19%	188
Vila Nova de Famalicão	100.00%	1
Vila Nova de Foz Côa	86.02%	84
Vila Nova de Gaia	100.00%	1
Vila Nova de Paiva	57.15%	224
Vila Nova de Poiares	44.43%	264
Vila Pouca de Aguiar	71.11%	146
Vila Real	100.00%	1
Vila Real de Santo António	45.92%	261
Vila Velha de Ródão	75.12%	122
Vila Verde	100.00%	1
Vila Viçosa	71.66%	141
Vimioso	63.26%	189
Vinhais	80.85%	100
Viseu	100.00%	1
Vizela	100.00%	1
Vouzela	80.37%	103
Average	74.20%	

Annex 2

Table 9 – Data Envelopment Analysis Results (3 inputs; 7 outputs)

Municipality	Efficiency Score	Rank	Municipality	Efficiency Score	Rank
Abrantes	71.20%	174	Benavente	70.14%	180
Águeda	100.00%	1	Bombarral	68.77%	187
Aguiar da Beira	75.10%	162	Borba	80.57%	137
Alandroal	47.09%	265	Boticas	65.88%	198
Albergaria-a-Velha	82.98%	124	Braga	100.00%	1
Albufeira	58.79%	231	Bragança	63.61%	208
Alcácer do Sal	89.88%	89	Cabeceiras de Basto	100.00%	1
Alcanena	82.98%	125	Cadaval	83.15%	122
Alcobaça	77.21%	155	Caldas da Rainha	100.00%	1
Alcochete	83.15%	123	Caminha	63.40%	210
Alcoutim	55.63%	240	Campo Maior	100.00%	1
Alenquer	100.00%	1	Cantanhede	100.00%	1
Alfândega da Fé	59.34%	225	Carrizada de Ansiães	100.00%	1
Alijó	91.87%	84	Carregal do Sal	100.00%	1
Aljezur	86.76%	102	Cartaxo	60.46%	223
Aljustrel	65.70%	199	Cascais	100.00%	1
Almada	100.00%	1	Castanheira de Pêra	49.35%	260
Almeida	55.63%	241	Castelo Branco	100.00%	1
Almeirim	84.54%	109	Castelo de Paiva	58.80%	229
Almodôvar	63.57%	209	Castelo de Vide	83.63%	115
Alpiarça	57.58%	233	Castro Daire	100.00%	1
Alter do Chão	86.02%	105	Castro Marim	71.33%	172
Alvaiázere	96.73%	74	Castro Verde	60.58%	222
Alvito	100.00%	1	Celorico da Beira	55.06%	244
Amadora	80.79%	135	Celorico de Basto	100.00%	1
Amarante	92.99%	81	Chamusca	57.57%	234
Amares	100.00%	1	Chaves	71.12%	175
Anadia	100.00%	1	Cinfães	100.00%	1
Ansião	60.65%	221	Coimbra	82.06%	130
Arcos de Valdevez	100.00%	1	Condeixa-a-Nova	70.57%	178
Arganil	81.86%	131	Constância	81.13%	133
Armamar	77.49%	153	Coruche	59.00%	228
Arouca	91.23%	85	Covilhã	89.06%	94
Arraiolos	69.42%	185	Crato	80.80%	134
Arronches	79.43%	143	Cuba	83.65%	114
Arruda dos Vinhos	56.24%	239	Elvas	50.70%	258
Aveiro	79.57%	141	Entroncamento	100.00%	1
Avis	79.98%	139	Espinho	88.02%	98
Azambuja	75.12%	161	Esposende	100.00%	1
Baião	90.07%	88	Estarreja	62.76%	213
Barcelos	100.00%	1	Estremoz	57.50%	235
Barrancos	100.00%	1	Évora	67.44%	192
Barreiro	100.00%	1	Fafe	89.63%	91
Batalha	100.00%	1	Faro	54.19%	249
Beja	63.92%	204	Felgueiras	71.29%	173
Belmonte	79.16%	145	Ferreira do Alentejo	59.21%	226

Municipality	Efficiency Score	Rank
Ferreira do Zêzere	63.68%	206
Figueira da Foz	64.39%	202
Figueira de Castelo Rodrigo	86.71%	103
Figueiró dos Vinhos	60.69%	220
Fornos de Algodres	52.86%	251
Freixo de Espada à Cinta	96.37%	77
Fronteira	72.79%	168
Fundão	56.87%	236
Gavião	81.58%	132
Góis	79.95%	140
Golegã	90.91%	86
Gondomar	100.00%	1
Gouveia	83.42%	119
Grândola	62.04%	216
Guarda	75.70%	158
Guimarães	100.00%	1
Idanha-a-Nova	75.43%	160
Ílhavo	100.00%	1
Lagoa (Algarve)	80.20%	138
Lagos	63.90%	205
Lamego	63.24%	212
Leiria	100.00%	1
Lisboa	100.00%	1
Loulé	43.30%	272
Loures	100.00%	1
Lourinhã	100.00%	1
Lousã	83.61%	117
Lousada	100.00%	1
Mação	60.12%	224
Macedo de Cavaleiros	65.35%	200
Mafra	100.00%	1
Maia	59.18%	227
Mangualde	54.80%	245
Manteigas	100.00%	1
Marco de Canaveses	75.69%	159
Marinha Grande	98.09%	72
Marvão	79.21%	144
Matosinhos	88.32%	96
Meda	69.74%	183
Melgaço	78.57%	148
Mértola	38.58%	274
Mesão Frio	79.53%	142
Mira	100.00%	1
Miranda do Corvo	72.04%	171
Miranda do Douro	50.62%	259
Mirandela	70.67%	177
Mogadouro	51.99%	252
Moimenta da Beira	78.45%	149

Municipality	Efficiency Score	Rank
Moita	92.70%	82
Monção	87.39%	100
Monchique	46.24%	266
Mondim de Basto	99.97%	70
Monforte	51.49%	254
Montalegre	45.17%	269
Montemor-o-Novo	87.76%	99
Montemor-o-Velho	70.12%	181
Montijo	78.90%	147
Mora	100.00%	1
Mortágua	100.00%	1
Moura	42.31%	273
Mourão	48.63%	262
Murça	89.52%	92
Murtosa	69.52%	184
Nazaré	43.97%	271
Nelas	88.96%	95
Nisa	50.81%	257
Óbidos	45.23%	268
Odemira	58.69%	232
Odivelas	100.00%	1
Oeiras	73.53%	165
Oleiros	71.06%	176
Olhão	89.44%	93
Oliveira de Azeméis	84.23%	110
Oliveira de Frades	83.52%	118
Oliveira do Bairro	68.17%	188
Oliveira do Hospital	94.16%	80
Ourém	100.00%	1
Ourique	48.44%	263
Ovar	67.50%	191
Paços de Ferreira	100.00%	1
Palmela	84.07%	113
Pampilhosa da Serra	62.71%	214
Paredes	97.36%	73
Paredes de Coura	64.37%	203
Pedrógão Grande	82.41%	128
Penacova	100.00%	1
Penafiel	88.26%	97
Penalva do Castelo	84.20%	111
Penamacor	52.90%	250
Penedono	100.00%	1
Penela	72.04%	170
Peniche	100.00%	1
Peso da Régua	77.03%	156
Pinhel	66.74%	194
Pombal	100.00%	1
Ponte da Barca	67.66%	189

Municipality	Efficiency Score	Rank
Ponte de Lima	100.00%	1
Ponte de Sor	63.33%	211
Portalegre	44.79%	270
Portel	89.82%	90
Porto	100.00%	1
Porto de Mós	100.00%	1
Póvoa de Lanhoso	95.04%	79
Póvoa de Varzim	54.76%	246
Proença-a-Nova	66.22%	197
Redondo	83.30%	120
Reguengos de Monsaraz	58.79%	230
Resende	63.62%	207
Ribeira de Pena	56.75%	237
Rio Maior	55.50%	242
Sabrosa	84.15%	112
Sabugal	83.17%	121
Salvaterra de Magos	100.00%	1
Santa Comba Dão	66.92%	193
Santa Maria da Feira	100.00%	1
Santa Marta de Penaguião	86.45%	104
Santarém	69.08%	186
Santiago do Cacém	56.44%	238
Santo Tirso	84.88%	108
São Brás de Alportel	78.28%	150
São João da Madeira	100.00%	1
São João da Pesqueira	100.00%	1
São Pedro do Sul	51.51%	253
Sardoal	51.11%	256
Sátão	84.88%	107
Seia	54.25%	248
Seixal	100.00%	1
Sernancelhe	95.68%	78
Serpa	61.10%	219
Sertão	62.41%	215
Sesimbra	77.29%	154
Setúbal	61.89%	218
Sever do Vouga	87.29%	101
Silves	51.15%	255
Sines	24.43%	275
Sintra	100.00%	1
Sobral de Monte Agraço	76.83%	157
Soure	96.42%	76
Sousel	66.37%	195
Tábua	78.94%	146

Municipality	Efficiency Score	Rank
Tabuaço	72.09%	169
Tarouca	55.29%	243
Terras de Bouro	82.29%	129
Tomar	73.34%	166
Tondela	77.79%	151
Torre de Moncorvo	54.33%	247
Torres Novas	67.58%	190
Torres Vedras	100.00%	1
Trancoso	72.94%	167
Trofa	66.28%	196
Vagos	99.19%	71
Vale de Cambra	82.55%	127
Valença	69.87%	182
Valongo	64.57%	201
Valpaços	100.00%	1
Vendas Novas	96.60%	75
Viana do Alentejo	100.00%	1
Viana do Castelo	100.00%	1
Vidigueira	77.77%	152
Vieira do Minho	100.00%	1
Vila de Rei	92.26%	83
Vila do Bispo	100.00%	1
Vila do Conde	47.39%	264
Vila Flor	85.61%	106
Vila Franca de Xira	100.00%	1
Vila Nova da Barquinha	100.00%	1
Vila Nova de Cerveira	70.54%	179
Vila Nova de Famalicão	100.00%	1
Vila Nova de Foz Côa	100.00%	1
Vila Nova de Gaia	100.00%	1
Vila Nova de Paiva	62.03%	217
Vila Nova de Poiares	45.86%	267
Vila Pouca de Aguiar	82.83%	126
Vila Real	100.00%	1
Vila Real de Santo António	49.28%	261
Vila Velha de Ródão	75.09%	163
Vila Verde	100.00%	1
Vila Viçosa	73.69%	164
Vimioso	90.08%	87
Vinhais	83.63%	116
Viseu	100.00%	1
Vizela	100.00%	1
Vouzela	80.71%	136
Average	78.55%	

Annex 3

Table 12 – Number of Municipalities with Efficiency Score = 1 according to Most Different Efficiency Rankings

Score1	Ids	Permits	Bschool	Watcons
Águeda	Alenquer	Alenquer	Águeda	Águeda
Alenquer	Almada	Almada	Alenquer	Almada
Almada	Alvito	Barcelos	Almada	Alvito
Alvito	Barcelos	Barrancos	Alvito	Barcelos
Barcelos	Barrancos	Batalha	Barrancos	Barrancos
Barrancos	Batalha	Braga	Batalha	Batalha
Batalha	Braga	Caldas da Rainha	Braga	Braga
Braga	Cabeceiras de Basto	Carregal do Sal	Caldas da Rainha	Cabeceiras de Basto
Cabeceiras de Basto	Caldas da Rainha	Castro Daire	Carregal do Sal	Caldas da Rainha
Caldas da Rainha	Carregal do Sal	Cinfães	Cascais	Carregal do Sal
Carregal do Sal	Cascais	Entroncamento	Entroncamento	Cascais
Cascais	Castro Daire	Esposende	Esposende	Castro Daire
Castro Daire	Cinfães	Gondomar	Gondomar	Cinfães
Cinfães	Gondomar	Guimarães	Guimarães	Esposende
Esposende	Guimarães	Leiria	Lisboa	Gondomar
Gondomar	Leiria	Lisboa	Lourinhã	Guimarães
Guimarães	Lisboa	Lourinhã	Mafra	Leiria
Leiria	Lourinhã	Manteigas	Manteigas	Lisboa
Lisboa	Mafra	Marinha Grande	Marinha Grande	Loures
Loures	Mortágua	Mortágua	Paços de Ferreira	Mafra
Lourinhã	Paços de Ferreira	Paços de Ferreira	Paredes	Manteigas
Mafra	Paredes	Paredes	Peniche	Marinha Grande
Manteigas	Penedono	Penedono	Pombal	Mortágua
Marinha Grande	Peniche	Peniche	Salvaterra de Magos	Paços de Ferreira
Mortágua	Pombal	Pombal	São João da Madeira	Paredes
Paços de Ferreira	Ponte de Lima	São João da Madeira	Seixal	Penedono
Paredes	Póvoa de Lanhoso	S. João da Pesqueira	Sintra	Pombal
Penedono	Salvaterra de Magos	Seixal	Viana do Alentejo	Ponte de Lima
Peniche	São João da Pesqueira	Sintra	Viana do Castelo	Póvoa de Lanhoso
Pombal	Sintra	Viana do Alentejo	Vila do Bispo	Salvaterra de Magos
Ponte de Lima	Viana do Alentejo	Vieira do Minho	V. Nova da Barquinha	S. João da Madeira
Póvoa de Lanhoso	Viana do Castelo	V. Nova Barquinha	V. Nova de Famalicão	S. João da Pesqueira
Salvaterra de Magos	Vieira do Minho	V. N. de Famalicão	Vila Nova de Gaia	Seixal
S. João da Madeira	Vila do Bispo	Vila Real	Vizela	Sintra
S. João da Pesqueira	Vila Nova de Famalicão	Vila Verde		Vagos
Seixal	Vila Nova de Gaia	Viscu		Viana do Castelo
Sintra	Vila Verde	Vizela		Vila do Bispo
Vagos	Viscu			Vila Nova da Barquinha
Viana do Alentejo	Vizela			Vila Nova de Famalicão
Viana do Castelo				Vila Nova de Gaia
Vieira do Minho				Vila Real
Vila do Bispo				Vila Verde
V. Nova da Barquinha				Viscu
V. Nova de Famalicão				Vizela
Vila Nova de Gaia				
Vila Real				
Vila Verde				
Viscu				
Vizela				
Entroncamento				
N= 50	N= 39	N= 37	N= 34	N=44

Annex 4

Table 13 – Comparison of the Number of Municipalities with Efficiency Score = 1 in the Efficiency Rankings Using only Theoretical Combination of Outputs

Score1	Education	Housing	Doutput
Águeda	Alenquer	Almada	Alenquer
Alenquer	Almada	Barcelos	Almada
Almada	Alvito	Barrancos	Barrancos
Alvito	Barrancos	Batalha	Batalha
Barcelos	Batalha	Braga	Braga
Barrancos	Braga	Caldas da Rainha	Carregal do Sal
Batalha	Caldas da Rainha	Carregal do Sal	Cascais
Braga	Carregal do Sal	Castro Daire	Lisboa
Cabeceiras de Basto	Cascais	Cinfães	Lourinhã
Caldas da Rainha	Entroncamento	Esposende	Manteigas
Carregal do Sal	Esposende	Gondomar	Peniche
Cascais	Gondomar	Guimarães	S. João da Madeira
Castro Daire	Lisboa	Leiria	Seixal
Cinfães	Lourinhã	Lisboa	Viana do Alentejo
Esposende	Mafra	Manteigas	Viana do Castelo
Gondomar	Manteigas	Marinha Grande	Vila do Bispo
Guimarães	Marinha Grande	Mortágua	V. Nova da Barquinha
Leiria	Paços de Ferreira	Paços de Ferreira	
Lisboa	Paredes	Paredes	
Loures	Peniche	Penedono	
Lourinhã	Pombal	Pombal	
Mafra	Salvaterra de Magos	S. João da Madeira	
Manteigas	São João da Madeira	S. João da Pesqueira	
Marinha Grande	Seixal	Seixal	
Mortágua	Sintra	Sintra	
Paços de Ferreira	Viana do Alentejo	V. Nova da Barquinha	
Paredes	Viana do Castelo	V. Nova de Famalicão	
Penedono	Vila do Bispo	Vila Real	
Peniche	V. Nova da Barquinha	Vila Verde	
Pombal	Vizela	Viseu	
Ponte de Lima		Vizela	
Póvoa de Lanhoso			
Salvaterra de Magos			
S. João da Madeira			
S. João da Pesqueira			
Seixal			
Sintra			
Vagos			
Viana do Alentejo			
Viana do Castelo			
Vieira do Minho			
Vila do Bispo			
V. Nova da Barquinha			
V. Nova de Famalicão			
Vila Nova de Gaia			
Vila Real			
Vila Verde			
Viseu			
Vizela			
Entroncamento			
N=50	N=30	N=31	N=18

(Página deixada propositadamente em branco)

Helge Mauland

Ailin Aastvedt

MISSION IMPOSSIBLE OR AN OBVIOUS OPTION – PROVISIONS AND CONTINGENT LIABILITIES IN NORWEGIAN LOCAL GOVERNMENT ACCOUNTING

Introduction

Accounting is information. The main task of accounting is to produce relevant and reliable information about earnings, financial position and development of the organization during the accounting period. Originally accounting information was dedicated to owners and creditors. Gradually the target group has widened. In public sector organisations the traditional notion of an owner is a meaningless one. We are all owners of central and local governmental institutions, agencies and utilities. Information about resource allocation and use is of major interest in this class of organisations and to inform whether the use of resources corresponds to the political intentions. For many years this was equivalent of controlling whether the activities were within the boundaries of political decisions. Focus has changed during the last decades. Since the introduction of New Public Management (NPM) it has been acceptable focusing on efficiency, effectiveness and performance measurement¹. Change in focus has necessitated a reorientation of management systems. The budgeting and accounting system is a vital part of the management system. In public sector organisations the budgeting system has been considered the main pillar in the management toolbox while much less attention has been paid to the accounting system.

In earlier days the control of financial allocations was the universal one with respect to economic and financial management challenges. But relevant cost data is required in modern public sector organisations. Meaningful measurement of efficiency and effectiveness requires cost data that are relevant and reliable (Horngren *et al.*, 2002). Cost measurement where essential cost elements are omitted, for instance depreciation, is of little or no use. In public sector organisations this is a real management challenge.

¹ Probably the introduction of NPM is more correctly described as a revival of a management orientation in public sector organisations.

In many countries the foundation of public sector budgeting and accounting systems is still the cash and modified cash principle. So is the case in Norway. The main budgeting and accounting system in Norwegian Central Government² uses the cash principle, while a modified cash principle is used in Local Government systems. The cash or modified cash principle causes no problems in organisations with main focus on control of financial grants. Norwegian municipalities utilise a financial oriented system with focus on changes in working capital³. Whether the system is to be considered a modified cash system or a modified accrual system is not easily decided on and is a matter of minor interest in this context. For the time being the system is usually considered a modified accrual accounting system⁴.

In this paper we are interested in relevant costs and liabilities in the accounting reports of Norwegian local government (municipalities and counties). We are particularly preoccupied with provisions and contingent liabilities. Provisions and contingent liabilities may occur in Norwegian local government. Insufficient or failure in the production of services (school and health services for instance) may give rise to claim for damages. Insufficient and polluted water supplies may also trigger lawsuits. In other cases the liabilities are self-inflicted. The local councils may decide to refund to the citizens charges (water charges for instance) in excess of full cost accounting principles even if there are no legal or formal obligations to do so. Cleaning up and dismantling (removal) costs are other examples of contingent liabilities in IPSAS 19. Many municipalities run waste disposal sites that represent considerable contingent liabilities.

From an informational viewpoint the accounting document should reflect all the liabilities of the agency whether certain or uncertain. Some criteria must be at hand, however, when to enter items of expenditure, income, assets and liabilities into the accounts and when not. In IPSAS 19 the accounting criteria is the inclusion of all likely events, and the value can be estimated reliably. Other accounting regimes have similar criteria for recording.

The problem at hand may be illustrated by an example. Imagine a municipality running an activity, a waste deposit for instance, with known and well-defined expenses today. When the deposit is filled up, it is closed down. Thereafter the owner, i.e. the municipality, has to tidy up. The day the deposit is put to use the exact closure-date is unknown. The closure date depends on how fast the deposit is filled up, which in turn depends on the general economic development. Neither the cost of tidying up/removal cost will be known with accuracy. The certain event is the decommissioning of the installation - the uncertain or probabilistic event is the date of closure. Even if there is uncertainty connected with the date of closure it is possible estimating the closure date with some accuracy. The same argument is valid for the cost of tidying up. The unanswered question is when the cost of tidying up is going to enter the accounts. In this context an uncertain liability has emerged.

² In 2003 a pilot project based on accrual accounting principles was introduced in ten government agencies. The pilot project is still under assessment.

³ Working capital is defined in the traditional way as the difference between current assets and short-term liabilities.

⁴ For further information about modified accrual accounting see e.g. Van Der Hoek (2005).

It is a challenge how to incorporate this class of liabilities into the accounts. Is the future expense of cleaning up that we know will occur with a probability identical to one going to be recorded as a cost today? Or is the recording going to be deferred until the start-up of the cleaning process? The last alternative, which is in accordance with the cash principle, means in reality to hand over to the next generation costs caused by the activities of today. In this paper we are concerned with this kind of problems.

The normal set of activities in Norwegian municipalities and counties includes problems like the ones listed above. The accounting practice in this context varies somewhat. For the time being there is no systematic and common practice in the field. Most likely accounting practise will be changed in the forthcoming years. The Norwegian Local Government Accounting Standards Board (NLGASB) has issued a temporary standard concerning provisions, contingent liabilities and events after the balance sheet date – Norwegian Local Government Accounting Standard (NLGAS) 7. The standard is clearly inspired by the corresponding standard for the private sector and the temporary standard for the Norwegian accrual accounting project in Central Government agencies – Norwegian Governmental Accounting Standard (NGAS) 19. This standard is in turn a translation and adoption of IPSAS 19 – Provisions, Contingent Liabilities and Contingent Assets. Both of NGAS 19 and IPSAS 19 are based on full accrual accounting principles, while the Norwegian municipal accounting regime has its origin in a modified cash accounting system. Even if there is an intention of incorporating uncertain and contingent liabilities into this regime, implementation is troublesome if the basic relations in the system are to be taken care of.

The further presentation is organised as follows. First we will discuss shortly some basic and principal considerations about the Norwegian municipal accounting system. Secondly we account for provisions⁵ (uncertain liabilities) connected to municipal activities. The rationale for including provisions in the Norwegian municipal accounting system is explained. Some principal problems arising in this context are pointed out. Our conclusion is that long-term uncertain liabilities cannot meaningfully be included into a modified accrual accounting regime. In the last section main findings are reported and topics for further research discussed.

1. The accounting system - a government control instrument or a tool for management decisions?

The balance sheet and the profit and loss account are per se historic documents reporting events in the near and remote past. In most organisations the accounting system will be an important, perhaps the most important, part of the information system. Who is writing and how to write history has always been a subject for discussion and involvement⁶. Financial statements may be considered as storytelling.

⁵ Provisions are defined in accordance with Weetman (2006: 289).

⁶ See e.g. Jones and Pendlebury (2000), Chapter 1.

Accounting reports are always prepared in accordance with predetermined models and standards. Whether these models are appropriate is a matter of discussion. The accounting debate is to a large extent about this question.

Norwegian counties and municipalities are independent legal units. In principle they can decide upon and do whatever they want within the boundaries of Norwegian legislation. They are instructed to deliver services in primary and secondary education, health care and social services in accordance with national standards, but beyond that they can make an initiative and use resources in whatever area they want. The natural starting point will be to develop an accounting system designed for one's own decision and control purposes.

The Norwegian public sector comprises central government and two levels of local government. The Central Government is on the top of the organisational hierarchy. In many contexts municipalities are instructed by Central Government. From this point of view local government may be regarded as Central Government agents. Primary and secondary education illustrates this phenomenon. Primary health and social services is another area with comprising and detailed instructions and standards. Somewhat below 75% of total expenses in Local Government are spent for educational, health and social purposes. In this setting it is a relevant question whether the municipal accounting system primarily may be considered as a tool for governmental control.

Norwegian Local Government agencies are important producers of services. During the last years this is underlined in a significant way by the introduction of management systems emphasising performance measures and user orientation. The municipalities are, however, important democratic arenas in the Norwegian society. It is not easy to design an accounting system that includes both modern management and democratic considerations.

The production of goods and services in municipalities has no economic end. Income generation caused by own activities is modest. The bottom line in an income and loss account has no meaningful interpretation in a municipal context. In principle resources are allocated to local government by political decisions in the Norwegian parliament (*Stortinget*). Controlling the activities to be within the boundaries of budgetary decisions and political intentions is considered extremely important, the so-called budgetary control. Normally this implies focus on cash flows.

2. The financially oriented system with focus on changes in working capital⁷

According to the Ministry of local government the Norwegian municipal accounting system rests on a principle of financial orientation. The principle implies that the difference between grants and allocations (income) on the one side and the use of resources (expenses) on the other hand, is reported. This means that the consolidated statement of operational and investing activities reports the financing of total expenses the actual budget year. In this report depreciation costs are eliminated for obvious

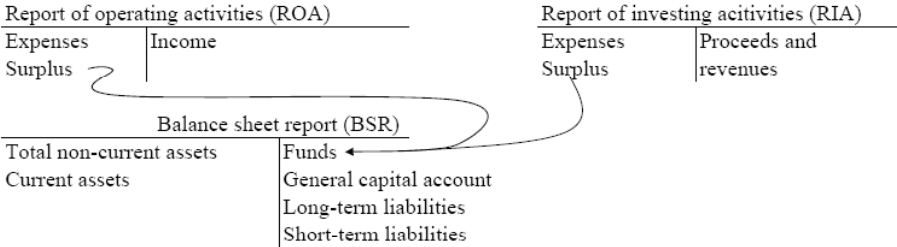
⁷ For an introduction to the Norwegian system, see Mellemvik (1998) in Olson *et al.*, (1998).

reasons. Depreciations costs do not imply the usage of financial resources and have to be omitted when 'net income' is fixed.

Originally the main focus of the municipal accounting system was cash flows. Gradually the cash flows have been replaced by partly accruals. In an accounting regime originally constructed for budgetary control purposes focus is no doubt on operating expenses and expenses for the acquisition of non-current assets. For several decades the balance sheet only served as an instrument for a formally closure of the books of accounting. Except for cash and bank deposits the figures themselves had little or no value from an informational point of view. As the years go by focus has changed. Especially after the 1993 modernisation of the municipal accounting regulations there has been a revitalisation of the interest for balance sheet figures. The consequence of this reorientation is a focus on working capital flows in a modified accrual system (report of operating activities and investing activities). Loan instalments are expensed in the operating report, depreciation numbers are charged as an expense and recorded as income with identical amount, fresh loans are income numbers in the investing activities report, the acquisition of non-current assets are put into the balance sheet and charged as an expense in the report of investing activities. In the municipal accounting system balance sheet numbers are to be expressed in accordance with the regulations in the Norwegian Act of Accounting (NAA). As in other civilised nations, NAA is based on full accrual principles. Apparently there is an inconsistency in this context. In which way can a system reporting working capital flows meaningfully report fully accrued balance sheet numbers? The answer is of substantial interest handling uncertain and contingent liabilities.

As mentioned above the municipal accounting system consists of three main elements: the Report of Operating Activities (ROA), the Report of Investing Activities (RIA) and the Balance Sheet Report (BSR). If the credit side of ROA sums up with a bigger amount than the debit side, there is a net operating surplus (profit is a meaningless expression in this context). The operating surplus is included in the equity (funds) of the municipality in the BSR. The procedure is the same in RIA. Figure 1 illustrates the main parts of the Norwegian municipal accounting system.

Figure 1 - The three main parts of the Norwegian municipal accounting system



§ 7 in the municipal accounting regulations (Local Government Act – LGA) read as follows: “All supplies and use of resources during the year which relate to the activities of the municipality or county shall be reported either in the ROA or

RIA. Items cannot be accounted for directly in balance sheet accounts” [authors’ translation]. The implication of this is that instalment of a loan has to be accounted for as an expense (debited) in the ROA. Likewise the acquisition of non-current assets (machinery, buildings, long-term loans, inventory, etc.) has to be accounted for as expenses (debited) in the RIA. All the magnitudes listed will affect the measurement of surplus in ROA and RIA respectively. The equity effect caused by the non-equity items has to be eliminated. Take the acquisition of non-currents assets. The acquisitions are expenses in the RIA and accounted as an asset in the balance sheet at the same time. The counterpart for this formal and cumbersome accounting exercise is the General Capital Account (GCA). The GCA is credited when the non-current assets are acquired. At the end there is no influence on the measurement of the total municipal equity. The reduction in equity takes place when the non-current assets are depreciated, as in private companies. The accounting technology in the Norwegian municipal accounting system is very complicated indeed. Why is it so? The answer is due to the gradually evolution of the accounting system. Originally the system was cash-based. During WWII the German occupants introduced some kind of accrual accounting in the Norwegian local government (principle of *‘anordning’*). The German legacy was mainly eradicated and abolished during the post-war years, but surprisingly enough the introduction of the accounting system of the war-years survived.

3. Principal considerations on uncertain liabilities in the Norwegian local government accounting system

In a financially oriented accounting system balance items will often be a residual. The economic interpretation of such items may be somewhat obscure. In many ways provisions are inconsistent with cash or modified cash accounting system. This is in fact the case for all short-term liabilities.

Until recently uncertain provisions have not been formally regulated. A preliminary draft on the subject was issued by the NLGASB in December 2007, NLGAS 7 (Provisions, contingent assets and events after the balance sheet date). The standard is clearly inspired by IPSAS 19 and NGAS 19.

IPSAS 19 and NGAS 19 apply for fully accrued systems, while the Norwegian municipal accounting system is far from fully accrued. The preliminary draft was substituted by NLGAS 7, temporary version in October 2006. The temporary version is far from a blueprint of the previous draft. NLGAS 7 contains the following definition of provisions:

“A municipality has a liability if obliged to submit economic resources to another part in a future point of time. An uncertain obligation has unknown or uncertain outcome and/or uncertain moment of realisation. If it is uncertain whether a liability will be realised in the future, and this event depends on specific events triggered by occurrences not fully controlled by the municipality, it is characterised as a contingent liability. (...) A liability always originates from an occurrence, which means an occurrence before the end of the accounting period”. [authors’ translation]

From some quarters of accounting professionals it is asserted that cost connected with uncertain liabilities is inconsistent with the basic municipal accrual principle, the principle of '*anordning*' (all known income and expenses). This point of view is mainly connected with the interpretation of the word *known*. For the last years the question is thoroughly discussed in the Norwegian public sector accounting surroundings. The introduction and implementation of pension costs and pension liabilities in the municipal accounts triggered the debate. For the time being the combatants have made a compromise an entered an armistice. Pension costs are true examples of costs of today but with uncertain time of realisation, if realised at all. If the employee passes away before the point of retirement, there will be no future disbursements.

Pension costs and pension provisions illustrates that uncertain liabilities have entered the municipal accounts. These costs and obligations were incorporated into the municipal accounting system by governmental command (minister of local government). The realisation point of time is unknown, the same is the amount to be realised. They cannot be exactly fixed. In that case the best estimate has to be used. The necessary complicated calculations are normally produced by outside actuaries.

A subgroup of uncertain liabilities is contingent liabilities. In the exposure draft of NLGAS 7 the intention was to account for this kind of liabilities. The temporary standard (NLGAS 7, October 2006) does not allow this solution. The argument is that only known expenses are to be recorded. If an amount is contingent, it is not known whether there will be a future disbursement or not. For other kinds of uncertain liabilities the uncertainty is connected to the realisation point of time and the magnitude of the future amount. A contingent liability is characterised by a probability majority that the liability will be realised. It can hardly be argued that these liabilities are known.

Within its limits the accounting system shall reflect the economic reality in the actual organisation. Consequently the accounting system ought to inform about the activity of the accounting period. Accounting users need information about use of resources, the kind of activities performed and how effectively and efficiently allocated resources are employed. This implies an accrual accounting principle based on the activity of the period. The accounting system should reflect the actual activity of the period (Aastvedt and Mauland, 2006b). This principle is implemented in the legislation for Norwegian non-profit or ideal organisations. The activity principle can be formulated as follows: *expenses are matched against the actual activity of the period*.

Accounting of provisions can be justified by the activity principle⁸. An example of this is environmental costs that are incurred because of the activities of the municipality. In this context pre-cost accounting can be justified by the argument that cost ought to be matched by the relevant activity. Environmental costs should be reflected in

⁸ Statskonsult, a Norwegian state owned company specializing in public management issues, has assessed the ongoing pilot accrual accounting project in ten government agencies. A main conclusion in the report is that the agencies have got a more precise and relevant accounting system because costs elements (capital costs, for instance) now are linked up with the actual activity and costs are transparent in the accounts at an earlier stage.

the accounts in the period of polluting the environment. Standard Norwegian public sector accounting practise is to defer accounting until the period of tidying up. The period of tidying up may deviate essentially from the period of pollution. The relevant activity in this context is not the cleaning up but the polluting activities at an earlier stage. If the activities are already carried out when the cleaning up responsibility is acknowledged and accepted, correct procedure is to incorporate the current cost immediately. Otherwise this cost will be the burden of future generations. The accounting system should give information about this burden through information about liabilities in the balance sheet.

If cost accounting is deferred until the cleaning up period, the accounts do not reflect true cost figures and is not a relevant mirror of today's activities. A Norwegian parliamentary report (Ot.prp. 43, 1999-2000) states that local government activities shall be in accordance with the financial responsibility principle. The principle implies that the generation of today cannot burden future generations with costs due to the consumption and activities of today. Deference of cleaning up costs is in reality burdening future generations with today's costs. Matching costs of today with today's activities are within the ideas set forth in the parliamentary report.

4. How the accounting system collapses

In an accrual accounting system provisions (uncertain liabilities) will be debited a profit and loss account while the counter-post is credited a liability account (debt) in the balance sheet. It has to be considered individually whether the uncertain liability is most properly classified as a short-term or a long-term liability. ROA is the municipal accounting statement that in many ways parallels the profit and loss account. But there is one salient distinction between the two accounting systems; the ROA includes accounting figures that are not a part of the municipal equity. This is due to the working capital orientation. ROA shows change in working capital, not in equity. Accrued items (current assets and liabilities) not affecting the working capital is recorded as balance sheet items only. The following accrued items are recorded as pure balance transactions:

- Depreciation of fixed assets
- Write-downs of fixed assets
- Pension costs

As a consequence of the working capital principle provisions (long-term liabilities) not affecting the working capital are in fact pure balance transactions (credit entry provisions and debit entry equity). Now we will explain how pension cost is worked into the accounting system of Norwegian municipalities. Pension cost may be considered a provision.

Post-employment benefits, such as pensions entered the municipal accounting system fully in 2003. The accounting solution is not concurrent with the private sector one, but it is influenced by the commandments in the NAA in a significant way.

The cost concept does not exist in the local government accounting terminology. An exception is pension cost. The municipal accounting regulations state "pension cost of the year is the present value of pension earnings plus interest on pension

liabilities minus interest on pension fund.” This amount has to be displayed among the accounting notes.

Pension cost and pension liabilities are often considered a black box containing mysterious numbers delivered by very distant actuaries. Actuarial calculations ignored the problem is a well defined one in the accounting and financial literature. A parallel is depreciation values calculated as a reduction in net present value of fixed assets. The value of a fixed asset depends on future cash flows. Theoretically depreciation should be calculated as the difference between net present value at the beginning and the end of the year. The cash flow can be divided in an interest component and a residual value that is the depreciation value or the liquidation value⁹. The pension cost of the municipality may be compared with the cash flow for a single year adjusted for interest. The paid pension premium is recorded in the ROA, however. This is due to the financial orientation of the accounting system. The pension premium has to be adjusted for the deviation between the calculated pension cost and the paid premium.

We will illustrate the problem by an example. An imaginary municipal organisation presents the following figures:

Pension liability 01.01.X1	100
Pension liability 31.12.X1	200
Premium paid in year X1	60
Pension fund 01.01.X1 (bank deposit)	0
Premium deviation	40

The premium deviation is the difference between pension cost and paid premium.

Table 1 - Illustration of municipal accounting report

Report of operating activities (ROA)	Year X1	
Net operating income ex. pension cost	0	
Pension cost	<u>-100</u>	
Operating deficit	<u>-100</u>	
Balance sheet report (BSR) 31.12	Year X0	Year X1
General bank deposit	100	40
Pension fund (bank dep. non-current asset)	0	60
Total assets	<u>100</u>	<u>100</u>
General equity	0	-140
Pension liability (provision - long-term liability)	100	200
Premium deviation (short-term liability)	0	40
Equity and liabilities	<u>100</u>	<u>100</u>

⁹ A well-known exercise is to construct the cash flow when depreciation is locked at a constant yearly amount based on historic cost and given interest rate.

Some comments:

- Reduction in working capital corresponds to operating deficit (-100);
- Reduction in equity (-140) corresponds to pension cost plus change in net pension cost;
- Reduction in equity deviates from operating deficit, equity is debited full pension costs plus change in net pension costs;
- The balance sheet items are more or less residuals. Main focus is on cost measurement.

It is not easy, indeed, to trace the logic of the system. The construction shows signs of an ad hoc solution in an accounting system not designed for handling this kind of problem.

The uncertain pension liability is recorded as a provision (long-term) in the municipal balance sheet. The commandments of the LGA state that loans (long-term liabilities) can only be used financing the acquisition of fixed assets with the exception of long-term financial assets. It is a matter of discussion whether the NAA authorises this accounting solution.

All technical accounting technicalities thrown away, the reality is that the increase in pension liability is recorded as a long-term liability in the balance sheet. The counter entry (debit) is another balance account, the general capital account. According to the municipal accounting regulations this solution is not authorised. All transactions must be recorded in either the ROA or the RIA. Solely transactions not affecting the working capital can be recorded balance to balance.

Being considered a long-term liability the consequence is that the liability has to be recorded as a pure balance adjustment. This has a parallel in the reduction of historic cost for non-current assets. This phenomenon is treated as a balance adjustment because the write-down of values does not represent the acquisition and use of resources. Recording provisions for uncertain liabilities in the ROA can only be done when the balance counter entry is a short-term liability. In normal circumstances and regimes liabilities like these will normally be classified as long-term.

A parallel case is the borrowing in foreign currency. According to earlier practice unrealised gains or losses on foreign currency were recorded as a balance adjustment (long-term debt and the general capital account). A realised gain or loss was to be recorded in the ROA classified as a financial item. In a newly published paper the NLGASB suggests that instalments are to be recorded in the ROA at current value without specifying gains or losses. Simultaneously instalments are debited long-term debt and credited the general capital account at historic (original) values. It is referred to the accounting treatment of fixed assets. The superior argument from NLGASB is that the logical relations in the financial oriented system will fail if gains or losses are to be reported in the ROA.

In the Norwegian municipal accounting regime long-term uncertain liabilities have to be handled as pure balance sheet adjustments. The liability has to be credited balance account long-term debt and debited the general capital account (equity). This procedure satisfies the basics described in the 2004 NLGASB paper. The challenge is the interpretation of LGA § 50. Long-term debt increases even if there is no counter entry in the RIA. According to LGA § 50 increases in long-term debt has to be recorded as an income (credit entry) in the RIA. Increase in long-term debt is equivalent to

increase in a long-term loan and is considered as acquisition of resources. In the case of uncertain pension liabilities the problem is avoided by using the premium deviation account. The premium deviation is classified either as a current asset or a short-term liability. It can hardly be explained away, however, that pension cost is financed by long-term debt. This is an example of financing current cost in the ROA with long-term debt. Financing current costs with long-term debt is in conflict with the intentions of LGA § 50. The summing up so far is that an application of the Norwegian financially oriented accounting model excludes recording of unrealised losses on long-term liabilities or assets in the ROA.

We cannot find any discussion of this problem in the temporary NLGAS 7. The document does not include any kind of instruction how to classify uncertain liabilities in the balance sheet report. Are long-term liabilities to be classified as short-term liabilities because of the basic relations of the financial oriented system? Alternatively long-term liabilities may be handled in the same way as pension provisions. Principally pension provisions are long-term liabilities. It seems peculiar when accounting items due 30-40 years ahead have to be classified as short-term liabilities in order to avoid the technical collapse of the accounting system. Another technical possible solution is classifying the provision as equity. The professional supporters of this solution are presumed to be non-existent.

As a summing up we can list three alternatives for accounting:

- Provisions and contingent liabilities classified as equity;
- All provisions and contingent liabilities classified as short-term liabilities;
- Provisions and contingent liabilities classified as both long- and short-term liabilities.

Today all these solutions are chosen for different types of unrealised losses in the Norwegian local government accounting system.

It is obvious to us that the goals are too numerous compared to the means at hand in today's Norwegian accounting regime. Some goals may also be characterised as inconsistent. In the financially oriented system it is impossible to present correct values for all items in the ROA and the balance sheet at the same time. The supreme goals have to be decided upon. When decided some items are doomed to be residuals. Main focus on the ROA will inevitably leave some balance items as residuals without meaningful economic interpretations. In our opinion this underlines the need for developing a conceptual framework for the Norwegian local government accounting. Uniting the existing financially oriented system of today and an accrual system prescribed in the IPSASs regulations has to be regarded as mission impossible. Rightfully one can ask whether information given in the today's balance sheet is relevant for the accounting user.

5. Classes of uncertain liabilities in the local governments accounts

Approximately 75% of the resource allocation in Norwegian municipalities is dedicated primary education, health care and social welfare. The first years of our lives the municipalities provide kindergarten services while welfare services and geriatric care are delivered in our last living years. The production of services regulated by law

is the basic principle, i.e. the primary education law (1998). Often the various laws define quality and quantity standards of production and the rights of the citizens. The production is also stimulated and destimulated by a variety of grants and contributions from central government. Ignoring signals and expressed intentions by central government is equivalent with abstaining from economic relief from central government. In contexts like these municipalities are in fact central government agents. But failure in service production is solely the responsibility of the municipalities. Illiteracy among adult persons may result in lawsuits against the municipality because of failure in the offer of primary education in earlier years.

We have researched headlines in some selected newspapers for the last three years in an attempt to form a picture of what cases imply uncertain liabilities. After scanning approximately 300 headlines about cases (potential, ongoing and settled) involving damage compensation in the period 2003-06, we reached the conclusion that 63 of them were relevant. We classified the various categories as in Table 2.

Table 2 - Cases involving damage compensation (2003-2006)

Categories	2003	2004	2005	2006	Sum	Relatively
Pollution and waste handling	4	3	4	1	12	19,0 %
Failure in child care	1	3	8	10	22	34,9 %
Failure in primary education		1	1	2	4	6,3 %
Labour disputes	3	2	2	1	8	12,7 %
Other municipal service production		1	3	2	6	9,5 %
Political decisions	2	3	5	1	11	17,5 %
Sum headlines	10	13	23	17	63	100,0 %

The category conspicuous by its absence is elderly care, maybe for natural reasons. From the table one can read that about 1/3 of the cases is about failure in child-care and protection.

The municipalities have responsibility of child-care and protection. When someone observes parental deficit care, the child-care authorities of the municipality is to be alarmed. In this area, as in many other social care areas, there is a role mix of various actors and ambiguous responsibility. Central government has taken over child-care institutions and is running them, while the municipality has the rest responsibility. The last years there have been several newspaper headlines concerning the running of child care institutions and sex misuse in those institutions. The lawsuits following in the wake of misuse and mishandling some twenty years ago have been costly for the municipalities in question.

No matter how organising the production of services and their quality assurance some groups will probably be dropouts and will not receive the services they are entitled to. The consequence is that municipalities may expect liabilities with payouts several years ahead. The parallel to the pension cost illustration is obvious. In accordance with the activity principle explained earlier, the cost of the activities in question should be recorded in the accounts the period the activities takes place, and not in the period the municipality has to compensate for damage. When the activities

take place the liability emerges, and should be entered into the books. A necessary requirement is that a reliable estimate can be worked out. Recorded as a short-term entry this will cause no methodological problems in the Norwegian local government accounting regime. The drawback is that the notion of short-term becomes meaningless. Classified as a long-term liability the accounting challenges become identical to the ones in the case of pension liabilities and foreign currency.

With an eye to the vast resource use in the fields of health care and education it was to be expected that NLGAS 7 should enter deeply into the accounting challenges of the fields in question. This is not the case. NLGASB 7 excludes provisions or contingency arising from a social benefit from the scope of the Standard. The exclusion will encompass liabilities arising in the wake of production of services and societal goods not paid for by the recipients at a value approximately equal to the production value of the goods and services. By societal goods and services are meant education, health care and elderly services. The notion may also include other advantages as direct payments to persons in financial trouble. In practice this implies that NLGAS 7 is not valid for approx. 75% of the municipal activity area. The explanation is most probably found in IPSAS 19. NLGAS 7 and NGAS 19 are obviously influenced by the international standard. According to IPSAS 19 the explanation is primarily that it has been extremely difficult to agree on a recommendation in these essential areas. The proposition of a recommendation and standard in these areas have until recently been put on ice until further investigations and discussions are made. The problem at hand is not rejected for principal reasons. IPSASB have now issued an exposure draft¹⁰ on employee benefits and an exposure draft dealing with social policy obligations, including social security pensions.

From our point of view all liabilities ought to have been worked into the local government accounts according to the activity principle. A prerequisite for cost accounting is reliable cost measurement. If so, the cost should be recorded. Within the fields of education and production of social services the municipalities must be in possession of a vast experience material. We are not informed whether systematic statistics are produced locally in the areas in question. Statistics Norway, however, have some material available. Table 3 illustrates resources use for child protection and welfare relatively to total operating expenses (the number of municipalities is 412 out of a total population of 433).

¹⁰ Proposed International Public Sector Accounting Standard.

Table 3 - Grouping of damage compensation cases

Child Welfare/Total Operating Expenses	Relatively of total population 2004	Relatively of total population 2005
0 % < MG1 < 1 %	21,4 %	17,5 %
1 % < MG2 < 2 %	38,8 %	40,8 %
2 % < MG3 < 3 %	34,5 %	33,7 %
3 % < MG4 < 4 %	4,6 %	6,6 %
MG5 > 4 %	0,7 %	1,5 %
Totally	100,0 %	100,0 %

MG: Municipality group

The table is made on the basis of reported figures to Statistics Norway. You will see that a relatively small part of Norwegian municipalities use more than 3% of total expenses for child welfare and protection (6,6 + 1,5) = 8,3%. In 2005 (33,7+ 6,6 + 1,5) = 41,8% use more than 2% of total operating expenses for child welfare purposes.

According to the standard of today (NLGAS 7) current costs related to service production failure of today cannot be recorded in the accounts of today. The amount in question will be recorded when a legally valid sentence is at hand.

If a municipality is sued because of service failure production, it may be considered to inform about the lawsuit in the accounting notes. The liability cannot be considered known (cf. LGA § 48) until a valid sentence exists.

Waste management has called for much attention in the newspapers during the last years. The following press cutting illustrates this:

“Tidying up old sins, closed waste deposits included, demands the understanding that this is a complex cost matter. In my period as mayor more than ten years ago, I was confronted with the fact that tidying up costs for one of our historic waste deposits amounted to more than 10 million NOK. By the tidying up standards of today this amount has most probably risen to more than 25 million NOK. Viewed at the background of Holmestrand’s 10.000 citizens, total national tidying up costs linked up to historic municipal waste deposits should be about 6 billion NOK.”

(Kommunal Rapport, August 31, 2005)

The running of waste deposits entails the certain event tidying up at a future point of time. When this point of time occurs, is an uncertain event. The same is true for the tidying up costs. But there is no doubt at all that it is the current activities of today that cause the tidying up costs. According to the activity cost principle and the principle of financial responsibility formulated by Ministry of Local Government and Regional Development, the tidying up costs should be accounted for in the ROA as a cost and a liability in the balance sheet (pre-cost accounting and deferred payment). Deferring cost accounting until the moment of payment will in our opinion

obscure the actual use of resources today. An argument put forward against pre cost accounting is the municipal freedom of action. Advancing tidying up that which will be paid for in a distant future is said to confine the freedom of action. Our view is that this freedom is exerted at the expense of future generations. The LGA § 1 states that municipal management and activities shall be in accordance with the principles of sustainable development. Shifting the costs onto future generations has to be considered in conflict with the intent of § 1.

The discussion above is also valid for the management and running of harbours. In Norway this is a responsibility of the municipalities. There are several examples indicating that harbour activities have caused considerable tidying up costs.

6. Financial instruments and provisions

Pushed by banking and financing companies many municipalities have entered the realm of financial instruments. A municipality can accomplish any economic disposition within the limits of the LGA and the underlying regulations. There is no general or formal prohibition involving in transactions with considerable uncertainty. More and more municipalities choose increasing the risk profile in their financial operations, see e.g. Jørgensen (2005). The intention is to increase yield on their financial assets. This in turn will increase the production of services and welfare goods. New kinds of financial dispositions bring along new accounting challenges. In this context we will discuss swaps and options. These financial instruments illustrate some important problems linked up to uncertain liabilities and financial instruments. We will shortly discuss zero-coupon swaps and swaptions. For more information about financial instruments see e.g. Deloitte (2007) guidance.

6.1. Zero-coupon swap

Zero-coupon swap is an exchange agreement where the parties swap future cash flows and present value. The cash flows in a zero-coupon swap can be compared with a loan. Compared with a traditional loan it is characterised by wider flexibility to satisfy the preferences of the parties. The cash flows swapped are connected to an underlying asset or value. Several municipalities have entered into arrangements like this and invested the released capital in financial assets as shares and redeemable bonds.

All financially motivated investments are to be classified as current assets in the municipal balance sheet report. The time horizon of the investment does not influence the classification. Classifying the investment as current asset implies that the zero-coupon swap has to be classified as a short-term liability. If not the consistency in the financially oriented system will fail. The present accounting regulations imply a current asset is activated even if the time horizon is long-term. On the other hand an item is credited as a short-term liability even if the loan is a long-term one. The accounting challenge is once again identical with the problem faced in connection with pensions and foreign currency.

6.2. Swaptions

A swaption is an option for an interest swap. A municipality entered in February 2006 into an agreement with a major Norwegian financing company. The agreement can illustrate the problem at hand. The municipality sold an option committing the municipality in five years to pay an interest of 4,05% per year for a ten-year swap. The basis for the swap is the loan portfolio of the municipality amounting to approximately 300 million NOK. The option implies that the municipality has a liability, but no opportunity. The municipality received the option premium of 7,7 million NOK when signing the agreement (a kind of sign-on-fee?). If the market interest rate in five years is above 4,05% the interest swap will not be effective. With a market interest rate above 4,05% the swap will not be profitable for the financing company. The financing company has an opportunity but not a liability. The municipality keeps the option premium whether the swap is realised or not.

The liability is contingent and shall not be recorded in the accounts. According to NLGAS 7 contingent liabilities are not to be recognised as known expenses, even if there is a major probability of realising the liability. If zero is a possible outcome for the realisation value of the liability, the expense is not recognised as known. This will be the case for this agreement. The consequence is that the municipality has to record the option premium as income (revenue) in 2006, but the liability linked up to the premium is not reflected in the accounts. Many financial instruments have a similar structure and construction.

The purpose of using financial instruments is to improve the liquidity of the municipalities and widen the municipal flexibility and freedom of action. Serving the liability is a complex and risky matter. Allowing the municipalities to employ financial instruments linked up with considerable uncertainty, we are somewhat wandering not presenting the risky instruments in the accounting reports. This holds especially when there is a major probability that the liability be realised.

These kinds of options are also used in the stock market and the market for foreign currency. An increasing number of municipalities have chosen to establish specific holding companies. The holding companies are the owners the stocks and manage the portfolio and pay dividends to the municipality. Even cash flows that are not affected by haphazard market fluctuations are secured. For a single year a limited liability company may display negative revenue and still pay out dividends. According to NAA it is the equity size that decides whether dividends can be paid or not. Received dividends will be recorded in the ROA as an income and *ceteris paribus* increase surplus and equity. From the viewpoint of many municipalities stable or constant cash flows are just as important as maximum dividends on investments. In the situation described one can imagine that the municipality enters into an agreement with the holding company that includes an obligation (but not a right) to swap the shares at a given price at a given point of time, i. e. five to ten years ahead. The holding company has a right but not an obligation sell the shares (sale option). This is a liability contingent on an uncertain future event. In this case the future event is the market share price.

According to LGA § 51 municipalities may furnish securities or guarantees except for business purposes. An option may be considered a kind of guarantee. It is an open question whether the options in question are in conflict with the regulations in the

LGA. The question is left unanswered by NLGASB. The Ministry of local government and regional development has expressed its opinion in a matter similar to the one described above. The case was whether a county was obliged to buy a fishing vessel at book value if the fishing company was to abandon fishing rights. The Ministry concluded that the agreement in fact was a guarantee. From an accounting point of view it is clarified that the options shall not be recorded into the accounts whether they are considered guarantees or not.

Guarantees are a well-known phenomenon in Norwegian municipalities. Some years ago it was common practice that municipalities in thinly populated distant areas furnished securities for business enterprises that promised employment for vacant hands. Businesses in question were fish farming enterprises and alpine skiing facilities. Many of them shortly faced liquidity problems. Consequently the securities were realised and the municipalities in question ran into financial trouble. Some of them were in fact placed under administration by central government. The ministerial reacted quickly. In 1992 a provision was included in the LGA that vetoed guarantees for business purposes outside the municipal organisation itself. This was an essential narrowing of the formerly practice in this area. In 2001 a new accounting regulation for county and municipal guarantees was launched. The basic principle is that all guarantees and securities have to be approved by central government. Neither the law nor the underlying regulations include formulations regulating the accounting of guarantees.

Guarantees are typical examples of contingent liabilities. The guarantee may be realised or it may not. If realised the realisation value is uncertain. NLGAS 7 states that liabilities with uncertain outcome and realisation value cannot be considered known figures. Consequently they are left outside the accounts. The municipal accounting regulations require information about the described liabilities to be given in the accounting notes. Several of the financial instruments have similar characteristics as guarantees. Several of the financial instruments are in reality an uncertain liability. The realisation value of an instrument may depend on the rise in and fall of market interests.

The Norwegian municipal accounting regulations are in many ways insufficient with respect to handling modern financial activities. This is a challenge since Norwegian municipalities have entered into the complex world of financial instruments with insufficient and unclear accounting regulations. Considerable liabilities may develop and are non-transparent in the accounts until the day of realisation. In some municipalities they were un-detonated loss bombs for several years. At realisation day the bomb detonated. The NLGSAB sees no need for a system revision and is of the opinion that the problem at hand can be taken care of by relevant equity provisions (fund provisions). The NLGASB is however rather vague about the calculation of relevant equity provisions. Any discussion of the mixing of debt capital and equity is omitted.

Summing up, conclusions and suggestions for further research

The accounting system is an essential carrier of information in all organisations. This means that information has to be reliable and relevant. In such a setting it is important to formally include provisions in the Norwegian municipal accounting system. This means that all kinds of uncertain liabilities that are likely ought to be incorporated into the accounts, like damage compensation and tidying up costs. Recording provisions in the accounts are done with reference to the notion of known or unknown. This widely used notion in the Norwegian municipal accounting terminology is very little precise and is interpreted on an ad hoc basis.

The newly published NLGAS 7 – inspired by IPSAS 19 – is an important document clarifying some cloudy and unsettled accounting questions. All the less many disputes are left un-discussed and unresolved by the publisher.

The Norwegian municipal accounting system is not founded on a superior accounting framework. This fact becomes evident when discussing accounting of provisions. There is no problem connected to short-term liabilities. In this case methods and procedures defined and settled in the NAA and its underlying regulations can be applied. Most provisions are long-term however. If long-term liabilities are worked into the system in a proper way, the financially oriented system formally collapses. There are two available technical solutions to the existing system: 1) Record the liability as an ordinary cost and a short-term liability. 2) Record the liability as provision in ROA with a credit entry in the balance sheet as equity (fund). In neither case the balance sheet can hardly be said to give relevant and correct information.

Answering the question raised in the heading of the paper is a mixed blessing. Clearly legal authorities have an ambition of including provisions in the accounting system. The problem is that the system originates from a cash based model. The consequence of bending and twisting provisions into the system results in a somewhat meaningless equity concept in the BSR.

In some accounting areas there seems to have been no discussion concerning which uncertain liabilities are to be included and which are to be left out. Excluding approx. 75% of the total activities without an exhaustive discussion seems a little bit strange. Several newspaper stories in the last years indicate some un-detonated bombs out there. The areas of child-care, kindergartens, primary education, care for elderly and disabled are regulated by laws and regulations securing national standards. The responsibility of running the activities is left to the municipalities. There is an increasing consciousness about citizens' rights. This consciousness may well result in an increased number of lawsuits. Some municipalities have established so-called guarantees for citizens. Implicitly it is understood that non-fulfilment of guarantee or contract entitles users to compensation.

It is somewhat strange that NLGAS 7 states that provisions for municipal liabilities may confine the municipal area of action. Our assessment is the opposite: Ignoring this type of important liabilities expands the action of the generation of today at the expense of future generations. This will conflict with the principle of sustainable economic development (LGA § 1).

There are still essential accounting challenges with respect to provisions. The challenges can be classified into two categories: 1) Classification of liabilities to be worked into

the accounts. 2) Measurement methods and procedures for working the liabilities into the account. The professional foundation of uncertain liabilities is still somewhat unsettled. The need for a public sector accounting framework is obvious to us.

This paper is written with reference to Norwegian regulations and accounting practice. There is no reason to believe that Norwegian experiences in these fields are isolated Norwegian experiences. By international standards Norway has a peculiar set of regulations for local government accounting, however, and may be characterised as a slow adopter of international trends. Further research will be to compare accounting practice in various countries.

References

- Aastvedt, A. and Mauland, H. (2006a), *Kommuneregnskapet – rammeverk og prinsipper*, Working report, n. 14/06, Telemark Research Institute
- Aastvedt, A. and Mauland, H. (2006b), *Hva bør styre periodiseringen i kommunene?*, *Regnskap og revisjon*, n. 8, 17-25.
- Alfredson, K.; Leo, K.; Picker, R.; Pacter, P. and Radford, J. (2006), *Applying International Accounting Standards*, John Wiley & Sons Australia, Ltd, Australia.
- Bean, D. R.; Mead M. D.; Schermann, K. R. and Reese R. E. (2005), *The Road to Accrual Accounting in the United States*, IPSASB occasional paper.
- Deloitte Touche Tohmatsu (2007), *iGAAP 2007 Financial Instruments: IAS 32, IAS 39 and IFRS 7 Explained*, Deloitte Touche Tohmatsu.
- Fédération des Experts Comptables Européens (2007), *Accrual Accounting in the Public Sector*, FEE Public Sector Committee. Available at: http://www.fee.be/publications/default.asp?library_ref=4&content_ref=635.
- Hornigren C., Bhimani, Datar, S. and Foster, G. (2002), *Cost and Management Accounting*, Pearson Education, Prentice Hall.
- Jones, R. and Pendlebury, M. (2000), *Public Sector Accounting*, Pearson Education, Prentice Hall, Harlow.
- Jørgensen, J. P. (2005), *Kommunal finanshåndbok*, Kommunaløkonomisk forlag, Oslo.
- Mellemvik, F. and Pettersen, I. J. (1998), *Norway, a Hesitant Reformer?*, in Olson, Guthrie and Humphrey (1998).
- Olson, O.; J. Guthrie and C. Humphrey (eds.) (1998), *Global Warning – Debating International Developments in New Public Financial Management*, Cappelen Akademisk Forlag, Oslo.
- Kommunal- og regionaldepartementet (1992), Ot.prp. nr. 43 (1999-2000): Om lov om endringer i lov av 25. september 1992 nr 107 om kommuner og fylkeskommuner.
- Statskonsult (2006), *Oppsummering og vurdering av erfaringer med periodiseringsprosjektet*, Rapport. Available at: http://odin.dep.no/filarkiv/297752/statskonsult_periode.pdf.
- Van Der Hoek, P. (2005), *From cash to accrual budgeting and accounting in the Public Sector: The Dutch Experience*, *Public Budgeting & Finance*, Spring 2005, 32-45.
- Weetman, P. (2006), *Financial Accounting, an Introduction*, Fourth Edition, Prentice Hall, London.

(Página deixada propositadamente em branco)

Vicente Montesinos

Isabel Brusca

LOCAL GOVERNMENT SERVICE CHARTERS: THE SPANISH EXPERIENCE

Introduction

New Public Management (NPM) has been considered a global phenomenon and public accounting and management systems have been adapted and developed in line with its principles and methodology. One of the most important lines of NPM has been customer orientation, understanding that the focus of public administrations are the citizens. The theory behind NPM holds that responsiveness to consumer preferences is an important technique for improving public services and increasing organizational effectiveness and mission accomplishment (Aberbach and Christensen, 2005). It calls on public organizations to put customers first and to focus their services on satisfying consumer preferences and demands. The basic idea is that, through consumer sovereignty, public organizations will produce better outputs and that this furthers a fundamental goal of administration in a democracy, that of serving the public and helping it achieve its goals.

Governments want citizens to be active as costumers of public services. Politicians and managers want to improve the image of governments and focus on the relationship with citizens. In order to achieve this, it is necessary to know citizens' necessities and design a strategy to attend to them (OECD, 2000 and 2001).

The consumer perspective is also part of the philosophy of clearly defining appropriate public activities and rendering them more transparent, thus making the civil service more clearly responsible towards citizens. The service provider defines more clearly what services a consumer will get – for example regarding quality, price and length of time for handling applications – and consumer satisfaction is to be measured, with appropriate rewards and punishments to the provider, based on performance and customer satisfaction (Aberbach and Christensen, 2005). The theory behind the consumer orientation holds strongly that people need access to detailed information in order to make informed decisions about preferred goods and services. Another aspect is participation of citizens in order to increase democracy.

An instrument developed directly to achieve these objectives is service charters. The elaboration of service charters by local entities requires, firstly, a definition of

the objectives and the services that the entity or department provides as well as the criteria for measuring the results.

The aim of this paper is to show which initiatives have been carried out in Spanish administrations to implement service charters for local government, comparing them with the initiatives of other continental and Anglo-Saxon countries.

Subsequently, the following section addresses the service charters objectives. Section 2 introduces the background for several service charters initiatives at an international level. Section 3 presents the empirical study regarding service charters implementation in Spanish Local Government. Finally, Section 4 discusses whether the objectives of service charters are, in fact, achieved.

1. The Objectives of Service Charters, Customer Service Charters or Citizens Charters

Service charters inform citizens about services, their quality and citizens' and users' rights with respect to these services. Although the objectives are similar, they do not always have the same name and content or use the same methodology. The name of the document differs across countries: service charters, citizens' charters, customer service charters or customer service plan are some of the names that have been used.

They are generally understood as a managerial tool designed to render public services more responsive to the direct users of the services, transforming the culture of service delivery and offering the consumer a guarantee of quality public services. In their origin, service charter initiatives are based on a common idea of extending the market logic of consumer sovereignty to public service provision (Pollit 1994; Walsh 1994). They can act as voice mechanisms in the form of monitoring performance against specific standards and complaint mechanisms (McGuire, 2002). There are essentially two approaches to increasing the sovereign power of consumers of public services. The first is to make providers more responsive to consumers through consultation and more accountable to government and the community through performance monitoring. The second approach is to make providers more responsive to consumers by providing consumers with choice based on competition between providers of public services. In fact, the effectiveness of charters as a voice mechanism depends on the transparency and openness of performance reporting and the complaint mechanism.

With the use of service charters a virtuous circle is created whereby tax-paying citizens are empowered with more knowledge about the quality of public services and the corresponding means to redress their grievances, while those who provide public services are offered incentives to improve performance, transparency and responsiveness to changing customer needs and expectations. Citizens can express their needs, expectations and perceptions about services, and the information gathered can be used by the entity for planning and programming the service as well as to check whether the services provided are adapted to the citizens' expectations.

The objectives of the service charter can be summarised as: to help citizens exercise their rights; to promote improvements within the administration; to control the degree to which the administration fulfils its commitments to the citizens; to increase the satisfaction of users with respect to services; to inform customers about service quality

levels; to empower the citizens in the continuous improvement through a system of suggestions and complaints and surveys about satisfaction.

These charters have not been without their critics. For example, Falconer and Ross (1999) argue that there are significant barriers to the empowerment of the public: the process by which performance standards are established is producer-dominated, in that public service users have no say in the setting of these standards and there is managerial dominance in relation to service quality in the public sector. However, this is changing progressively and in some councils it is the citizens who are establishing the commitments¹.

2. Service charters initiatives: background

Service charters were first implanted in the United Kingdom and later exported to other Anglo-Saxon countries, such as Australia, the United States, Canada and New Zealand. They were included in the packet of NPM reforms. In most countries they have been a national initiative, covering the whole public sector on occasions and only central government on others. For example, the pioneer Citizen's Charter in the UK was applied to the whole of the public sector, while the Spanish Service Charter Initiative is directed only to public administrations of the central government. In any case, in those countries where national governments have implanted service charters, local governments have imitated the initiative and now some municipalities around the world publish service charters.

The *Citizen's Charter* was introduced into the UK in the wake of a broader privatisation programme². The charter came mostly from top-down governmental decisions to render sectors that were difficult to privatise more efficient and responsive to customers in an era of restricted budgetary resources and growing customer expectations vis-à-vis participating in public service delivery (McGuire, 2002). Consumers of public services were conceived as customers more than as citizens, and attention was concentrated on service standards, efficiency and efficacy, accessibility and politeness, easing the complaints process. For local governments, we can also highlight the *Citizen's Charter Indicators* Initiative, developed in the 1990s, which consisted of a set of statutory national performance indicators for local government, devised by the Audit Commission and published by each council in a local newspaper.

After this pioneer initiative, service charters spread throughout the Anglo-Saxon world. The OECD has had an important role in disseminating the UK experience, encouraging other governments to adopt similar initiatives. For example, in the United States, the Clinton administration emphasized that public organizations should stress putting consumers first and introduced customer service plans for federal agencies

¹ This is for example the case of a Spanish council (Esplugas de Llobregat) where using citizen panels the commitments of services are fixed by the citizens (two successive anonymous surveys allow a consensus to be reached about the commitments).

² The Original Citizen's Charter (1991) stated that it is fundamental that all public services, including local authorities, should have clear and well-publicised complaints procedures. It can be highlighted that Walsh (1994) states that charters were used before this in the UK, mainly in local government authorities.

in 1993. It was a system where customers had *a voice and a choice*. In Australia, the programme Putting Service First required all commonwealth agencies to develop client service charters in 1997, that intended to help agencies to focus on outputs, define criteria for assessing performance in delivering outputs and benchmarking service quality. Agencies are required to conduct an external performance audit against charter objectives every three years and to report annually to the Department of Administration on their performance against the charter.

According to McGuire (2002) there are various common stages evident in policy decisions regarding charterism in Australia, the UK and the USA that could be summarized as: identifying the public; the production of service charters; establishment of voice mechanism; launching consumer satisfaction surveys; evaluating the performance of services; establishing Charter Mark schemes and linking performance to budgeting. Within these common decisions lie a great number of differences, such as the differences between a service charter (Australia and the UK) and a consumer service plan (the USA); the principles stated in the charters; the number and organizational logic of the charters established; and the emphasis on performance management. Charters are one approach and customer service plans another. Timing is a significant explanation of differences, but so is the relationship to broader NPM reform. Charters are tied more closely to performance management than customer service plans. Early development of complaint mechanism and more progress in reporting complaints in Australia contrast with the UK and the USA.

Nordic countries began to imitate the Anglo-Saxon initiatives at the end of 90's. In Sweden a Citizen's Service Act was passed with the intention of improving the quality of services in government agencies, providing the basis for local charters. In Finland, service charters were implemented as a promise to service users to produce quality services, to introduce customer feedback and achieve the efficient production of the best possible service. In Denmark, in 1995, the Welfare for Citizens was published. This established the systems of citizen participation in the design of the services through surveys and introduced quality tools.

As in other aspects of NPM, service charters have also been imitated in European continental countries, such as France, Belgium, Portugal and Spain, although each of them has its particular characteristics. These countries have an administrative law model and practically all of them passed a set of legislative measures in order to respond to a general demand for higher transparency in the use of public resources and to increase accountability, as well as to improve the quality of services.

Nikos (2001) stated that charter initiatives have been adopted in many European countries (Belgium, Finland, France, Ireland, Italy, the Netherlands, Portugal, Spain and the UK) and his conclusion is that the convergence of charterism a la Aucoin (1990) must be questioned and considered alongside conclusions reached by analysis comparing charterism in detail in two or more countries. Clarke's comparative analysis of the UK's Citizen's Charter (1991) and France's *Charte des Services Publics* (1992) concludes that, in contrast to the UK experience, French charterism was less about public service consumerism and more about the reassertion of the Republican principle of egalitarianism, which ensure that users would be placed on a more equal footing and discrimination would not be tolerated. Schiavo's (2000) comparison of British and Italian charterism also ascribes deeply cultural specific factors, including

legal traditions, as helping to contribute to the different ways in which charterism developed in both countries.

In Spain, Service Charters were regulated by a Real Decree of 1999, which tried to implement a quality plan to establish an efficient public administration with quality services, promoting the elaboration of a service charter by each department of central government. Trying to take a step forward, a 2005 Real Decree designs a general framework for the improvement of quality in the General Administration, remodeling the program already existing. At the moment all Spanish ministries have their own service charter published on their respective web pages and contain the indicators for evaluation, which is an important step forward and especially with respect to worker involvement.

At the local level, there is no obligation to elaborate service charter. However, the Spanish Association of Local Government, with the aim of encouraging local entities to improve service quality, has elaborated a document about process of continuous improvement, where the implementation of the following instruments is recommended: the design of services (or products) based on the need and expectations of the users; the establishment of performance indicators, quality standards and service charters. With respect to the service charters there are guidelines about the characteristics, elements and stages in their elaboration. As a consequence, in recent years some entities have been elaborating them voluntarily. According to Brusca and Montesinos (2006), which included a total of 87 Spanish municipalities, service charters are used by 18.4% of these entities, and it is the larger councils that tend to use them more for specific services or departments as an instrument to establish the compromises of the entity with its users or citizens.

The sum up, the brief analysis we have carried out shows that although most countries have adopted charters with similar objectives, they do not always have the same principles. In Anglo-Saxon countries, service charters try to make public services competitive and offer citizens possibilities to choose between services, which has been called the marketization of services. In continental countries, perhaps service charters have been more a way of guaranteeing principles established and do not focus so much in making services competitive or on giving the users the possibility to choose. They are more focused on the procedures and results of the public entities.

3. Service Charters in Spanish Local Government

Service charters can be very different in both their content and their methodology of elaboration. Logically, the content of the charter will depend on the extent of the services it covers, because it is very different to elaborate a service charter for the whole entity than for each of the services or groups of services provided by the entity. Service charters for individual services will provide a more useful management tool.

To analyse the content and methodology of service charters in Spanish local entities, we have carried out a study of the Spanish municipalities with a population of more than 50,000 that elaborate service charters, identified in the study referred to previously (Brusca and Montesinos, 2006). A total of 16 entities were selected.

We elaborated a questionnaire with the objective of knowing the context in which the initiative to elaborate the service charter arose, the methodology used for their elaboration and their content, the mechanisms of publication and control employed for them and how the results of the initiative are evaluated. Of the 16 entities, only 7 entities participated in the study, which represent 43,75% of the selected entities. These entities and their populations are: Alcobendas (110,000), Esplugas de Llobregat (50,000), Leganés (186,500), Madrid (3,120,000), Pamplona (197,000), Valladolid (320,000) and Zaragoza (630,000).

Moreover, with the objective of comparing the situation with other countries, we have searched in internet for the service charters of some municipalities of the UK and Australia, only as a reference for comparison.

3.1. Framework for the elaboration of Service Charters

Bearing in mind that the elaboration of service charters is not compulsory in Spain, we can highlight that in most of these entities (5) the initiative has been a political decision although 4 entities of this group (along with 2 others) say that the decision formed part of their NPM reforms and concretely for quality services improvement. For example, Valladolid passed a 2002-2003 Framework for quality improvement which included a service charter initiative and in Esplugas it was a part of a global decision to adopt best management practices such as EFQM and the balanced scorecard (1999-2003). The entity with the longest experience in the publication of service charters is Alcobendas, which began in 1998, followed by Esplugas³ in 1999. Two of the entities have only recently implanted the initiative (in 2006), Madrid and Pamplona.

In all the cases analysed service charters consider citizens as customers, so we can say that service charters are being created as management tools to improve service delivery and empower citizens; the objective is to guarantee quality services.

Only one entity (Esplugas) elaborates a general service charter that covers all the activities and services provided to citizens, grouping them in 4. In the others, service charters are elaborated for each service although, in some cases, not for all the services provided by the entity. For example, Zaragoza elaborates 54 different service charters while Alcobendas only publishes 6, in Valladolid charters are elaborated for all important services (15 services). In Leganés initially five services were selected for the elaboration of charters, after that 6 more were added (11 services in total).

This contrasts with the situation in some Anglo-Saxon countries, for example, Australia, where one general service charter is elaborated for each entity. In the UK, the situation is diverse: sometimes only one general service charter is elaborated and sometimes there is a charter for each service.

³ Service charters are titled Service Commitments.

3.2 Content of the Service Charters

With respect to the content of the service charters, we should highlight the differences between the 6 entities that publish service charters for individual services and Esplugas, the only entity which elaborates a general service charter. The 7 entities' charters contain information about the mission, the legal requirements and citizen equality. A legal regulation of the service is an aspect found in all Spanish charters, one that is not usual in Anglo-Saxon charters.

In all cases the charters delimit general commitments about adequate treatment, adequate services and target response times to citizens (by telephone, in visits, letter, or mail). Moreover, the charters concisely establish detailed commitments about service delivery and standard values fixed for the service. For example, in Valladolid each charter contains a minimum of six service commitments and maximum of 11, while the general charter of Esplugas contains a total of 126 commitments that are reviewed every 4 years. In Esplugas the charter contains not only the commitments but also how they are elaborated and what they contribute.

Another aspect covered by the charter is the suggestions system and forms of user participation in the improvement of services with a feedback process of communication, as well as the information channels available. These are not always present in charters of other countries, such as Australia.

Complaints systems and a contact address for information about service are also found in most of the charters analysed. With respect to this aspect, it can be highlighted for example that the Australian customer service charters are predominantly a system for informing citizens about the complaints system and how the complaints are dealt with. In fact, this is the only information obligation; it is not necessary to inform about whether commitments are fulfilled. Only in one Spanish entity is there an economic compensation for unsatisfied users.

All the charters contain performance indicators that allow the evaluation of the fulfilment of quality commitments, although none of them refers to sanctions for the entity in the case of non-fulfilment.

3.3 Methodology of elaboration of the Service Charters

The methodology of the elaboration of service charters also differs between entities. For example, the fixing of commitments varies enormously between entities, because they can be based on opinion polls, on citizens' panels or decided by the entity.

In all the charters studied, citizens' needs are analysed through communication with citizens, 3 of them using user surveys and the SERVQUAL model and combining their results with suggestions received by e-mail or on the entity's web site. In one of them citizen panels are used and in another focus groups.

In five entities, the groups that elaborate the service charters have citizens participating in them, although in all cases the service managers are responsible for the elaboration of the service charter and there is also a quality manager who helps in the process. In Leganés, the work group is formed by 5 to 8 people (service managers, technical personal and employees) and the group is directed by an external specialist. In Esplugas

the charter is elaborated by two quality coordinators, 2 experts in management and 6 work groups made up of 28 people.

The method for fixing the commitments also differs, and for example in Valladolid the commitments and indicators are based on the current situation of the service. In Leganés they analyse the differences between the needs and expectations of citizens and the current level of the service, quality standards are based on expectations and are compared to the capacity of the processes, proposing feasible commitments and associating them with the corresponding indicators. In Esplugas, citizen panels have been used to analyse their expectations of the services and to decide which commitments will satisfy them.

3.4 Performance monitoring and reporting

A service charter commits the entity to monitoring and reviewing its commitments, so it should have systems designed to track and measure its effectiveness in fulfilling the charter standards. For example, in Australia, 66% of the Commonwealth service charters have developed systems to measure service charter standards (Department of Finance Administration).

An option developed by some charters is the description of commitments with performance indicators. If the charter contains a system of indicators, managers and users can evaluate how the entity is developing services and what improvements can be made. Moreover, charter indicators have an important function in promoting communication between service providers and service users, so they are an important management tool for the reorientation of the entity staff.

All the Spanish entities analysed have developed a system of performance measurement linked to the service charters, 3 of them also linking them to a system of quality management, such as EFQM, and 2 of them to a quality certification, such as ISO 900. Only one entity links the service charters to the system of budgetary management. This contrast with Australian service charters, for example, where no reference to performance indicators is contained.

In Valladolid, in each charter 50% of the commitments have an associated indicator (mainly response times), in Leganés each commitment has an associated indicator and in Esplugas the indicators are not published in service commitments, but the degree of commitment fulfilment is measured and published on the web page.

In all the charters analysed the service manager must control fulfilment and publish the information and in Esplugas each commitment has a person responsible for monitoring its fulfilment.

Another key item for charters to be effective is accountability: the accomplishment of service charter commitments and objectives should be published. The Australian Initiative can be highlighted, where 86% of government service charters publish performance information or provide a summary in their annual report document. At the local governments, according to the law, the general manager should provide the council with a report at least once a year of the number and nature of complaints received, but there is no information about the fulfilment of commitments.

With respect to the publication of Spanish service charters, in all cases they are published on the web and in two cases sent to all citizens by post. However, only in

4 entities is an external report about performance in commitments and objectives elaborated. In Esplugas, the mayor presents the commitments in a meeting open to the public. They are sent to all the citizens and published on the web page and citizens can have information about commitment fulfilment whenever they want by requesting it from the entity.

Based on the fulfilments of objectives and taking the social context into account, service charters should be revised periodically. For example, Australian local governments have an obligation to review the customer service charter at least once every 2 years. In Spain, the Council of Valladolid revises the charter annually, Leganés every three years, every two years in some cases, and Esplugas de Llobregat every 4 years.

4. Evaluating the Achievements of Service Charters

Although many public administrations are elaborating service charters, their benefits and achievements are not very clear. Do charters really achieve the objectives they pursue?

Service charters are an opportunity for three types of actors: politicians, managers and civil servants, and citizens. For politicians, they are a way of re-establishing citizen trust not only in the services but also in the public institutions. Managers can use the charters to provide a vision of their objectives and their interest in good management, while the employees can be motivated to achieve these objectives. Lastly, a door is open for citizens to participate in a dialogue that increases their satisfaction.

In the UK, many performance evaluations of the Citizen's Charter have been carried out, finding that it has had a high public profile within the civil service but the public impact is harder to assess. Research suggests that charters, in practice, serve primarily as, and are best viewed as, managerial instruments and not as a mechanism for the empowerment of service users (Falconer and Ross, 1999). Evidence of their contribution to improving public services by changing the culture of agencies to focus on service recipients were recognized by the National Audit Office, Public Service Committee and National Consumer Council Survey. The National Consumer Council identified effective consultation with users as the single most important issue for Charters (McGuire, 2002).

Falconer *et al.* (1997a) examined the early experience of the Citizen's Charter in the UK in terms of its success in achieving the primary objective of empowering the public in relation to public service delivery. They conclude that the Citizen's Charter had not been successful in this respect but had perhaps served to alter the nature of public service provision through its impact on patterns of service delivery. Falconer *et al.* (1997b) explored this idea further and argued that the Citizen's Charter has indeed impacted most significantly on the management of public sector organizations. In this way, the public have benefited indirectly through the Charter's role in developing a more customer-aware focus among public service providers. It has evolved as a managerial tool by which public service providers are able to navigate the contentious territory of consumer responsiveness within a framework of competing policy priorities and an environment of constant change.

Falconer and Ross (1999) study the success of the Citizen's Charter in executive agencies and find that a number of agencies commented on the role of the charters as

a means of changing the behaviour of public servants and as a mechanism for driving service requirements forward. The political role of charters in legitimising change within public organizations was also highlighted by a number of agencies. Another interesting achievement of service charters is that they can improve the external image of the organization. In Falconer and Ross (1999), two agencies noted that they form the authoritative basis of their external relations and are a useful marketing tool.

Pollit and Bouckaert (2004) state that achieving a client orientation is not straightforward. While the UK Citizen's Charter, which was strongly driven by the central government, made some impacts, its Australian equivalent quickly faded out (Schiavo, 2000).

In the case of the seven Spanish councils analysed, we have included a section about this in the questionnaire, which has allowed us to conclude that with service charters: in all cases improvement in service delivery has been detected, internal procedures of service delivery have been improved, there is greater transparency in service delivery, the citizens have a better image of the service and in five entities a greater user and worker satisfaction has been detected. However, service charters have not led to a decrease in the number of complaints.

According to the Spanish Ministry of Public Administrations (2005), in the council of Esplugas the service charter has allowed the transformation of the organizational culture at three levels: for politicians, it strengthens the democratic commitments to citizens; for citizens it means a better adaptation of the services to their needs with the consequent increase in citizen satisfaction; and for the employees, it is an opportunity for professional realization. The organization has developed a system of management by processes, based on the redesign of these processes and a balanced scorecard with performance indicators.

Conclusions

Service charters are especially extended in Anglo-Saxon countries but now some continental entities are also beginning to employ them. For example, in Spain, service charters are growing in local administrations as an extension of a central government tool. They are generally understood as a managerial tool designed to render public services more responsive to the direct users of the services, transforming the culture of service delivery and offering the consumer a guarantee of quality public services.

Many entities, mainly the larger ones, now have service charters in their web pages. However, they do not always use the same methodology to construct service charter. In any case, citizen participation is fundamental in the Spanish entities; in five entities the groups that elaborate the service charters have citizens participating in them. Moreover, in all the charters studied, citizens' needs are analysed through citizen surveys, citizen panels or focus groups.

The content of service charters also differs but in all cases the charters delimit general commitments and detailed commitments about service delivery and standard values are fixed for the service. They also contain performance indicators that allow the evaluation of the fulfilment of quality commitments, although none of them refers to sanctions for the entity in the case of non-fulfilment.

The entities that have implanted service charters consider that improvements in service delivery has been detected, internal procedures of service delivery have been improved, there is greater transparency in service delivery, the citizens have a better image of the service, and in five entities a greater user and worker satisfaction has been detected. However, service charters have not led to a decrease in the number of complaints.

The results of this study allow us to conclude that the service charter is a management tool available to local entities that can be effective but which, at present, is still not very widespread. We expect their use to increase in the near future.

References

- Aberbach, J. and Christensen, T. (2005), Citizens and Consumers. An NPM dilemma. *Public Management Review*, vol. 7, 2, 225-245.
- Aucoin, P. (1990), Administrative Reform in Public Management, *Governance*, 3:2, 115-137.
- Australian Department of Finance and Administration (2000), *Client Service Charter Principles*. Commonwealth of Australia.
- Brusca, I. and Montesinos, V. (2006), Performance Measurement and output based budgeting in Spain. *Paper to the CIGAR Workshop*, Hamburg.
- Clarke, D. (2000), Citizens, Charters and Public Service Reform in France and Britain, *Government and Opposition*. Vol. 35, nº 2, 152-169.
- Falconer, P. and Ross, K. (1999), Citizen's Charters and Public Service Provision: Lessons from the UK Experience. *International Review of Administrative Science*, 65, 339-351.
- Falconer, P.; Ross, K. and Conner, M. H. (1997a), Empowering the Citizen: Consumerism and Charterism in the UK. In L. Montanheiro, B. Haigh; David Morris and Z. Fabjancic (eds.) *Public-Private Partnerships: Learning for Growth*, 63-76. Sheffield: Sheffield Hallam University Press.
- Falconer, P.; Ross, K. and Conner, M. H. (1997b), The Citizen's Charter: Empowering users or providers?. *Review of Policy Issues* 3(3), 79-95.
- McGuire, L. (2002), Service Charters-Global convergence or national divergence?. *Public Management Review*, vol. 4, nº 1, 493-524.
- Mussari, R. (1998), The Citizen's Charter: Opportunity for NPM Implementation in Italian Health Service. *International Public Management Network Conference*, Salem.
- Nikos, M. (2001), Trends of Administrative Reform in Europe: Towards Administrative Convergence?. *International Public Management Review*, 2: 2, 39-53.
- OECD (2000), *Government of the Future*. Paris.
- OECD (2001), *Citizens as Partners*. Paris.
- Pollit, C. (1994), Charters: the citizens new clothes?. *Hong-Kong Journal of Public Administration*, vol. 3, nº 2, 165-176.
- Pollit, C. (2002), Clarifying convergence: striking similarities and durable differences in Public Management Reform. *Public Management Review*, vol. 4, nº 1, 471-492.
- Pollit, C. and Bouckaert, G. (2004), *Public Management Reform. A comparative Analysis*. Second Edition, New York: Oxford University Press.
- Schiavo, L. (2000), Quality Standards in the Public Sector: Differences between Italy and the UK in the Citizens Charter Initiative. *Public Administration*, vol. 78, nº 3, 679-698.
- Spanish Ministry of Public Administrations (2005), *Guías de Apoyo a la calidad en la gestión pública local. Guía 4. Elaboración de una carta de servicios*.
- Walsh, K. (1994), Marketing and Public Services Management. *European Journal of Marketing*, vol. 28, nº 3, 63-71.

(Página deixada propositadamente em branco)

– PART 4 –

FINANCIAL REPORTING, INFORMATION USERS AND ACCOUNTABILITY

(Página deixada propositadamente em branco)

Luca Anselmi

Simone Lazzini

IPSASs FOR A BETTER FINANCIAL DISCLOSURE. AN APPRAISAL ON THE AWARENESS OF ITALIAN LOCAL AUTHORITIES

Introduction

According to principles expressed by *New Public Management* and, in particular, by *New Public Financial Management* (Olson *et al.*, 2001), many countries have adopted significant innovations in their accounting systems (Hood, 1991 and 1995). This is mainly because public administrations have expressed increasing needs in their accounting systems accountability at both central and local levels. (Anselmi, 2006). Research directives concerning the development of public disclosure seem to be proceeding along two different, but highly inter-related, paths.

On one level research points towards the planning of informative accounting systems which must fulfil decision-making requirements (Caperchione, 2006) that have become increasingly articulate and complex due to 'corporate-style' management methods now present in the public sector and the wide variety of interlocutors public authorities come into contact with. On the other hand a need is emerging to express rising levels of accountability, meaning that public bodies holding positions of responsibility are required to account to society for their actions and dealings (Anselmi, 1990) .

Such thinking highlights the need for the public sector to deal with processes leading to itemized expenditure records with the aim of justifying, explaining and demonstrating in a transparent and unambiguous fashion the impact deriving from their managerial methods.

In Italy this need is very much felt at a local level where in many cases document records are drafted without the use of double entry book-keeping but by producing data at the end of the accounting year, through the conversion of cash flows into economic values.

Indeed the fulfilment of a more adequate accounting information system depends on the ability to combine organizational characteristics, informative aims, development techniques with the methods (bureaucratic, managerial, etc.) to be used during the introduction of accrual accounting.

The drawing up of a legal corpus of accounting principles could be a useful tool in achieving a greater unity and uniformity in the financial systems of local authorities.

It would also facilitate the introduction of business management logics, typical of private enterprises, into public administration. In other words, a process of accounting harmonization could lead to an improvement in public accountability.

In accordance with these trends accountability and, in particular, accounting systems have been modified by a profound evolution process which has transformed the nature, function, methodology and practice of said systems and has expanded reference standards that have crossed national borders to adopt procedures deriving from external sources impressing upon the various 'local' systems a clear need for harmonization. (Adhémar, 2006)

This paper concentrates mainly on the analysis of the process of change in accounting by analyzing the role of the issuing of international accounting principles for the public sector and thus entering into the debate on public accounting systems with which simple entry bookkeeping and full accrual accounting have been compared through the examination of targets, informative content and support in decision-making processes. These comparisons have played their part in the implementation of the latter in international public sector accounting standards, as strongly supported by national and international literature (Lüder and Jones, 2003).

At an international level, the professional organization that was most active in the area of public administrations has been IFAC (the International Federation of Accountants), which formed its own internal permanent committee, the Public Sector Committee (PSC), now International Public Sector Accounting Standards Board (IPSASB), in order to produce accounting standards for the public sector and encourage their application.

In 2006 a research team, backed by the Italian Ministry of Scientific Research, was set up to study and analyze accountability reform in public administrations and appraise the impact of changes in public administration accounting, driven by the aforementioned process of accounting harmonization through IPSASs. The team is involved in the identification and analysis of several significant procedures local authorities use when implementing accounting principles.

This study aims to understand the actual diffusion level and to extract methodologies which will improve the value of the information and accountability in the system of accounting surveys of public administrations.

This paper is organized as follows. Section 1 presents the theoretical framework, while Section 2 explains the main features of the accounting systems in Italian local authorities. In Section 3 the methodological approach is introduced, followed by Section 4 describing the research procedure and presenting the results. The paper concludes discussing the main findings.

1. Theoretical framework

The modernization process, which for the last fifteen years has been largely acknowledged in public administration, has involved the adoption of corporate business management tools and methods. (Jakson and Lapsley, 2003). The corporate business connotation of public administration, if the qualifying criteria of the phenomenon are applicable, confirms, as its final objective, the achievement and

conservation of the situation of economic equilibrium through time (Giannessi, 1961). The acknowledgement of public administration as a business organization cannot only concern the organizational and management aspects but it must also allow the harmonious development of aspects related to accounting data processing procedures. (Zappa, 1950).

The review of the literature shows that the transformation process in accounting methods emphasizes many changes. The phenomena of global integration and international merging have contributed to strengthen the area of study of international accounting shown by the claim of specific research methodologies elected to support comparative analysis (Di Pietra, 2000) and verify the proceedings leading to uniformity and/or differentiation between the various adopted accounting systems. (Caperchione and Mussari, 2000; Bourmistrov and Mellemvik, 2005; Pina and Torres, 2003; Caperchione, 2000; Mussari, 2005a). The development of the studies of international accounting has highlighted a double classification approach: the first has kept separate the areas of study regarding the public sector and the private one, confirming content and specific connotations (Belkoui, 1994). The second approach has tried to pinpoint a common matrix between the two sectors and from this single perspective the following fields of research have emerged:

- historic survey;
- comparative analysis between accounting systems regarding different countries;
- analysis of the level of harmonization;
- Issuing of regulations and accounting standards.

These fields of research, though dealing with specific features, cannot be considered as excluding other categories but they define research paths that nevertheless express a degree of mutual influence.

The inter-relations of these research spheres are supported in accounting literature by the different perspectives of analysis of the process of change.

Scholars take into account environmental influences such as social, political and economic circumstances (Hopwood, 1990; Robson, 1991; Lüder, 1992; Pollit and Bouckaert, 2002; Covalleski *et al.*, 1996), the development of the specific theoretical framework for public sector accountability (Stewart, 1984; Dubnick and Romsek, 1987; Grey and Jenkins, 1993), the variability and non-linear progression of change (Briers and Chua, 2001; Ferris *et al.*, 1995; Ogden, 1995), and the effect of harmonization and standardization on the evolution process of public accounting systems (Tricker, 1983; Caperchione, 2003; Gendrom *et al.*, 2001).

Other studies have investigated change from a managerial point of view and, in particular, the resistance to change (Broadbent *et al.*, 1996; Zangrandi, 2003), the role of accountants in disclosure change with particular focus on the kind and skills and competencies that the process of transformation require (Roberts and Scapens, 1985, Lapsley *et al.*, 2003; Mussari 2005b, Lie *et al.*, 2005) the importance of the role of internal context and the actions of all actors (Humphrey *et al.*, 1993; Hoopwood, 1995; Briers and Chua, 2001; Scott *et al.*, 2003) the impact of the work of management consultants in the public sector (Lapsley *et al.*, 2003).

This need entails the use and the analysis of accounting models capable of detecting the creation of wealth attained through management skills in coherence with the institutional goals acknowledged in each public body examined in the survey.

Accounting systems do not seem capable of meeting accounting principles belonging to the business world, even if similar terms are used. This is due to the fact that the public and institutional objectives of authorities cannot be the same as those of the corporate world, but the basic economic criterion which inspires them, and the relative consequences, is applicable to any type of administration regardless of its stated objectives.

From as far back as middle nineteenth century, Villa (1841) had understood that accounting principles should be a universal system for both private and public administrations. In this way the same reference benchmark for accounting principles would be applied both in private business (IAS/IFRS) and public administration (IPSAS) thus leading to uniformity rather than a dichotomic approach.

That is not to say that from an operational point of view the application of specific principles to the public sector be ruled out, but these should be none other than a variation of the same criteria used in business.

In Italy scholars have demonstrated some interest in the harmonization of the role of international accounting standards (Borgonovi, 2004; Farneti and Pozzoli, 2005; Zambon, 2003) but the regulators and public sector operators are slow in adopting their utilization (Jackson and Lapsley, 2003).

The review of the accounting systems of local authorities, put into practice by some Municipalities and Provinces, is still waiting to be completed. Original intentions aimed at performing the essential role of co-ordinating and unifying diverse business models and cultures.

Resorting to accounting principles could potentially represent an excellent time for creating fusion between practices actually being carried out in some local bodies and the introduction of accounting legislation within said bodies. The accounting system should be in a position to record and back up decision-making processes, acts and related results, which must be guaranteed in terms of transparency and reliability.

Up until now, with the exception of a few rare cases, the current system of many public administrations has not permitted, with an official budget used as an informative accounting tool, the knowledge of their economic-patrimonial flows, and thus cost sheets. Public administrations have made decisions without first, and often not even subsequently, being aware of the cost of each decision made and, naturally, consequences related to their decisions.

The possibility (and the ability) to perform calculations and gauging in an economic, financial and productive subject matter is fundamental to prove the worthiness of the information provided. The situation existing in Italian public bodies does not always consent the achievement of economic and financial situation. Not even by using 'official' information tools is the simple economic calculation of costs and revenue possible.

For a long time now the accounting information system (but it has not always been so and not for everyone) preserves a cash value and does not contemplate, in a systematic fashion, the economic value which in most cases is only 'recuperated' by means of a synthesized conciliation statement.

We can also notice the same data processing gaps regarding patrimonial elements deriving from inventories, the updates of which are often questionable, and as a result, it becomes difficult to assess degrees of reliability. This is the important aspect

concerning ‘principles’ spreading towards amortization and depreciation estimates, calculations for risk funds, etc.

The integrity, transparency and reliability of the procedures are essential to be able to check results deriving from the same process (economic-financial-productive situation) that influences the assessment and selection of the administrators (principle of responsibility).

This shows once again how much accounting, and above all accounting principles, should be fundamental for the political decision-maker providing reliable so that he is in a position to “know to be able to deliberate”.

Italian trends concerning accounting issues, and other matters, are closely linked to the new European tendencies. The IAS sees changes in accounting in Italian public administrations as a way of guaranteeing greater unity and uniformity of the financial systems throughout the whole public sector and a way of promoting the introduction of result management/evaluation logics typical of private companies.

The need of the public sector for an accounting standard with characteristics similar to those found in the private sector is strongly felt as an incentive to carry out changes in public administration; this necessity is even more important if we consider that accounting systems have recently taken on an economic-patrimonial nature.

The purpose of the setting up of accounting standards in public administration originates from the need to interpret and explain accounting and financial regulations. Such rules of conduct must also integrate the regulations for aspects not specifically considered and expounded.

The use of a strictly professional-technical tool in public accountability is an innovation that, if properly used by those who draft financial statement, could allow the issuing of reliable documentation with lasting uniform criteria, allowing comparisons between the results obtained by different organizations throughout the years. This is an important phenomenon for public bodies due to the importance of public finance results for political comparisons and, therefore, for decision-making processes, with inevitable social repercussions in terms of citizen satisfaction.

Within the reform processes involving public administrations, important innovations have been introduced into accounting information systems. As a result, measurement and quantification techniques have also improved and typical private business management patterns were introduced in order to be able to respond to the ever-growing need for accountability and cost-cutting procedures within public entities.

As in other countries, it is becoming common practice in Italy for those managing public resources to be asked for an explanation regarding their decisions and actions based on a new responsibility concept. The obligation to provide proof of their work is a potent instrument that promotes efficiency in the public sector. The pursuit of achieving efficient and profitable management objectives were once only part of the private business universe but is now being embraced by the public sector.

This new Italian concept of responsibility must face a strong and deep-rooted juridical tradition typical of public administrations and which reflects the predominant culture. The embracing of the current trend on a European level moves the concept of responsibility from formal to managerial and entailing a process of cultural renovation which most probably will come up against resistance and setbacks (Caperchione, 2003). The implications involve the information systems of public administrations

reaching out to the internal and external organization, management and regulation areas of the entire public administration system.

2. The accounting systems in Italian local authorities

2.1. Among harmonization, autonomy and standardization

In the field of national legislation, the main regulations that have marked out the shape of accounting systems used in local authorities can be traced back to the following:

- the act of Law 142/90 confirming the turning point in the business economics of our system;
- the act D. Lgs. 77/95 explicitly regulating the accounting systems of local bodies;
- the act DPR 194/96 establishing the content of documents deriving from accounting procedures;
- the local authorities consolidated act (D.Lgs. 267/2000) that retrieved and integrated into one body the system of regulations proclaimed until then.

The basic logic that has driven the legislative framework of the consolidation act is based on the right of local authorities to enjoy autonomy regarding their accounting systems. In this way, municipalities and provinces enjoy “statutory, legislative, organizational and administrative autonomy, as well as prescriptive and financial autonomy regarding their own statutes and regulations and laws concerning the co-ordination of public finances”.

Therefore, from an accounting point of view, Italy runs the risk of becoming extremely fragmented, influenced by local regulations that hinder any form of comparison, even when applied internally.

European integration encourages uniformity of accounting regulations while countertrend Italy still seems to be leaning towards locally orientated accounting systems risking further fragmentation in its heterogeneous system.

The Consolidated Act referring to economic accounting procedures establishes that “local authorities, in order to prepare management reports, may adopt the accounting system they consider most suitable for their needs”.

This clarification grants local authorities extensive autonomy when choosing their accounting system. The rule does not explicitly require the introduction of double entry bookkeeping, but it restricts itself to demand that the data expressed in the financial statement deriving from simple entry bookkeeping accounting, be revised to portray the economic aspect of the management (Caperchione, 1996; Anselmi, 1993).

This situation has nurtured a wide variety of operational solutions and data processing systems but they still manage to produce the documents required by the Act.

The proposed solutions can essentially lead to the possibility of using:

- Modified cash basis of accounting – during the fiscal year the public body uses solely a cash flow accounting system, while at the end of the year by using a schedule of conciliation it can carry out adjustments and integrations permitting the drafting of the necessary documents required by current accounting standards (Farneti and Pozzoli, 1995; Bertinotti, 1995);

- Integrated accounting system – this is based on two autonomous sub-systems; the first is cash based accounting and the second is accrual accounting but integrated in such a way that the same operation is recorded at the same time in both inter-linked sub-systems. Data is entered simultaneously into the two interfaces and at the end of the fiscal year, this consents the drafting of the required schedules with no further duplicating or subsequent operations (Anselmi, 1993; Marchi, 2003);
- Parallel accounting system – this is based on the joint presence of two parallel, autonomous and unlinked systems (one for public accounting and another for general accounting), immune to mutual repercussions and contamination. This set up is based on the assumption that cash basis accounting would produce data prone to ‘partiality’ not easily eliminated which consequently would pass into the general accounting system, hence invalidating its worth.

Therefore, accounting autonomy has been widely encouraged in the hope that the opportunity of being able to stipulate its own accounting structure would make each Italian local authority set up an accounting system most in line with its accountability requirements. Rather than this occurring, what we now have is a situation unable to forsake financial logic. At the same time, it has hindered the possibility of using comparative techniques with information contained in accounting documentation.

The comparison between different bodies, with reference to costs regarding services, programmes and various operation sectors becomes increasingly important in the light of the processes of internal decentralization, and also when taking into consideration the processes of supranational integration. International integration has contributed to accelerate further the need to harmonize accounting systems and in particular, it has urged the release of common accounting standards.

The use of different and heterogeneous accounting systems leaves the door open to cover-up policies, or the use of disguise tactics, of financial and patrimonial deficit situations even of considerable nature (Borgonovi, 2004; Mussari, 2006).

The need to make use of accounting principles has established itself in the public sector, where accounting regulations had the purpose of laying down the rules of data processing regarding administration operations.

However, accounting regulations reflect a set up based on the juridical phase concerned with the right to perform operations the moment in which the legal premise is established.

The predominance of logic based on formal respect has contributed to determine a clearly visible gulf between the undisputed equality of form, guaranteed by an established legal process, and the homogeneity of the content deriving from accounting procedures (Borgonovi, 2004).

From these preconditions rises the need to set up a harmonization process on a collection of homogeneous principles capable of providing a correct portrayal of the economic, patrimonial and financial position of the business.

The importance of accounting data in a political context and in decision-making processes involves the need to correctly interpret and apply in a uniform fashion the rules of the financial and accounting ordinance. From this derives the necessity for principles that make possible the preparation of reliable documents, drawn up on uniform-based criteria that express aptitude for comparison in space and time. (Zuccardi Merli, 2005).

The current trends regarding the setting up of accounting systems and financial statement appear to be leaning towards global harmonization which could develop into a process of accounting standard-setting (Zambon, 2003).

There are essentially two paths along which harmonization can proceed. The first one is of an 'external' nature which attempts to define a uniform body of postulates and standards allowing the true comparison between financial statement drafted in different countries. The second path, of internal worth, concerns the harmonization of accounting regulations within the system of national public administrations with the purpose of making accounting documents from the various public sector entities homogeneous.

The harmonization process necessarily passes through the explication of the technical problems that are inevitably involved (Pozzoli, 2005).

The first problem regards the definition of financial statement postulates that will have to express overall uniformity for the entire public administration system.

The second element regards the homogeneity, at least as far as macro items are concerned, of accounting estimate schedules and itemized expenditure records.

The final aspect regards the definition of applied accounting principles, bearing in mind that the legislative framework must provide further integration measures to meet the needs of the system's accountability.

Indeed, accounting principles are none other than technical rules through which postulates can be explicated and then put into practice.

2.2. The public sector accountability process, the financial reporting and the role of accounting standards

The activity of IPSASB focuses on the development of International Public Sector Accounting Standards (IPSASs) for financial reporting in the public sector.

In this perspective, the IPSASB has been established to deal with the needs of those involved in public sector accounting and auditing on a co-ordinated worldwide basis.

The IPSASB recognises the right of each nation to establish its own standard setters for the development of appropriate accounting standards and the setting up of national guidelines. The IPSASB is a constructive body that supports national standard setters in the development of new standards or in the revision of existing standards in order to contribute to the improvement of international comparability.

The global picture that emerges regarding the accounting system of Italian local authorities is particularly composite. It is undoubtedly influenced by regulations but at the same time it is affected by the activity of national and international standard setters.

The accounting standards in force at a national level, amongst others, are drawn up by the Observatory on the Finances and Accounting of Local Bodies.

To date the Observatory has drafted four documents, one of general principles and three of applied principles. At the end of 2006 the document named *Objectives and Postulates of Accounting Principles of Local Authorities* was drafted to meet the requirements of harmonization by integrating the principles laid down by the TUEL

act.162 and the postulates that characterise the accounting system put forward by the IPSASB/IASB.

The accounting standards that refer to the Observatory are known as technical interpretations of the standards contained in the financial and accounting system in compliance with legislation. These can be separated into accounting postulates or general accounting principles and applied accounting principles.

The accounting postulates make up the general foundations and rules that the entire reporting system must refer to. The applied accounting principles specify the single institutes set out in the ordinance and they identify the correct line of duty in compliance with the general terms of the postulates.

The objectives explicitly stated by the Observatory's accounting standards are as follows:

- interpret, explain and, where necessary, technically integrate the rules of law concerning the financial and accounting ordinance, in compliance with the will of the legislator;
- connect to said rules all others that directly or indirectly are involved;
- make uniform accounting behaviour patterns of local authorities.

The third objective explicates the necessity to make accounting behaviours uniform among operators in accordance with international accounting standards. The above-mentioned document establishes that the postulates and principles issued by the Observatory should take into account the financial and accounting systems used by local authorities and make them compatible with documentation issued by the IPSASB and the IASB.

This point explicitly refers to the intent of promoting a convergence of national and international standards aligning common objectives to improve public sector financial management and accountability.

The adoption of IPSASs allows, on the one hand, the assessment of accountability for the resources that the entity controls and the exploitation of those resources. On the other hand, accounting standards show the financial position and cash flows of the entity.

The IPSASs should be used for the general purpose financial statements of all public sector bodies made up of national, regional and local government including their departments, agencies, commissions, etc. The standards are not valid for Government Business enterprises that refer to the International Financial Reporting Standard (IFRSs).

General purpose financial statements are financial statements issued for users that are not able to acquire economic information to satisfy their specific information needs. These specific documents are defined as special purpose financial statements and, where appropriate, the IPSASB encourages the use of IPSASs for their preparation.

The basic goals set out by the IPSASs, the fields of application, the people involved, and the informative structure of the documents are pinpointed in IPSAS 1.

IPSAS 1 describes financial statements "as a structured representation of the financial position and financial performance of an entity". It declares that the objective of a financial statement is "to provide information about the financial position, financial performance and cash flows of an entity that is useful to a wide range of users in making and evaluating decisions about the allocation of resources". IPSAS 1 recognises that financial disclosure plays another important role in predictive and prospective activity providing useful information about the level of resources required and the income that

may be generated by continued operations with particular attention to the connected risks. To accomplish this aim IPSAS 1 establish that financial statements have to provide information about an entity's assets, liabilities, net asset/equity, revenue and expenses, and cash flows.

A complete set of financial statements according to IPSAS 1 therefore involves:

- a statement of financial position;
- a statement of financial performance;
- a statement of changes in net asset/equity;
- a cash flow statement;
- a comparison between budget and actual amounts once the body makes its approved budget publicly available;
- a set of notes that include a summary of significant accounting policies and other explanatory notes.

The IPSASB assumes that the embracing of the IPSASs together with the disclosure of complying with them will make possible considerable improvement in the quality of financial reporting by public sector entities. This, consecutively, will “lead to better informed assessment of the resource allocation decisions made by governments, thereby increasing transparency and accountability” (Chistiaens and Van den Berghe, 2006).

The IPSASB distinguishes between two accounting systems, *accrual accounting* on the one hand and *cash accounting* on the other hand. In the beginning, the standard program also comprised the development of standards for the modified cash basis and modified accrual basis. Since 1999, the belief that it was unnecessary to draft standards for the two modified accounting systems intensified and the program leaned towards the exclusive compilation of standards concerning cash and accrual basis of accounting.

The Cash Basis IPSAS *Financial reporting under the cash basis of accounting* was issued in January 2003. The IPSAS is made up of two parts:

- Part 1 is mandatory. It sets out the requirements that are applicable to all bodies preparing general-purpose financial statements under the cash basis of accounting. It established requirements for the disclosure of information (IPSASB, 2007).
- Part 2 is not mandatory. It provides the identification and the encouragement (but not the requirement) of additional accounting policies and disclosure that an entity can adopt to increase its accountability (IPSASB, 2007; Chistiaens and Van den Berghe, 2006).

The accrual basis IPSASs have been developed to support authorities in the preparation of accrual based financial statements.

The IPSASs on the accrual basis are listed in Table 1.

Table 1 – IPSASs accrual basis of accounting

IPSAS	Contents	Standard publishing in 2006	Standard amended following the conclusion of IPSASB improvements project	Standard amended by the issuance of IPSASs 22-24 and the revised IPSASs
IPSAS 1	Presentation of Financial Statements		X	
IPSAS 2	Cash Flow Statements			X
IPSAS 3	Accounting Policies, Change in accounting Estimates and Errors		X	
IPSAS 4	The effects of changes in foreign exchange rates		X	
IPSAS 5	Borrowing costs			X
IPSAS 6	Consolidated and separated financial statements		X	
IPSAS 7	Investments in Associates		X	
IPSAS 8	Interests in joint venture		X	
IPSAS 9	Revenue from exchange transactions		X	
IPSAS 10	Financial reporting in Hyperinflationary economies			X
IPSAS 11	Construction contracts			X
IPSAS 12	Inventories		X	
IPSAS 13	Leases		X	
IPSAS 14	Events after reporting date		X	
IPSAS 15	Financial instruments: disclosure and presentation			X
IPSAS 16	Investment property		X	
IPSAS 17	Property, plant and equipment		X	
IPSAS 18	Segment reporting			X
IPSAS 19	Provisions, contingent liabilities and contingent assets			X
IPSAS 20	Related party disclosures			X
IPSAS 21	Impairment of Non-Cash generating Assets			X
IPSAS 22	Disclosure of Financial Information About the General Government Sector	X		
IPSAS 23	Revenue from Non-Exchange Transactions (Taxes and Transfers)	X		
IPSAS 24	Presentation of Budget Information in Financial Statements	X		

Source: 2007 IFAC Handbook (IPSASB, 2007).

Study n. 14 underlines that the adoption of an international accounting standard on an accrual basis is useful for both accountability and decision-making.

Table 2 summaries the principal benefits of using IPSASs on accrual basis of accounting.

Table 2 – Benefits of accrual accounting

Shows how a government financed its activities and met its cash requirements.
Allows users to evaluate a Government's ongoing ability to finance its activities and to meet its liabilities and commitments.
Shows the financial position of a Government and changes in financial position.
Provides a Government with the opportunity to demonstrate successful management of its resources.
Is useful in evaluating a Government's performance in terms of its service costs efficiency and accomplishments.

Source: Study n. 14, PSC, 2003.

The position of the IPSASB regarding the choice of an accrual basis accounting system seems to run along the same lines as the tendencies expressed by a consistent part of the national and international business economic doctrine.

In synthesis, in this period of transformation of public administrations, the adoption of standardised and comparable accounting principles seems to represent an important way to improve the public sector accountability (Zambon, 2003) and offer to public sector organisations the interpretative position to directing the accounting behaviours.

The research aims to verify and confirm the above-mentioned position by looking into the operational procedures of those working in Italian local authorities in accordance with the objectives of the research.

3. The structure and the purposes of the research: the methodological approach

Understanding the features of an accounting system from a managerial point of view requires an integrated approach which considers the sphere of doctrinal analysis:

The first is of a cognitive nature in which knowledge will be obtained through a single doctrinal corpus leading to the setting up of a theoretic system; the second is of a normative nature which embraces elements useful to the working needs of an organization (Miles and Huberman, 1984). The necessity to adapt this twofold need finds profitable cohabitation in the articulation of phases to be carried out by research activity.

The step between theory and hypothesis occurs by means of a deduction process (Merton, 1965) on the basis of which research then moves on to the operational stage (Bryman, 1984). After this phase research activity concentrates itself on the interpretation of the results and their subsequent induction (King *et al.*, 1994).

The focus of the research concentrated itself on Italian local authorities mainly because they express the innovative importance of changes in accounting in Italy better than any other public sector, in view of the process of international accounting harmonization. Due to their social and institutional importance, local authorities have understood the need to embrace changes in accounting as required by international standards.

In accordance with the interpretative approach (Kuhn, 1962; Boudon, 1984) this paper aims to expose the first significant results and answer three points put forward by the research, with reference to some qualified experiences:

1. Are local authorities fully aware of the limits of cash basis of accounting and the greater value of accrual basis of accounting?
2. If they are, do they think that IPSASs are able to provide support during the change process?
3. What practices, comments and suggestions came up within these local authorities?

The research questions numbers 1 and 2 are of an investigative nature (Yin, 1990) capable of understanding if the operators perceive a link between the technical-accounting facility proposed by IPSAS and the emerging need for accountability, as stated in the *Transition to the Accrual Basis of Accounting: Guidance for Governments and Government Entities*, Study n.14 PSC (2003).

It argues that international accounting standards increase accountability levels in public bodies encouraging the transition from cash basis of accounting to a more

efficient model of accrual basis of accounting based on an integrated method with complete economic-patrimonial items.

The hypotheses that the research aims to test, with reference to questions 1 and 2, are:

Hypothesis 1: local authorities perceive the limits of cash basis accounting and the utility of adopting an accrual basis to improve financial disclosure.

Hypothesis 2: local authorities perceive the utility of IPSASs as means of implementing accrual accounting.

Question number 3, on the other hand, provides a description (Yin, 1990) of the practices that the research activity has examined.

An empirical survey has been carried out in order to answer this inquiry and a critical analysis has been drafted distinguishing between coherent and fragmented factors that contribute to the development of public accounting disclosure.

The methodology consisted of the following research steps.

A sample was selected among Italian local authorities with the identification of relevant practices. A questionnaire was then submitted and a detailed interview was carried out. The results were processed to then select key examples. On completion of the identification process common trends were analyzed combining the empirical results with the theoretical background material.

The subsequent phases of research activity involved the sourcing and analysis of key practices of implementation of accounting systems in Italian local authorities and public bodies. The first phase of the research was concerned with the analysis of the theoretic-doctrinal framework of accounting systems and particularly with the process of accounting harmonization at both national and international levels. Emphasis was placed on political-administrative statements and approaches which have influenced the informative structures and the accounting technical frameworks of local bodies.

In this conceptual framework we have gleaned our hypothesis of research regarding the role of international accounting standards in increasing accountability in Italian local authority.

The survey tools and procedures, in accordance with the objectives of the research, have involved the drafting of a set of questions. These questions have been created to understand the architecture of the accounting systems used by local authorities and to extract fundamental characteristics in terms of the adoption of accounting principles. The questions explore and consider the different practices which have been established and used in the Italian system.

On selection the key practices are then examined in order to appreciate homogeneities and differences and to be able to outline the shape of the implementation of accounting standards.

On the one hand, the final research phase (the phase of the interpretation and induction of the results) synthesizes the critical factor regarding the adoption of accounting principles and, on the other hand, formulates an interpretation for the development of an informative accounting system. This paper intends to understand and analyze the problems and difficulties met by public bodies when implementing accrual basis of accounting systems.

The general guidelines of the research, therefore, aim to satisfy the fundamental business requirements of the research which can be divided into two types: the theoretic

stage of a cognitive nature and the normative stage, with the goal of extracting elements useful for solving problems.

4. The fieldwork

4.1. Research procedure

The results portrayed in these paragraphs are part of research activity carried out on a broader sample which aims to observe the emerging trends and innovations regarding accounting practices.

The administrations interviewed for the purposes of this study were chosen from a broad statistical sampling with the view to implement intensive research activity on that local authority in which administrative employees had participated with training course in accounting for a period of almost 40 hours. At the administrative managers of this small number of cases have been effectuated a series of ‘in deep’ individual interviews after by the handing out of a questionnaire.

In this way it was possible to attain a significant sampling not from a statistical point of view but from a functional one, with characteristics as to allow the development and the intensive testing of research hypotheses (Silverman, 2002).

This position paper is the result of a specific empirical survey with specific regard to the appraisal on the awareness of Italian local authorities and the degree of confidence expressed by the interviewees with regards to international accounting principles both directly and through the application of accounting practices in keeping with the positions expressed by the IPSASB.

The interviews examined 18 cases made up of 12 municipalities and 6 provinces from different areas in with the interest for training accounting are seemed significant. Table 3 shows the distribution of the sampling on the basis of population differences.

Table 3 – Theoretical sampling of the research

Municipality			
Population	North	Center	South & Islands
< 15.000	0	1	0
15.001 - 60.000	1	0	0
60.001 - 150.000	2	4	1
150.001 - 300.000	0	1	1
> 300.000	1	0	0
Province			
Population	North	Center	South & Islands
< 300.000	1	1	0
300.001 - 350.000	1	1	0
> 350.000	0	1	1

The survey was made up of five fields of study and analysis to meet the research requirements expressed in the Introduction:

A. *General information*

- a. regarding the administration
- b. regarding the accounting manager

This section firstly aims to gather information about the size of the administration and, secondly, about the level of education and work experience of the accounting manager.

B. *Accounting System of the Administration*

This part is made up of a series of questions from which to draw the elements defining the structure of the accounting system used by the administration, with a focus on accounting organisation (basis of accounting, entry system, etc).

C. *Data on the Accounting Role*

This part intends to gather data about the number of people who operate within the accounting departments, their background and the training programs provided by administrations.

D. *Performance-Based Accountability*

The first three sections of the survey are of a descriptive nature gathering elements to define the current situation of the interviewed bodies. The subsequent sections, on the other hand, aim to research the degree of confidence the bodies have regarding the accounting systems and also the personal propensity of the operators with broader and different approaches as opposed to traditional methods imposed by law.

E. *International Accounting Principles*

The final part of the survey specifically deals with the examination of how operators deal with the international public sector accounting standard. The research activity has been deployed in a series of preliminary questions to verify if, and which, accounting principles are adopted when drafting financial statement and the reasons for choosing them.

In the event that from the preliminary examination a substantial non-application of the IPSASs comes to light, then the interview was shaped to verify the degree of knowledge and their possible future adoption. If adoption is then intended the study moves itself towards application times and the procedures to make the project operational.

The survey develops IPSAS by IPSAS, to check that there is uniformity in behaviour towards all the items taken into consideration or if certain standards are preferred to others.

The principles have been grouped together into four sub-classifications to keep separate the different categories that each field deals with.

Indeed, the IPSASs are numbered by date of issue, whereas for the purpose of the survey, a different classification was used to express content homogeneity with reference to the items dealt with.

Therefore, the intensive analysis proposed the aggregation of standards classifications to the interviewee displayed in Table 4.

Table 4 – Classification of IPSASs used in the fieldwork

CATEGORIES		STANDARD
General principles		IPSAS 1 - Presentation of Financial Statements
		IPSAS 2 - Cash Flow Statements
Reliability of financial disclosure		IPSAS 3 - Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies
		IPSAS 4 - The Effects of Changes in Foreign Exchange Rates
		IPSAS 10 - Financial Reporting in Hyperinflationary Economies
		IPSAS 14 - Events After the Reporting Date
Accounting items	Financial transaction	IPSAS 5 - Borrowing Costs
		IPSAS 15 - Financial Instruments: Disclosure and Presentation
	Holdings	IPSAS 6 - Consolidated Financial Statements and Accounting for Controlled Entities
		IPSAS 7 - Accounting for Investments in Associates
		IPSAS 8 - Financial Reporting of Interests in Joint Ventures
	Exchange transactions	IPSAS 9 - Revenue from Exchange Transactions
	Non-exchange transactions	IPSAS 23 - Revenue from Non-Exchange Transactions (Taxes and Transfers)
	Construction contracts	IPSAS 11 - Construction Contracts
	Inventories	IPSAS 12 - Inventories
	Tangible assets	IPSAS 13 - Leases
		IPSAS 16 - Investment Property
		IPSAS 17 - Property, Plant and Equipment
		IPSAS 21 - Impairment of Non-Cash generating Assets
Provisions, Contingent Liabilities and Contingent Assets	IPSAS 19 - Provisions, Contingent Liabilities and Contingent Assets	
Target information		IPSAS 18 - Segment Reporting
		IPSAS 20 - Related Party Disclosures
		IPSAS 22 - Disclosure of Financial Information About the General Government Sector
		IPSAS 24 - Presentation of Budget Information in Financial Statements

The first classification ‘*General Principles*’ includes the standards dealing with the purposes, main content and setting-up of the information system concerning the preparation of documents.

The second classification ‘*Reliability of financial disclosure*’ groups together the IPSASs regarding the reliability of information on the financial statements.

The third classification ‘*Accounting items*’ gathers the standards concerning the evaluation criteria to use for single items that make up the financial statements.

The fourth classification ‘*Target information*’ regards the IPSASs that aim to provide information about specific areas of the financial reporting.

4.2. The results

From the research carried out it has emerged that international accounting principles are not being applied by any of the bodies under examination. The analysis of the sample highlights the fact that 70% of accounting office managers have a university

degree in business studies and all have more than 5 years administrative experience. The choice of multiple cases is based on circumstance that in the last three years the administrative employees had taken part in at least one training/refresher course regarding accounting.

The set-up of accounting systems is fundamentally made up of two prevailing typologies.

The first one, regarding about 60% of the sample under observation, is founded on a book-keeping system known as simple entry book-keeping from which the operators obtain the economic-patrimonial report schedules at the end of the year meeting the compulsory requirements of Italian regulations by means of a conciliation prospectus.

The second typology can be defined in an integrated system that obtains its management information from both simple entry bookkeeping and double entry bookkeeping. In the latter case, the drafting of documents for financial statement derives directly from the integration of the two systems.

If we separate the samplings carried out in municipalities and provinces we can see that when a municipality is larger than 150,000 the integrated system is always the one used. As far as provinces are concerned, on the other hand, size does not influence the choice of accounting configuration.

The number of people employed in the accounting departments of all the administrations examined is between 6% and 10% of the total staff count. Managers believe this amount to be adequate considering the volume of tasks that the department has to deal with.

This staff shortage is felt more strongly in administrations that do not make use of integrated accounting systems with employees forced to obtain financial statement in a manual fashion.

With regard to the first research question asking if operators were aware of the limits of the Italian accounting system and the greater value of full accrual basis of accounting, it emerges that administrations using integrated accounting systems understand the informative management value of double-entry bookkeeping.

Within local authorities that do not use integrated accounting systems we encounter a situation of greater heterogeneity.

In some cases, it is particularly evident that decision-making processes are poorly supported by current accounting systems making it important to push forward change into full accrual basis. When the accounting system is used essentially for checking that expenditure limits are respected and not as a decision-making support tool the adoption of full basis accrual is not perceived as a priority.

Quite the contrary, financial performance statement are fundamentally perceived as being useless in these cases and very often employees draft these documents because they are obliged to do so while the statement of real importance remains the '*conto del bilancio*', that is the document that expresses the final equilibrium in terms of revenues and expenditures performed during the year. In this case, the resulting accountability is of a bureaucratic-authoritative nature complying with the constraints deriving from authoritative-type management.

Once ascertained that none of the systems under examination had officially implemented international accounting standards the research fieldwork, in accordance with the research questions, tested the degree of confidence and knowledge the operators possessed regarding IPSASs. All the operators interviewed declared that they knew of

the existence of public sector international accounting standards deriving from private sector standards (IAS/IFRS).

Only one province created a pertinent study group for the analysis of IPSASs with the purpose to assess their operational characteristics and implications deriving from their possible use.

In the other cases knowledge of international standards derives from a personal wish to understand further these problems. Therefore, the level of knowledge of IPSASs is not a result of planned study programs but a result of individual curiosity unlinked to the place of work.

In the light of the classification of the IPSASs (see Table 4), all the interviewees declared that they understood the standards in the first group – ‘*general principles*’ – with specific reference to the objectives set out by the IPSASs and the basic logic of their content.

Three municipalities and two provinces declared that they focused on the IPSASs concerned with tangible assets with the objective of extracting operational information to carry out evaluation on this type of asset.

However, the IPSASs in question did not turn out to be useful for the operators’ needs: fair value appraisal and, in particular, the impairment test procedure, has been perceived as especially complex, difficult and distant from traditional Italian accounting.

Another set of IPSASs that some interviewees had examined was the one regarding standards grouped together in the sub-classification of ‘holdings’. In this case, too they were interested in extracting information, from an international context, regarding evaluation and financial statement registration of the shares held.

The second research question regarded the appreciation level IPSASs enjoy as a tool for the improvement of public accountability and for the implementation of full accrual basis of accounting. The survey showed that the degree of appreciation expressed by the operators was modest.

The operators are aware of the general aspects of the IPSASs and of some standards regarding specific items that are, moreover, not of great use in terms of immediate application. Substantial appreciation of IPSASs elements emerged from only two particularly sophisticated accounting structures. These accountants expressed the belief that the diffusion of international accounting standards could back cultural growth thus planting the seed for future improvement in public accountability and better support for public accounting systems.

The operators interviewed clearly expressed their doubts concerning the immediate application of IPSASs firstly deeming them inappropriate for Italian public disclosure requirements and, secondly, believing them to be extremely complicated to implement.

Indeed, their application would require not only a specific training program but also a prominent and onerous re-configuration of the information systems currently in use.

5. Discussion

The focus of the research involved Italian local authorities because in the Italian public sector they are at the centre of national and international urging to remodel their accounting systems.

This paper discusses the significant results deriving from research activity regarding the examination of the following research hypotheses:

Hypothesis 1: local authorities are aware of the limits of cash basis accounting and recognize the usefulness of the adoption of accrual basis to improve financial disclosure.

Hypothesis 2: local authorities perceive the usefulness of IPSASs as means of implementing accrual accounting.

The methodology used in this paper is the multiple case studies. According with literature (Silverman, 2002) we have identified a thought-out choice sample based on its congruency with the theoretical framework of the research and on the significance with the research questions.

In this particular perspective of study the aims of the research assume an 'explanatory' purpose (Yin, 1990) turn to put in evidence the causality connections among several variables under the context conditions in which the empirical research is made.

The results seem to reflect the perception of the need for change from the basis of accounting in use in particular in administration in 'transition' from a simple entry bookkeeping to full accrual basis of accounting.

Only few local authorities recognized the usefulness of IPSASs as a profitable mean of implementing accrual accounting and the need to increase the degree of accountability in the public sector.

Some others are aware of the profitability of IPSASs but feel inadequate to develop the adoption process because of their dramatically demanding working load.

The accountants interviewed expressed substantial resistance towards the adoption of IPSASs deeming them difficult to implement and having little in common with the established Italian accounting systems.

It is clearly evident that the simple bookkeeping method on which accounting systems are based is strongly opposed to change with accounting innovations seen as further bureaucratic requirements to fulfil.

In other administrations where the evolution of accounting information systems appears to be more consistent and the informative benefits connected with full accrual basis of accounting have clearly come to light interest concerning IPSASs has been greatly superior. However, even in these latter cases, IPSASs are not considered for immediate application by the accountants interviewed but they are seen as useful tools to trigger cultural growth towards a general improvement in public accountability.

Conclusion

The feeling that emerges from the research carried out is that within Italian local authorities changes always require external influences and, in particular, normative measures that bring about and accelerate behavioural change. This aspect of the study seem to confirm previous empirical research (Jackson and Lapsley, 2003) that the most important motivation for accounting innovation in public sector organisations is statute, regulation or other external pressure.

The result of interviews showed that the accounting systems in use are mostly at the conformity of regulation. In other terms when accounting system change does

occur it takes place because it is put on by regulation, statute, or exhortation and only in few cases the innovation depends on internal motivations or autonomous experimentations.

The study underlines that the training is one of the hottest issues of an IPSAS conversion. The local authorities analysed had invested in education on accounting in the last three years, but nobody had organized specific IPSASs training courses. The contents of international standards are perceived very distant from the Italian local authority accountability needs and scarcely useful to involve the public disclosure. The knowledge of IPSASs is superficial and left to “individual curiosity rather than a systematic training process”.

The findings presented here demonstrate the importance of considering factors that influence the operating environment of the user of the accounting system.

The degree of appreciation expressed by the accountants about international standards as a tool for improving public accountability and to implement full accrual basis of accounting seems modest.

The accountants consider not easy the application of the IPSASs and furthermore based on presuppositions very different from Italian public accounting traditions.

In addition, also the practitioners more sensitive and interested in the utilization of the international standards, underwrite their difficulties to implementation and application because of the approach developed in the IPSASs (fair value; impairment text, value in use, etc.). They press for a carefully evaluation between the costs related to their eventual application and the real informative value generated from their implementation (value for money of IPSASs).

The practitioners interviewed perceive the role of accounting standards still related to the original function of integrating and specifying the process of estimating the various classes of assets in those cases in which the normative is too general or does not establish detailed behaviours. The role of accounting standards should be therefore ‘*ex-post*’, after the mandatory regulation, refining and completing its pragmatic valence.

The research underwrites the need to arrive at an ‘*ex-ante*’ harmonization at international level of the financial *accountability* and only after this one, establish the accounting standard more useful.

The international accounting standards are still perceived in a ‘top-down’ approach coming from abroad without a real usefulness and ‘dangerously’ uprooted from the Italian accounting context.

In Italy, like in the other countries of civil law, some obstacles do not allow a model of accounting regulation based on the general accepted accounting principles. Therefore, there is the need of a legislative recognition, even if some margins of accounting autonomy can be used by administrations to carry out the first national pilot experiences.

A true and proper organic study of IPSASs will most probably be deferred to a normative measure that will force authorities to adjust their accounting systems in order to fulfil requirements.

Our study seems to confirm observations of prior studies examining public sector reforms from a managerial, economic and social perspective that the accounting reform process was not restricted to technical aspect but extended to include the role of central government, the important tendency to the decentralization, the culture of the

operators and the decisional autonomy of public management. Likewise, a significant point that has emerged from this research based on multiple case studies is the possibility to understanding not only the level of diffusion of IPSASs in Italian local authority (well known very modest) but the reasons for which the international standards are perceived by accountants less useful for their work.

References

- Adhémar, P. (2006), *International standards for the public sector. The role of IFAC's Public Sector Committee (PSC)*, in Zambon S. (eds), *I principi contabili per le pubbliche amministrazioni*, FrancoAngeli.
- Anselmi, L. (1990), *Il management delle imprese pubbliche*, in Anselmi, L.; Volpato, O., (Eds.) *Il management nell'area pubblica*, Giuffrè.
- Anselmi, L. (1993), *L'azienda comune. Principi e metodologie economico aziendali per gli enti locali*, Giuffrè.
- Anselmi, L. (2003), *Percorsi aziendali per le pubbliche amministrazioni*, Giappichelli.
- Anselmi, L. (2005), *Verso contabilità integrate per le amministrazioni pubbliche*, in Farneti, G.; Pozzoli, S. (eds.), *Principi e sistemi contabili negli enti locali*, Franco Angeli.
- Anselmi, L. (2006), *Modelli economico-patrimoniali per il Bilancio e la Contabilità di Stato*, Giuffrè.
- Barzelay, M. (2001), *The New Public Management. Improving Research and Policy Dialogue*, University of California Press.
- Belkaoui, A. (1994), *International and multinational accounting*, The dryden press.
- Bertinotti, G. (1995), Alcune considerazioni sulla riforma della contabilità, *Azienditalia*, No.2.
- Borgonovi, E. (2004), Principi contabili: anche nell'amministrazione pubblica, *Azienda Pubblica*, No. 2.
- Boudon, R. (1984), *La Place du désordre. Critique des théories du changement social*, Presses Universitaires de France, Italian version, (1985) Il Mulino.
- Bourmistrov, A. and Mellemvik, F. (2005), *International Trends and Experiences in Government Accounting*, Akademisk Forlag.
- Briers, M. and Chua, W.F. (2001), The role of actor-networks and boundary objects in management accounting change: a field study of an implementation of activity-based costing, *Accounting, Organizations and Society*, Vol. 26 N. 3.
- Broadbent, J.; Dietric, M. and Laughlin, R. (1996), The development of principal-agent, contracting and accountability relationships in the public sector: conceptual and cultural problems, *Critical Perspectives On Accounting*, Vol. 7.
- Bryman, A. (1984), *Quantity and quality in social research*, Routledge.
- Caperchione, E. (1996), *Il regolamento di contabilità nell'ente locale*, E. Caperchione (Eds.), Maggioli.
- Caperchione, E. and Steccolini, I. (2000), *L'impatto dell'introduzione della contabilità economico patrimoniale negli enti locali della Francia e del Belgio*, in Caperchione, E.; Pezzani, F.,(Eds.), *Responsabilità e trasparenza nella gestione dell'ente locale*, Maggioli.
- Caperchione, E. (2003), Local government accounting system reform in Italy: a critical analysis, *Journal of Public Budgeting, Accounting & Financial Management*, Vol.15, No. 1, Spring 2003.
- Caperchione, E. (2006), The new public management a perspective for finance practitioners, *FFE*.
- Caperchione, E. and Mussari, R. (2000), *Comparative issues in local government accounting*, Kluwer Academic.
- Chua, W. F. (1986), Radical Developments In Accounting Thought, *The Accounting Review*, Vol. 10.
- Christiaens, J. and Van den Berghe, M. (2006), *The Ernst & Young guide to applying IPSAS*, Die Keure.
- Covaleski, M. A.; Dirsmith, M. W. and Samuel, S. (1996), Management Accounting Research: The Contributions Of Organizational And Sociological Theories, *Journal Of Management Accounting Research*, Vol. 8.

- Di Pietra, R. (2000), *Ragioneria internazionale e armonia contabile*, Cedam.
- Dubnick, M. J. and Rumbek, B. S. (1987), Accountability in The Public Sector: Lesson From The Challenger Tragedy, *Public Administration Review*, May/June.
- Farneti, G. and Pozzoli, S. (eds.), (2005), *Principi e sistemi contabili negli enti locali*, Franco Angeli.
- Ferris, G. R.; Mitchell, T. R. and Canavan, P. J. (1995), *Accountability in human resources systems*, in Ferris, G.R.; Rosen, S. D. and Barnum, D. T. *Handbook of Human Resource Management*, Blackwell Publishers, 1995.
- Gendrom, Y.; Cooper, D. J. and Townley, B. (2001), In The Name Of Accountability: State Auditing, Independence And New Public Management, *Accounting Auditing & Accountability Journal*, Vol. 14, No.3.
- Giannessi, E. (1961), *Interpretazione del concetto di azienda pubblica*, Colombo Corsi Editore.
- Giannessi, E. (1970), *Appunti di Economia Aziendale*, Pellegrini.
- Grey, A. and Jenkins, B. (1993), Code Of Accountability In The New Public Sector, *Accounting, Auditing & Accountability Journal*, Vol.6, No.3.
- Hood, C. (1991), A Public Management for all seasons?, *Public Administration*, Vol. 69, Spring.
- Hood, C. (1995), The “New Public Management” in the 1980s: Variations on the theme, *Accounting Organization and Society*, Vol. 20, N. 2-3
- Hoopwood, A. G., (1988), Accounting And Organisation Change, in Accounting, *Audit & Accountability Journal*, Vol. 3, N. 1.
- Humphrey, C.; Miller, P. and Scapens, R. W. (1993), Accountability and Accountable Management In The UK Public Sector, *Accounting, Audit & Accountability Journal*, Vol. 6, N. 3.
- IASB (2006), *International Financial Reporting Standards (IFRSs™)* – IPSOA.
- IPSASB (2006a), IPSASB Update 4, Tokyo, Japan Meeting (Mar. 21, 2006 - Mar. 24, 2006), <http://www.ifac.org/publicSector/Meeting-Summary.php?MID=0070>.
- IPSASB (2006b), 2006 *IFAC Handbook of International Public Sector Accounting Standards Board Pronouncements*, http://www.ifac.org/Members/DownLoads/2006_PSC_Handbook.pdf.
- IPSASB (2007), 2007 *IFAC Handbook of International Public Sector Accounting Standards Board Pronouncements*, http://www.ifac.org/Members/DownLoads/2007_PSC_Handbook.pdf.
- Jackson, A. and Lapsley I. (2003), The diffusion of accounting practices in the new “managerial” public sector *The international journal of public sector management*, Vol. 16, N. 5.
- King, G.; Keohane, R. O. and Verba, S. (1994), *Designing Social Inquiry: Scientific Inference in Qualitative Research*, Princeton University Press.
- Kuhn, T. S., (1962), *The structure of scientific revolution*, University of Chicago Press, Italian version, (1969) Einaudi.
- Lapsley, I.; Brown, T.; Jackson, A.; Oldfield, R. and Pomg, C. (2003), *The transformation of the Public Sector: the role of accounting in sustaining change*, The Institute of Chartered Accountants of Scotland.
- Lie, J.; Perera, H. and Rahman, A., (2005), The evolution of accruals-based Crown (government) financial statements in New Zealand, *Accounting, Auditing & Accountability Journal*, Vol. 18, N. 6.
- Lüder, K. and Jones R. (2003), *Reforming Governmental Accounting and Budgeting in Europe*, Fachverlag Moderne Wirtschaft.
- Lüder, K. (1992), A contingency model of governmental accounting innovations in the political-administrative environment, *Research in Governmental and Non-Profit Accounting*, Vol. 7.
- Marchi, L. (2003), *I sistemi informativi aziendali*, Giuffrè.
- McCulloch, B. W. and Ball, I. (1992), Accounting in the context of public sector management Reform, *Financial Accountability and Management*, Vol. 8, N. 1.
- Megali, C. and Pozzoli, M. (2005), Le proposte del Public Sector Committee (PSC) dell’Ifac di principi contabili internazionali per il settore pubblico con particolare riferimento agli enti locali, *Azienda Pubblica*, N. 3.
- Merton, R. K. (1965), *On the shoulder of Giants*, NY Free Press, Italian version, (1991), Il Mulino.

- Miles, M. and Huberman, M. (1984), *Qualitative data analysis: A source book for new methods*, Sage Publications.
- Mussari, R. (2006), *La rilevazione nelle amministrazioni pubbliche*, in Aa.Vv., *Economia delle aziende pubbliche*. McGraw-Hill.
- Mussari, R. (1995), Italian Municipal Audit. Half a reform?, *Financial Accountability and management in Governments*, Vol. 11, N. 2.
- Mussari, R. (2005a), *I sistemi di contabilità e bilancio dello stato nell'europa comunitaria*, Giuffrè editore.
- Mussari, R., (2005b), *Il mutamento dei sistemi contabili pubblici locali: valenze informative e culturali*, in Farneti, G. and Pozzoli, S. (eds.), *Principi e sistemi contabili negli enti locali*, Franco Angeli.
- Ogden, S. G. (1995), Accounting, Transforming Frameworks Of Accountability: The Case Of Water Privatization, *Organizations And Society*, Vol. 20, N. 213.
- Olson, O.; Humphrey, C. and Guthrie, J. (2001), Caught in an Evaluatory Trap: a Dilemma for Public Services under NPFM, *The European Accounting Review*, Vol. 10, N. 3.
- Pina, V. and Torres, L. (2003), Reshaping public sector accounting: an international comparative view, *Canadian Journal of Administrative Sciences*, Vol. 20, N. 4.
- Politt, C. and Bouckaert, G. (2002), *La riforma del management pubblico*, italian version, Egea.
- Pozzoli, S. (2003), I principi contabili internazionali e nazionali: una riflessione, *Azienditalia*, N. 9.
- Pozzoli, S. (2005), Una riforma dell'ordinamento contabile degli enti locali, *Rivista italiana di Ragioneria ed Economia Aziendale*, sept.- ott.
- Puddu, L. (2001), *Ragioneria pubblica. Il bilancio degli enti locali*, Giuffrè.
- Rebora, G. (1999), *Un decennio di riforme. Nuovi modelli organizzativi e processi di cambiamento delle amministrazioni pubbliche (1990-1999)*, Guerini e Associati.
- Roberts, J. and Scapens, R. (1985), Accounting Systems And Systems Of Accountability – Understanding Accounting Practices In Their Organizational Contexts, *Accounting, Organizations And Society*, Vol. 10.
- Robson, K. (1991), On the arena of accounting change: the process of translation, *Accounting, Organizations and Society*, Vol. 16, N. 5-6.
- Scott, J. E. M.; McKinnon, J. L. and Harrison, G. L. (2003), Cash to accrual and cash to accrual. A case study of financial reporting in two NSW hospitals 1957 to post-1975, *Accounting, Auditing & Accountability Journal*, Vol. 16, N. 1.
- Silverman, D. (2002), *Come fare ricerca qualitativa*, Carocci.
- Stewart, J. D. (1984), *The Role Of Information In Public Accountability*, in Hopwood, A.; Tomkings, C. R. (eds), *Issue In Public Sector Accounting*, Philip Allan Publishers Limited.
- Yin, R. K. (1990), *Case study research. Design and methods*, Sage Publishing.
- Tricker, R. I. (1983), *Corporate Responsibility, Institutional Governance And The Roles Of Accounting Standards*, in Bromwich, M. and Hopwood, A. G., *Accounting Standards Setting – An International Perspective*, Pitman.
- Villa, F. (1841), *La contabilità applicata alle amministrazioni private e pubbliche*,
- Zambon, S. (2003), *The advent of the age of accounting standards for public administration*, in Zambon, S. (eds.) *I principi contabili per le pubbliche amministrazioni. Statuizione, riconoscimento e applicazione nel contesto italiano e internazionale*, FrancoAngeli.
- Zangrandi, A. (2003), *Management pubblico e crisi finanziaria*, Egea.
- Zappa, G. (1950), *Il reddito di impresa. Scritture doppie, conti e bilanci di aziende commerciali*, Giuffrè.
- Zuccardi Merli, M. (2005), *Il sistema informativo contabile per l'ente locale: verso una prospettiva di integrazione*, in Anselmi, L. (ed.) *Principi e metodologie economico-aziendali per gli enti locali. L'azienda comune*, Giuffrè.

(Página deixada propositadamente em branco)

Giuseppe Grossi

Torbjörn Tagesson

CONSOLIDATED FINANCIAL REPORTS IN LOCAL GOVERNMENT: A COMPARATIVE ANALYSIS OF IPSASB AND SCMA

Introduction

During the last few decades public sector organisations in many countries have introduced accrual accounting including consolidated accounting (e.g. Lüder and Jones, 2003; Stalebrink and Sacco, 2006). In many countries also international auditing and consulting firms have played a crucial role in the process of implementing accrual accounting in the public sector (Lüder and Jones, 2003; Christensen, 2005). Methods and practices from the private sector have been copied and introduced in the public sector without any thorough analysis of the objectives and characteristics of the latter (Christiaens, 2002). According to Christiaens, the uncritical introduction of private sector accounting methods and the apparent lack of a conceptual framework for governmental accounting creates problems rather than resolving them.

The shift from cash to accrual reporting represents a major development in public sector financial reporting. Broadbent and Guthrie (1992) described this paradigm shift as *new accounting* and associated it with a move in the public sector towards *managerialism*. Hopwood (1984) associated the use of accrual accounting with government decisions to induce efficiencies into public institutions. Aiken and McCrae (1992), however, cautioned about the potential risk of welfare or other policy distortions that might be caused by the inappropriate application of accrual accounting outside competitive markets.

Changing from a cash basis to an accrual basis of accounting has implications for many features of public sector accounting and financial reporting, one of which is the use of accrual-based consolidated financial reporting. While the simple aggregation of cash-based data of individual entities will result in a form of consolidated report, the accrual-based method of consolidated financial reporting includes adjustments designed to eliminate double-counting of data where inter-entity transactions have occurred (Wise, 2004).

The development of municipal corporations has led to the observation that annual accounts of local governments disclose only a partial view of their economic and financial

activities. This is because the financial consequences of subsidiaries, joint ventures and associates are not necessarily included in the annual reports of the local governments. Thus, the decentralisation process has resulted in a great lack of information (Walsh, 1994). Consequently, accountability and decision usefulness of local governments is no longer guaranteed by their annual accounts. Internal users and external users of financial information are not able to base their decisions on reliable and relevant information about the financial position, financial performance and cash flows of the local government entity (Hughes, 1994). Consolidation is a necessary step to overcome this information gap (Lande, 1998; Grossi, 2001 and 2004; Srocke, 2004; Wise, 2004 and 2006).

In the private sector, consolidated financial statements are useful accounting instruments that improve accountability and provide an overall true and fair view of assets/liabilities and financial results (profit/loss) of the group (Childs, 1949; Walker, 1978). In the public sector, the consolidated financial statement is a useful instrument for governments that deal with a large number of publicly-owned companies because it presents a clear picture of the current economic status and functioning of the municipal corporate group (Lande, 1998; Grossi, 2001 and 2004; Srocke, 2004; Wise, 2004 and 2006; Grossi and Srocke, 2005). Such information is not ascertainable just by reading and analysing the single annual reports published by each company. However, this does not mean that the accounting documents drafted by local governments or by the companies that are a part of the municipal corporate group (which have their own objectives in terms of information and data) are any less important. The methodology used to gather information for the consolidated financial statement is still accrual accounting and thus must be implemented in a uniform way in all entities belonging to the municipal corporate group, as well as in local government itself. Group results are determined by LGs and their companies (Grossi, 2001). In this case we are dealing with results that have been achieved through economic processes carried out by LGs, in addition to those carried out by companies under the financial control of the LGs. The technical methodology used to calculate group results consists of consolidated accounts that include both the consolidated Balance Sheet and the consolidated Income Statement (Grossi, 2004; Srocke, 2004; Grossi and Srocke, 2005; Wise, 2006).

This financial tool of the municipality, together with a new conglomerate culture, takes on the fundamental role of an instrument in the hands of the city council and executive board that plan and control the activities of the publicly-owned corporations. Without a doubt, an aggregate accounting system promotes and improves the relations between the municipalities and the publicly-owned companies that are interested in understanding the real opportunities of debt retirements. The following users are interested in the overall information of the municipal group's consolidated report: creditors of the LG and the publicly-owned corporations, the mayor and the city executive board, and the city council and the citizens that are the clients of all the municipal activities. Moreover, the consolidated report assumes a special informative value for the internal and external stakeholders of the municipal group (such as the suppliers, the other creditors, the employees of the municipality and the publicly-owned corporations).

The mayor and the city executive board can consider the consolidated reports as a useful tool for steering and controlling the direct and indirect provision of public services. It is an indispensable tool for public decision-making in programming and controlling the different political choices.

The city council uses these financial tools, (mainly the consolidated reports) to guide and direct the management of the municipal ownerships. The political majority and the opposition are the principal users of LG's consolidated reports. The political majority in the assembly can use the consolidated reports to have an overall true picture of municipal operations, which helps in the activities of guidance and control. The political minority of the municipal assembly can use this accounting tool to give an opinion about the whole administration, to underline the possible limits and to suggest alternative solutions.

The consolidated reports are also very useful for external stakeholders. Since the compilation of the consolidated reports helps to give a true and fair view of the whole situation of the LG and its publicly-owned corporations, the transparency between the citizen and the public administration is improved. The increasing need for financial and social results renders even more important the requirement to also use new financial tools (such as consolidated reports) in the LGs; the consolidated report becomes the real tool of communication and evaluation" between the municipal group and the citizens.

The other public organisations (State and Regions) are interested in expanding their financial information by using the consolidated balance sheet and income statement to understand the real potential of the municipal group in reaching and keeping, long-term, dynamic financial equilibrium.

The banks are undoubtedly interested in the consolidated reports of the municipal groups as a means to understand the real and effective opportunities of debt retirement. Moreover, the consolidated report could be a useful, informative tool for determining the solvency of the entire municipal group. Within the different tasks of the consolidated balance sheet are included the measure of risk and the analysis of the capital structure of the municipal group.

Other external subjects (such as employees, clients, suppliers) are interested in having useful information about the size and future potential of local governments and the companies they own.

Such information is not ascertainable just by reading and analysing the single annual accounts published by each company. However, this does not mean that the accounting documents drafted by LGs, or the companies that are a part of the municipal group (that have their own objectives in terms of information and data), are any less important. On the contrary, every company's own documents are complementary to the consolidated financial statement. The methodology used to gather information for the consolidated financial statement is still accrual accounting and thus must be implemented in a uniform way in all companies belonging to the municipal corporate group, as well as in LG.

However, the stimuli behind these accounting reforms and the key factors in the reform process have varied among different countries (e.g. Lüder and Jones, 2003). In Sweden, an early adopter of both accrual accounting and consolidated accounting in the municipal sector, the Swedish Federation of Local Authorities and representatives from the academy played a critical role in the introduction and shaping of the reform process (e.g. Bergevärn *et al.*, 1995; Mattisson *et al.*, 2003). Academics played a particularly crucial role in the introduction and implementation of consolidated reporting (Svenska Kommunförbundet, 1989; Bergevärn *et al.*, 1995).

The aim of this study is to critically analyse similarities and differences in the approach to consolidated financial statements in standards issued by the International Public Sector Accounting Standards Board (IPSASB) and the Swedish Council for Municipal Accounting (SCMA). Sweden, as an early adopter, is an interesting case since the regulation of consolidated reporting in municipalities took place even before accounting in the private sector began significantly to be influenced and harmonised with international accounting standards.

The paper is organized in four main sections. Section 1 introduces the theoretical framework, while Section 2 describes the process of data collection. The paper continues presenting consolidated reporting for both the SCMA and the IPSASB, finalising with a comparative analysis.

1. Theoretical framework

The identification and definition of the accounting entity is dependent on the area of economic interest to identified stakeholders (Eriksson, 2002). Stakeholders might have different needs and uses for accounting information. Hence, a stakeholder identified as a primary user of accounting information can be expected to influence not only accounting issues such as valuation and reporting, but also the determination and definition of the accounting entity and methods of consolidating group accounts. Clearly, in order to determine the accounting goals, stakeholders' needs and uses of accounting information must be understood (e.g. Daniels and Daniels, 1991).

The role of accounting in providing investors with information for decision making has a long history in accounting theory. For instance, Moonitz (1961) stated that accounting information had to be useful for investors. This idea was the basis of the decision-making approach (AICPA, 1973) which is the foundation of the conceptual frameworks of both FASB and, later, IASB. However, investors are not the only possible stakeholders and accounting is more than an instrument for decision making. In the public sector, accounting plays a crucial role in demonstrating accountability (Pallot, 1992; Coy *et al.*, 2001; Chan, 2003; Mack and Ryan, 2006). According to the accountability approach (e.g. Ijiri, 1975), accounting is central in the control and balance of interest between agents and principals. Stanton *et al.* (1998) demonstrate how accounting information varies depending on whether accountability or decision making is emphasised. According to Demski *et al.* (2002), there is a tension between decision making and control "... because the data and processes that help to establish control are not necessarily the best for decision making, and the same is true in reverse". Ijiri (1975) applies a completely different meaning to the concepts of relevance and reliability than FASB does (Artsberg, 1992).

So, simply put, different stakeholders may emphasise different aspects of accounting. Thus, the substance and form of the accounting could be expected to differ, depending on which group of individuals and stakeholders has the strongest influence and interest in the various aspects.

Financing, legal form and purpose of the organisation are all aspects that influence the conditions and need for accounting information. In the preparatory work for the Swedish Municipal Accounting Act, the legislators outlined some specific aspects that they saw

as influencing the accounting model and motivating particular piece of legislation for municipal accounting. Brorström *et al.* (2005) summarise these arguments as follows:

- Municipalities run operations in the public interest which are mainly financed by taxes and grants from central government. Production means such as fixed assets normally have the character of a public utility, which means that they are not realizable on a market.
- All obligations are secured by the municipalities' power of taxation.
- The activities of municipalities are regulated by legislation. The activities are supposed to be in the public interest. Hence, municipalities are generally prevented from running operations for the purpose of profit.
- Municipal revenues are not assignable to a consumer market; consequently, in the short-term perspective they are relatively unaffected by changes in expenses.
- A municipality cannot go bankrupt, since its position is guaranteed by the Swedish Constitution.
- The form of government is built upon the principles of representative democracy, including the political responsibilities of the elected representatives. The form of government is established on the principle of openness, that is, all documents and the bases for decisions are public records.
- The budget plays a crucial role in the formulation of goals, priorities and resource allocation. Budgetary decisions are central parts of the management of municipalities, as they are politically governed organisations.

These aspects are not specific only to the Swedish situation. Similar arguments are emphasised by Pallot (1992) in her argument for an accountability-based framework for public sector accounting. Jones and Pendlebury (2004) also stress that the obligations are secured by the power of taxation. Many authors point to the fact that public sector activities are budget-controlled and that the accounting information principally is used in the follow-up of the budget (Daniels and Daniels, 1991; Brusca, 1997; Dittenhofer, 2001; Chan, 2003).

According to the Governmental Accounting Standards Board, the objective of governmental financial accounting is to provide financial information "...that is useful for economic, social and political decisions" (GASB, 1987). Thus, the objectives of governmental accounting are different from and broader than the objectives of private sector accounting. Surplus and earnings are not even long-term goals in the public sector; the goal is rather to offer services to the citizens (Jones and Pendlebury, 2000; Dittenhofer, 2001). Moreover, large financial surpluses are considered 'bad'; they signal political irresponsibility and imposition of too high taxes (Anthony, 1985; Gosling, 1992).

It is not only objectives that differ between public and private sectors. Another characteristic of public sector accounting is the diversity and heterogeneity of the principals (Stalebrink and Sacco, 2006). A resident in a municipality is not only an 'owner' but also a 'customer' (Grönlund *et al.*, 2005). Besides residents and voters, there are other principals such as central government, creditors/investors (GASB, 1999), sister organizations such as other municipalities (Coy *et al.*, 1997; Mack and Ryan, 2006) and internal users such as officials and politicians (Mack and Ryan, 2006).

Even though citizens and other stakeholders often lack direct interest in municipal accounting matters (Zimmerman, 1977; Brusca, 1997; Coy *et al.*, 1997; Bouckaert

and Dooren, 2003), municipal accounting is an important part of the democratic system (GASB, 1987; Edström *et al.*, 2004). Voters and taxpayers have a ‘right to know’ (GASB, 1987) and must be regarded as the primary stakeholders of municipal accounting (Daniels and Daniels, 1991). Therefore, accounting is an important tool to create political accountability in the democratic system:

“The accounting system can be highly useful to the accountant and the accountee even if no one reads the accounting reports. Like insurance, what is ultimately of use here is the assurance provided by an accounting system of records and reports that things can be accounted for whenever necessary.” (Ijiri, 1983:78)

In sum, compared to the private sector, the public sector differs in organisational goals, financing, ownership, recipients of accounting information, etc. Considering these aspects, the decision-making approach does not seem to be so relevant for public sector accounting. We argue that an accountability approach (e.g. Ijiri, 1975 and 1983) would much better serve the objectives and needs of public sector accounting (Pallot, 1992; Mack and Ryan, 2006). This will be an important theme as we proceed to analyse the approach of consolidated financial statements in standards issued by the IPSASB and the Swedish Council for Municipal Accounting (SCMA).

2. Data collection

The analysis is primarily based on documentary studies. Besides the accounting standards on consolidated reporting issued by the IPSASB and SCMA, we also analysed statements, discussion papers, instruction manuals, annual reports and other documents regarding accrual accounting and consolidated reporting in municipalities and local government. In addition to the study of documents we had the opportunity to participate and observe the meetings of the SCMA’s expert committee over a period of three years; these observations particularly helped us to better understand and interpret the data from the documents.

3. The concept of control and method of consolidation according to IPSASB and SCMA

3.1 Consolidated reporting in Swedish municipalities

Consolidated reporting was introduced on a voluntary basis in the late 1980s. The Swedish Federation of Local Authorities encouraged the introduction of consolidated reporting and in 1989 published a booklet with instructions and ideas about objectives and techniques for consolidated reporting in a municipal context. This booklet was prepared in co-operation with Dr. Lennart Eriksson from Gothenburg University, one of the leading scholars in the field of consolidated reporting. The basic ideas in this booklet still dominate praxis as well as standards in the field of consolidated reporting

within the municipal sector. The Municipal Act of 1992 introduced a requirement that municipalities' annual reports should include a consolidated financial statement. In connection with the statutory requirement of consolidated reporting, the standard-setter of that time, the Swedish Federation of Local Authorities' Reference Group in Accounting Issues [*Referensgruppen i redovisningsfrågor*], issued Standard 7 on consolidated reporting.

From 1998 municipal sector accounting has been regulated by a special law, the Municipal Accounting Act. According to this act, municipalities should establish a consolidated accounting report including a balance sheet and an income statement. The legislation refers to GAAP and standard-setters in the more detailed issues about consolidation methods and concept of control. The SCMA, which took over the power of standard-setting for the municipal sector when the Municipal Accounting Act was introduced, issued a standard (RKR 8.1) which is essentially built upon the same fundamental presumptions as earlier standards and GAAP.

In the municipal consolidated group, wholly-owned companies are included as well as companies with joint ownership. Companies should be included in the consolidated reporting if the municipality directly or indirectly has a material/significant influence. A rule of thumb is that the municipality should control 20% of the number of votes. However, according to the standard, there are situations when the numbers of votes comes short of 20% but the ownership involves a materially economic commitment for the municipality. In these cases the company should be included in the consolidated accounting. Hence, it is the economic concept rather than the legal concept that decides whether a company should be consolidated or not (Lefebvre and Lin, 1991). But this approach is from the municipalities' point of view. The standard also states that, besides the criteria of significant influence, the municipality should also consider whether a consolidation of a wholly- or jointly-owned company provides any material information, compared with the information that the municipality's annual report give.

The accounting principles of the municipality should guide the preparation of the consolidated accounting reports. As a general rule, the proportional method should be used when consolidating the companies. The standpoint is based on the fact that a full consolidation method may imply that a company that is jointly owned by (for example) two municipalities can only be included in the consolidated reporting of one of the municipalities. Considering the specific aspects of municipal operations (Brorström *et al.*, 2005) this would, according to the standard-setter, not give a true and fair view of the consolidated accounting. As profit is not a goal for municipalities, the need for information in order to estimate ROA or similar earning measurements is not of importance. Instead, it is information about the costs for service delivery and the obligations for the municipality that is of importance for the consolidated financial statements.

Even if the general rule is the proportional method of consolidation for each company, the standard-setter allows one exception. If an intra-group has been consolidated with a full consolidation method and, due to time and cost reasons, it is not justifiable to consolidate each company one by one, it is acceptable to proceed from the intra-group's annual accounts even if it is prepared according to the full consolidation method. This alternative to the general rule has been criticised because it could

mean that the consolidated annual accounts of the municipality become over- or underestimated depending on ownership structure (Falkman, 2005).

The main content of SCMA Standard 8.1 on consolidated reporting can be summarised as follows:

- It is the material information about the municipality's obligations rather than control that determines whether a company should be included in the consolidated reporting or not;
- The proportional method should be used when consolidating the companies.

3.2 Consolidated reporting according to IPSASB

In the private sector, the obligation to compile consolidated financial statements as well as the consolidation area itself will be defined according to the concept of control. If a company controls another company, the controlling organisation is obliged to present consolidated financial statements (IFRS 27). According to IAS 27, control is given if the parent is able to govern the financial and operating policies of another company. It does not matter if the parent actually uses the power to influence or if the parent benefits because of the influence, either in a positive or negative way. The ability to govern the financial and operating policies must be proved by a formal document like a statute, an agreement with the other investors or by reason of a majority of voting rights (IAS 27.12).

However, the definition of control used in the private sector does not satisfy the complexity of the public sector. This is because local governments aim to meet non-financial as well as financial objectives, whereas municipal corporate groups consist of heterogeneous, decentralised organisations. Therefore the definition of control must be changed in order to satisfy the special characteristics of the public sector.

The criteria that define control according to IPSAS 6 are the following:

- The local government benefits from the activities of the decentralised organisations;
- The local government has the power to govern the financial and operating policies of the decentralised organisations; and
- The power to govern the financial and operating policies is presently exercisable. (IPSAS 6.36).

If all three criteria are met, the local government controls the other decentralised organisation, and there is an obligation to prepare consolidated financial statements.

In contrast to the private sector's definition of control, these criteria fix two elements of the definition: the 'benefit element' and the 'power element' (IPSAS 6.26). Both elements have to be considered. The benefit element signifies that the controlling entity has to receive a financial or non-financial benefit from the activities of the decentralised organisation. This can also be a financial risk (IPSAS 6.27). The power element signifies that the government or the parent of a subgroup must be able to exercise the power to govern the financial and operational policies of the decentralised organisation. This does not require a majority of voting rights, but the power must be conferred by law or another formal agreement. The formal agreement must presently exist. If the ability to exercise the power requires changing law or renegotiating agreements,

the power is not presently exercisable. The existence of power to control does not mean that the controlling government or parent of a subgroup has to use this power. It is sufficient that the controlling entity is able to use it. It is possible that the controlling entity never gives any instruction to the decentralised organisations (IPSAS 6.28). Besides, the controlling entity is not required to have influence on the day-to-day business (IPSAS 6.29) (Grossi, 2004; Srocke, 2004).

Generally, every controlled entity should be consolidated (IPSAS 6.21). Only when “(a) control is intended to be temporary because the controlled entity is acquired and held exclusively with a view to its subsequent disposal in the near future; or (b) it operates under severe external long-term restrictions which prevent the controlling entity from benefiting from its activities” should the controlled entity be excluded from consolidation (IPSAS 6.22).

If control does not exist, it is necessary to investigate whether the decentralised organisation might be a joint venture or associate. According to IPSAS 8.5, a “joint venture is a binding arrangement whereby two or more parties are committed to undertake an activity which is subject to joint control”. That means that the controlling government or parent of a subgroup cannot decide about the decentralised entity on its own. The entity has joint control over the joint venture together with another venturer.

IPSAS 7 should be applied for accounting by local government for investments in associates (IPSAS 7.1). Associates are decentralised organisations “in which the investor has significant influence and which is neither a controlled entity nor a joint venture of the investor” (IPSAS 7.6). Significant influence means the power to influence financial and operating policy decisions of the investee. An investor is supposed to have significant influence if it holds at least 20% voting power of the investee. If the voting power is about 20% and significant influence does not exist, it can be proven that the investee is not an associate according to IPSAS 7. If there are less than 20% voting rights, a significant influence still exists if the government or parent of a subgroup holds an ownership interest in the other decentralised organisation and the relationship between both organisations shows a significant influence of the investor.

Depending whether control, a joint venture or an associate exists, the consolidation method is determined and therefore the effect of the decentralised organisation will be presented in the consolidated financial statements regarding the influence the local government is able to exercise.

The consolidation methods should represent the different influences the public sector entity has on its subsidiaries. If a public sector entity is under control of another public sector entity, it shall be fully consolidated (IPSAS 6.17). If it is a joint venture, the entity should be consolidated proportionally or by using the equity method (IPSAS 8.36). If a public sector entity has just a significant influence on another public sector entity, the equity method shall be used (IPSAS 7.18).

4. Comparative results

There are several differences between the standards issued by the IPSASB and the SCMA. One obvious difference between the two standard-setters concerns the methods of consolidation. In Table 1 we summarise these differences.

Table 1 – Differences in methods of consolidation

	IPSASB	SCMA
	Decision-making approach	Accountability approach
Controlled Entities	Purchase method Full consolidation	Purchase method Proportional consolidation
Associates	Equity method	Purchase method Proportional consolidation
Joint Ventures	Purchase method Proportional consolidation (Equity method)	Purchase method Proportional consolidation

In the IPSASB standards the concept of control is central. Companies are treated differently, depending on equity interest and the municipality's power to govern the financial and operating policies in the corporation. No corresponding division exists in the SCMA standard. Even if the SCMA standard implies significant influence, the concept of control is not so crucial in the SCMA's standard-setting as in the IPSASB's; instead, economic materiality and obligations are emphasised. In practice this means that according to the IPSASB, several different consolidation methods, full respectively proportional consolidation according to purchase method as well as the equity method, have to be used in the consolidated reporting. According to the SCMA standard, proportional consolidation according to the purchase method should be used, no matter what the equity interest.

Another obvious difference between the standard-setters is that the IPSASB standards are much more comprehensive and detailed than the SCMA standard.

Conclusions

The IPSASB standards are essentially based on standards issued for the private sector by the IASB (2004). This means that the fundamental feature of the standards is based on a decision-making approach that aims to produce information primarily for investors. A negative consequence of this is that the special focus and special needs of the public sector are not sufficiently considered (e.g. Gustavsson, 2004). However, since the majority of the daughter companies have the form of association based on the capitalistic principle of a joint stock company (e.g. Collin and Hansson, 1991), the decision-making approach can in one way seem to be rational and appropriate in the matter of consolidation. But still it is unsatisfactory that IPSASB standard-setting is not based on a comprehensive theoretical framework that explicitly considers the special conditions and needs of public sector accounting information.

The SCMA offers an alternative approach of consolidated reporting which, instead of focusing on future-oriented accounting information, focuses on accounting information useful for accountability relating to employment of resources and obligations. As a consequence, the SCMA standard not only considers consolidation methods and concept of control but also valuation, a topic that IPSASB does not consider in its

corresponding standards. However, the SCMA standard is very generally kept and allows scope for different estimates and judgements, something that can have a negative effect on comparability and reliability (e.g. Falkman, 2005). The exception rule that allows the municipality to proceed from the intra-group's annual accounts, even if it is prepared according to the full consolidation method, is a concession towards the accountant, which is not in line with the accountability approach and the interest of the accountee. In practice this exception rule in many cases overturns the fundamental ideas that the standard is based upon, as more and more municipalities organise their ownership and companies in a municipal business group with a 100%-owned parent company at the top of the group.

In sum, there are several differences between IPSASB and SCMA in their standards for consolidated reporting. The fundamental difference is that the IPSASB's standards are based on a decision-making approach while the SCMA's standard is based on an accountability approach. Considering organisational goals, financing, ownership and recipients of accounting, several arguments support an accountability approach in public sector accounting. However, theoretical arguments also have to be balanced against practical and economical matters. In this balancing act one must also consider national legislation and the scope, aim and direction of the public sector. This comparative study has shown that:

- There are alternative approaches other than the one offered by the international standard-setter.
- Accrual-based public sector accounting does not necessarily have to be based on the decision-making approach.
- The different approaches each have their strengths and limitations.

References

- AICPA (American Institute of Certified Public Accountants) (1973), *Objectives of Financial Statements*. New York: AICPA.
- Aiken, M. and McCrae, M. (1992), Full cost pricing and public sector reporting: Alleviating undisclosed short-run measurement biases of 'User to Pay' policies, *Financial Accountability and Management*, Vol. 8, No. 1, Spring, 13-34.
- Anthony, R. N. (1985), Games government accountants play, *Harvard Business Review*, Vol. 63, No. 5, 161-170.
- Artsberg, K. (1992), *Normbildning och redovisningsförändring [Standard setting and accounting change]*. Lund: Lund University Press.
- Bergevörn, L-E.; Mellemvik, F. and Olson, O. (1995), Institutionalization of municipal accounting: A comparative study between Sweden and Norway. *Scandinavian Journal of Management*, Vol. 11, No. 1, 25-41.
- Bouckaert, G. and van Dooren, W. (2003), Performance Measurement and Management, in Bovaird, T. and Löffler, E. (eds.), *Public Management and Governance*. London: Routledge.
- Broadbent, J. and Guthrie, J. (1992), Changes in the public sector: A review of recent 'alternative' accounting research, *Accounting, Auditing and Accountability Journal*, Vol. 5, No. 2, 3-31.
- Brorström, B.; Haglund, A. and Solli, R. (2005), *Förvaltningsekonomi (Public administration)*. Lund: Studentlitteratur.
- Brusca, M. I. (1997), The usefulness of financial reporting in Spanish local governments, *Financial Accountability & Management*, Vol. 13, No. 1, 17-34.
- Chan, J. (2003), Government accounting: An assessment of theory, purposes and standards, *Public Money and Management*, Vol 23, No 1, 13-20.

- Childs, W. H. (1949), *Consolidated Financial Statements*. New York: Cornell U. Press.
- Christensen, M. (2005), The 'third hand': Private sector consultants in public sector accounting change, *European Accounting Review*, Vol. 14, No. 3, 447-474.
- Christiaens, J. (2002), Symposium on local government accounting reforms in Europe: Introduction, *Journal of Public Budgeting, Accounting & Financial Management*, Vol. 14, No. 4, 560-564.
- Collin, S-O. and Hansson, L. (1991), *Kommunalt Bolag? - För- och nackdelar med bolagisering av kommunalteknisk verksamhet* [Municipal corporations - advantages and disadvantages]. Stockholm: Svenska Kommunförbundet.
- Coy, D.; Dixon, K.; Buchanan, J. and Tower, G. (1997), Recipients of public sector annual reports: Theory and an empirical study compared, *British Accounting Review*, Vol. 29, No. 2, 103-127.
- Coy, D.; Fischer, M. and Gordon, T. (2001). Public accountability: A new paradigm for college and university annual reports, *Critical Perspectives of Accounting*, Vol. 12, No. 1, 1-31.
- Daniels, J. and Daniels, C. (1991), Municipal financial reports: What users want, *Journal of Accounting and Public Policy*, Vol. 10, No. 1, 15-38.
- Demski, J. S.; Fellingham, J. C.; Ijiri, Y. and Dunder, S. with introduction and concluding remarks by Glover, J. C. and Liang, P. J. (2002), Some thoughts on the intellectual foundations of accounting, *Accounting Horizons*, Vol. 16, No. 2, 157-168.
- Dexia Crediop (2004), *Local Public Companies in the 25 Countries of the European Union*. Paris: Dexia.
- Dittenhofer (2001), Behavioural aspects of government financial management, *Managerial Auditing Journal*, Vol. 16, No. 8, 451- 457.
- Edström, N-E.; Eriksson, O.; Grundvall, B.; Gustavsson, C-G.; Haglund, A.; Lagebro, A.; Nilsson, A.; Nilsson, B-L.; Olin, E.; Salomon, L.; Hjortsberg Sandgren, Å. and Tagesson, T. (2004), Årsredovisningarna håller inte måttet [The annual financial statements are not good enough], *Dagens Samhälle*, No 15.
- Eriksson, L. (2002), *Koncernredovisning (Consolidated Financial Reporting)*. Lund: Studentlitteratur.
- Falkman, P. (2005), Koncernredovisning i kommuner och landsting – vilka är problemen [Consolidated reporting in municipalities and county councils – what are the problems?]. *Balans*, No 10, 38-41.
- GASB (1987), *Concept Statement no. 1 of the Governmental Accounting Standards Board*. Stamford, CT: GASB.
- GASB (1999), *Basic financial statements – and management's discussion and analysis – for state and local governments*. Norwalk, CT: GASB.
- Gosling, J. J. (1992), *Budgetary Politics in American Governments*. New York: Longman.
- Grossi, G. (2001), Consolidated financial reporting in local governments: A comparative study between Italy and Sweden. Paper presented at the CIGAR Workshop 'Innovations in Governmental Accounting' in Valencia, Spain.
- Grossi, G. (2004), *Il bilancio consolidato negli enti locali* [Consolidated financial statements in local governments], seconda edizione aggiornata. Padova: Cedam.
- Grossi, G. and Srocke, I. (2005), Critical analysis of the concept of control according to IPSAS referring to German and Italian local governments, in: *Accounting and Performance Management Perspectives in Business and Public Sector Organisations*. Bookmill: Tartu, 226-237.
- Grönlund, A.; Tagesson, T. and Öhman, P. (2005), *Principbaserad redovisning. (Principle-based accounting)* Lund: Studentlitteratur.
- Gustavsson, C-G. (2004), *Internationella normer för redovisning (International Standards for Accounting)*. Radet för Kommunal Redovisning (SCMA): Stockholm.
- Hopwood, A. G. (1984), Accounting and the pursuit of efficiency, in A. Hopwood and C. Tompkins (eds.), *Issues in Public Sector Accounting*. Oxford: Philip Allan Publ.
- Hughes, O. (2004), *Public Management & Administration*. London: Macmillan Press.
- IASB (2004), *International Accounting Standards*. London: IASB.
- IFAC IPSASB (2005), *Handbook of International Public Sector Accounting Standards*. New York: IFAC.

- Ijiri, Y. (1975), *Theory of Accounting Measurement*. Sarasota, FL: American Accounting Association.
- Ijiri, Y. (1983), On the accountability-based conceptual framework of accounting, *Journal of Accounting and Public Policy*, Vol. 2, No. 2, 75-81.
- Jones, R. and Pendlebury, M. (2000), *Public Sector Accounting*. (5th ed.). London: Prentice-Hall.
- Jones, R. and Pendlebury, M. (2004), A theory of the published accounts of local authorities, *Financial Accountability & Management*, Vol. 20, No. 3, 305-325.
- Lande, E. (1998), The scope of accounting consolidation in the local public sector, in Caperchione, E. and Mussari R. (eds.), *Comparative Issues in Local Government Accounting (227-239)*. London: Kluwer.
- Lefebvre, C. and Lin, L-Q. (1991), On the scope of consolidation: A comparative study of the EEC 7th directive, IAS 27 and the Belgian Royal Decree on consolidation, *British Accounting Review*, Vol. 23, No. 2, 133-147.
- Lüder, K. and Jones, R. (eds.) (2003), *Reforming Governmental Accounting and Budgeting in Europe*, Frankfurt am Main: Fachverlag Moderne Wirtschaft.
- Mack, J. and Ryan, C. (2006), Reflections on the theoretical underpinnings of the general-purpose financial reports of Australian government departments, *Accounting, Auditing & Accountability Journal*, Vol. 19, No. 4, 592-612.
- Mattisson, O.; Paulsson, G. and Tagesson, T. (2003), Chapter 8: 'Sweden', in Lüder, K. and Jones, R. (eds.) *Reforming Governmental Accounting and Budgeting in Europe*. Frankfurt: Fachverlag Moderne Wirtschaft.
- Moonitz, M. (1961), *The Basic Postulates of Accounting*. Accounting Research Study no. 1. New York: AICPA.
- Pallot, J. (1992), Elements of a theoretical framework for public sector accounting, *Accounting, Auditing & Accountability Journal*, Vol. 5, No. 1, 38-59.
- Pina, V. and Torres, L. (1998), Decentralisation of services and consolidation of annual accounts of local governments. Paper presented at International Conference on Accounting for the New Public Management, Venice, Italy.
- Srocke, I. (2004), Consolidated financial accounting of public sector entities according to IPSAS and reform endeavours in Germany. Paper presented at International Conference on Accounting, Auditing and Management in Public Sector Reforms, Oslo, Norway.
- Stalebrink, O. J. and Sacco, J. F. (2006), Rationalization of financial statement fraud in government: An Austrian perspective, *Critical Perspectives on Accounting*, Vol 18, No 4, 489-507.
- Stanton, P; Hughes, J. W., and Stanton, J. (1998), Australian-USA federal governmental accounting: Convergence or divergence?, *Financial Accountability & Management*, Vol. 14, No. 4, 249-264.
- Svenska Kommunförbundet (1989), *Koncernredovisning för kommuner (Consolidated reporting in municipalities)*. Svenska Kommunförbundet: Stockholm.
- Torres, L. and Pina, V. (2002), Changes in public services delivery in the EU countries, *Public Money & Management*, Vol. 22, No. 4, 41-48.
- Walker, R. G. (1978), *Consolidated Statements*. New York: Arno Press.
- Walsh K. (1994), *The Impact of Competition, Marketing, Competition and the Public Sector: Key Trends and Issues*. London: Henry Tam.
- Wise, V. (2004), Government consolidated financial reporting: harmonisation issues. Paper presented at Business and Economics Society International Conference, Island of Rhodes, Greece.
- Wise, V. (2006), Cross-transfer of consolidated financial reporting - Conceptual concerns, *Australian Journal of Public Administration*, Vol. 65, No 3, 62-75.
- Zimmerman, J. L. (1977), The municipal accounting maze: an analysis of political incentives, *Journal of Accounting Research*, Vol. 15 (Supplement), 107-144.

(Página deixada propositadamente em branco)

**COMMUNICATION AND ACCOUNTABILITY IN THE PUBLIC SECTOR:
A POSSIBLE OVERLAP EXPLORED
IN THE AMERICAN AND ITALIAN CONTEXTS**

Introduction

Democracy is the basis of all modern western societies. Freedom, fairness and equity are its fundamental values that were cherished and fought for over the centuries. Its embryonic yet fascinating origins may be encountered in ancient Greece, the cradle of political communication. In fact, the Athenian agora was the first physical space where the open exchange of ideas, feelings and information among citizens was likely to directly influence face-to-face decisional processes in the name of public interest. Such 'communication space' showed a sharp relational orientation since it encompassed all the participants in the process. Its aim was the maintenance of a common sense of the citizenship. In fact, on one thing the classical Greeks were adamant: they liked living among equals, they enjoyed equality before the law and equal opportunities to speak in public assemblies (Minogue, 1995). Greek citizenry inaugurated this form of popular sovereignty that we call '*de visu democracy*'. Knowledge was power and since then the two concepts of *democracy* and *information* have ineluctably been linked.

The relationship between democracy and information is somewhat crucial still today, since it inevitably governs the relationship established between elected officials and citizens. It is not by chance that western democracies are now sharing a widespread tendency to focus their efforts on effective communication processes with the citizenry. Undoubtedly, they are stimulated by the ongoing proliferation of Information and Communication Technologies (ICT) whose implementation is becoming a strategic accountability medium. Moreover, ICT are even supposed to lead us all towards an era of utopian and somewhat unrealistic '*electronic democracy*' where we should be able to vote by phone or through text messages, participate in discussion forums and opinion polling by clicking on a website or become much more involved in public choices comfortably staying at home. Nevertheless, the role of ICT in promoting '*electronic democracies*' is a very controversial issue even from a philosophical perspective¹.

¹ See the Italian website of philosophy, www.swif.uniba.it/.

Its overestimation is conceivably based on the wrong assumption that democracy is a synonym for 'connection' or 'connectivity' and that the concept of 'direct democracy' might have the same meaning as the expression 'computerized democracy'. Castells (2002) pointed out that technologies cannot be defined by means of such dichotomies as good vs. bad or positive vs. negative: according to him, all that we know about ICT is that they are not neutral for their users.

Taking a jump back in time, political communication has dramatically changed its features and structures with the advent of mass media. In fact, as the underlying social communities became too large to allow direct representation, their political institutions started mirroring such growing process by implementing more and more complex forms of political organization. As a consequence, the process of political representation gradually took the place of direct personal involvement and 'communication spaces' became less and less relational while incorporating almost only informative and vertical flows of information from elected bodies to the citizenry. The advent of mass media played a crucial role in strengthening the foregoing restyling of political communication processes. By contrast, more recently, the diffusion of ICT and the astonishing growth of the Internet have played a key role in reshaping communication spaces while giving them back their original relational features.

To come to the crux of the matter, it is reasonable to assume that the whole population of a certain country is a potential user of the accounts of public sector organizations since this would accord with the basic notions of democracy (Jones and Pendlebury, 2000). Thus, the necessity to cope with the citizens' information needs would imply a natural shift from the concept of 'political communication' to 'political accounting', intended as an integrated informative system transforming economic, financial, and possibly, social and environmental outcomes of public action into understandable information for the citizenry. In a word, citizens call for governmental accountability. In such an instance, the composition of the word clearly helps us to understand what governments are expected to be according to the citizens' standpoint: in fact, AccountAbility is the ability to be accountable and goes hand in hand with the ability to answer the information needs of users while supporting their decisional processes (Pavan and Lemme, 2006).

With all this in mind, we will investigate whether and to what extent governments that are communicatively oriented to their citizens may be assumed as politically accountable to them. Thus, we will strive for a theoretical correspondence among the communication theory, the theory of agency and the concept of accountability. Pragmatically speaking, this would mean that the more governmental financial and non financial information targeted towards citizens is able to mirror the prerequisites of the communication theory, the more it would be likely to result in a successful encounter with the citizens themselves.

To test the foregoing hypothesis, we will rely on the Internet, given its characteristics of easy accessibility, full-time availability, immediate selectivity and social relevance. Then, we will refer to the American and Italian governmental environments, the former being the most prominent and well-structured federal state in the history and the latter being presently involved in a devolution process which is declared to evolve into a federal system. The study will be carried out at a federal level for the USA and at a central level for Italy on the basis of a multidisciplinary approach

involving such disciplines as accounting, public sector management and linguistics. To do so, for each country we will select a reference book available on the net. The selection will be carried out by searching those publications combining governmental communication processes with the citizenry with the technical contents of official financial documents. Thus, with reference to the American context, we will analyse the GASB² Concepts Statement N. 3 *Communication Methods in General Purpose External Financial Reports that contain Basic Financial Statements* (available at www.gasb.org). With reference to the Italian one, we will refer to a governmental publication issued by the Italian Department for Public Administration³. The title is *How to be accountable to citizens*⁴, available at www.funzionepubblica.gov.it/. Then, we will gather all the legally adopted financial documents we have found on the internet that were referred to in the foregoing reference documents⁵. All the material was downloaded in September 2006. It was issued during the years 2005 and 2006 and is still available on the websites of the Government Accountability Office (GAO) – www.gao.gov/ – and the National General Accounting Department⁶ – www.rgs.mef.gov.it – regarding the USA and Italy respectively. To investigate how the conceivable relationship between communication and accountability compared in the two contexts, the analysis will be conducted from a double standpoint. From a theoretical perspective, we will analyse the possible overlap between the communication theory, the theory of agency and the concept of accountability. Conversely, from a pragmatic standpoint, we will focus on the contents of the financial information conveyed by means of official documents that will be investigated from a qualitative and quantitative perspective.

The paper will be structured as follows. Next section will provide key data on the most significant theoretical framework this study is based on. We will analyse the basic assumptions of the theory of agency and the constituent elements of the communication theory and we will try to show a possible theoretical overlap. Section 2 will describe the methodological assumptions that were the basis of our writing. Sections 3 and 4 will be completely devoted to the analysis of how the concepts of communication and accountability work differently in the American and Italian realities. Section 5 will describe the limitations of the present study. In the final section we will draw up some conclusions.

² The GASB is the Governmental Accounting Standard Board, a standard-setter for American State and Local Governments.

³ As we will see at greater length while investigating the Italian context, the Department for Public Administration is an institutional entity that was created as a part of the Prime Minister's Office to promote effectiveness and innovation in Italian public administrations.

⁴ The English expression '*How to be accountable to citizens*' is a translation for the Italian title '*Rendere conto ai cittadini*.'

⁵ On closer inspection, the Italian reference book does not directly indicate the kinds of financial documents to be disclosed, but it clarifies that the communicative process should involve budgetary and reporting practices. Thus, we gathered all the official documents we have found on the cited website.

⁶ An English translation for '*Ragioneria Generale dello Stato*.'

1. Theoretical framework

The theoretical framework the present paper is based on, is the theory of agency. This theoretical construction developed in the 1970s and originally stemmed from the managerial theory of the firm. Nowadays it refers to a variety of contexts where a specific social interaction is established (Ross, 1973). This interaction can be explained as follows. There are two social parties: one is designated as '*the agent*' that acts for, on behalf of, or as representative for the other designated as '*the principal*' in a certain domain of decision problems (Zamagni, 1982; Arrow, 1987; Mayston, 1993).

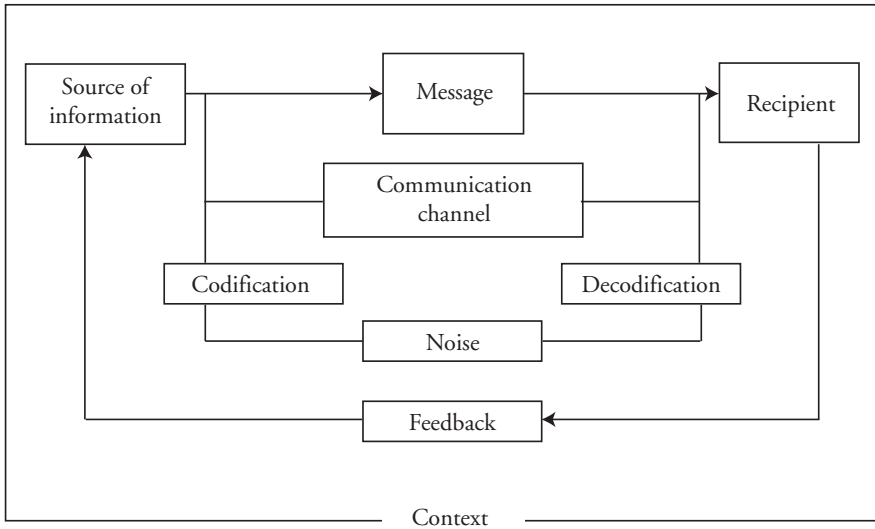
In economics, the problem of motivating one party to act on behalf of another is known as 'the principal-agent problem'. Such an approach may have full application in the public sector since modern democracies are living witnesses of: a) contractual delegations between principals (the citizenry or electorate) and agents (policy-makers or elected assemblies); b) some kind of advantage to the citizenry - while delegating political bodies - that otherwise would not be in the position to directly and commonly manage public resources; c) a feeble capability of the citizenry to fully assess both the general outcome of the agent's performance and the compliance with favourable actions; d) the lack of immediate control of the citizenry over elected assemblies or policy-makers (Althaus, 1997). In such a context the concept of 'accountability' seems to act as a fundamental working criterion governing the relationship between electors and elected officials while stimulating the implementation of appropriate disclosure practices and knowledge-sharing processes. Accountability, in fact, involves different elements as social interdependence between the principal and the agent, and consequent processes of communication - from the agent to the principal - and assessment - from the principal to the agent (Pavan and Reginato, 2005; Sinclair, 1995).

1.1. Communication theory, theory of agency and political accountability

Communication is the transmission of codified information from a source to a recipient through a channel. The communicative phenomenon, described in Table 1, needs the following constituent elements: the source of information, the message, the recipient, the feedback process, the channel, the code, and finally, the context (Shannon and Weaver, 1949; Cherry, 1957; De Vito, 1970; Robinson, 1977).

The table shows the constituent elements of a standard communication process happening in a certain context. The **source** generates a message by elaborating and transmitting ideas, feelings, emotions, or more generally, information. The source is expected to be aware of the understanding capabilities of the recipient in order to intentionally create a message in the most meaningful way (Perrone, 2006). The **message** is the object of the communicative process. It is made up by what is communicated and how the information is communicated and should be structured in a very friendly way for the recipient, otherwise what is sent could be very different from what is grasped and the initial message could finally result in a dysfunctional interpretation. The transmission of the message is continuously undermined by the spread of '**noise**', an expression used by scientists to refer to whatever disturbing element affecting a communication process. The **recipient** receives the message

Table 1 – The Communication Process

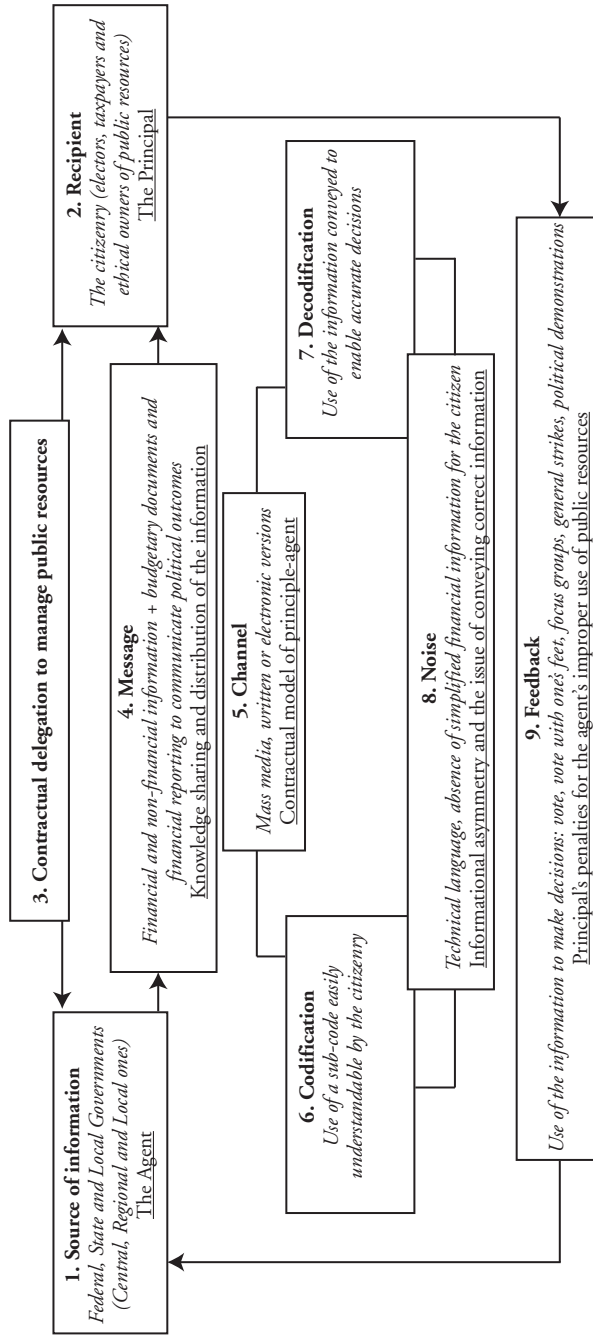


and acts as a key-participant in the communication process by stimulating feedback information. The **feedback** is a powerful tool that the source has at its disposal to assess the effectiveness of the underlying communication process and consists in the reply of the recipient to the communicative stimulus transmitted by the source. The **channel** is the medium throughout which the message is sent. Voice, gestures and written documents can be possible channels in a communication process. The **code** is a shared and well-structured system of signs. Language intended as a system of communication in speech and writing is the best known code. What is to be underlined here, is that a single language may generate many other sub-codes that necessitate codification and decodification. As far as we are concerned, technical and professional jargons fit the case. The **context** is the physical, psychological, sociological and cultural scenario where the communication process happens and inevitably has some kinds of repercussions on the communication process itself.

Table 2, combines the essential elements underlying the communication theory, the theory of agency and the concept of accountability as formerly described. Their correspondence is highlighted in bold, italic and underlined type.

A little more in depth, the principal (i.e. the citizenry) being the ethical owner of public resources has the right to be informed of their use. Conversely, the agent (political bodies) is responsible to the citizenry for the use of public resources and should be prepared to accept the principal's penalties for their improper use (boxes 1, 2, 3, 4 and 9). To enhance codification and decodification processes, the agent should choose the most appropriate channel of communication (boxes 5, 6 and 7): this would reduce the spread of 'disturbing factors' (box 8). The foregoing communication process takes place in a certain context (box 10).

Table 2 – Communication Theory, Theory of Agency and the Concept of Political Accountability



To conclude, given the foregoing theoretical overlap, it is reasonable to assume that the more the information conveyed to citizens by governments is likely to show a substantial degree of compliance with the assumptions of the communication theory, the more the concept of accountability will be likely to permeate governmental disclosure practices. In such a perspective, political accountability seems to go hand in hand with transparent, intelligible, concise and effective implementation of communication methods, intended as the ultimate resource the agents possess to clearly communicate political outcomes and actions to their principal. As a result, financial information is expected to act as a cornerstone for governmental communication since, if properly used, it summarizes the state of health of public finances, the costs and benefits of public actions as well as their present and future repercussions.

2. Methodological assumptions

From a methodological perspective, the present paper may be essentially framed in the ambit of exploratory comparative research (Smith, 2003). In fact, the study consists in a dual case analysis carried out on the Italian and American accounting environments. In both contexts, emphasis will be given to the degree of compliance between the communication theory, the official financial documents prepared by governmental bodies and the reference documents. To enjoy research synergies, the analysis will be carried out from a multidisciplinary standpoint encompassing economics, public sector accounting (Lüder *et al.*, 2003; Montesinos and Vela, 2002) – and linguistics (Biber *et al.*, 1998; McEnery and Wilson, 2001; Meyer, 2002; Oakes, 1998).

As anticipated in the introductory section, from an accounting perspective the investigation will begin by critically analysing the two reference books we found on the net that directly combined communication processes - between governments and their citizens - with accounting, budgeting and reporting processes as well as technical information. They will be analysed on the basis of the content-analysis methodology in order to infer communication structures and attitudes. Thus, on the basis of the same methodology, we will analyse the online official documents that were referred to in the reference books. On the one hand, we will emphasize what is communicated, how the information conveyed is communicated and what kinds of citizens' information needs are plausibly satisfied. On the other, we will investigate the degree of compliance between communication features envisaged in the reference books and official financial reports and budgetary statements. Then, we will construct a parallelism between the basic assumptions of the communication theory and the communicative skills performed by the two countries. To this end, linguistically speaking, all Italian and American documents will be gathered in two different corpora, analysed on the basis of the linguistic methodology known as 'corpus linguistics'. Such a methodology consists in the study of linguistic phenomena through statistical procedures that highlight how words behave in texts while pointing out their occurrences, most frequent collocates and even hidden textual information that otherwise could remain undiscovered in syntactical constraints. The corpus-based analysis will be carried out through the software *WordSmith Tools*, an integrated suite of programs looking at how words are intentionally combined to create texts. The software basically provides the user with

three analytical tools that, when skilfully combined, result in an advanced language investigation: the *Wordlist*, the *Concordancer*, and the *Keyword*⁷. The above mentioned linguistic approach will be used to corroborate such findings achieved through the analysis of the contents and will enable us to draw up some interesting conclusions.

3. Governmental communication and accountability in the USA

The document we chose as a reference point to carry out our analysis of the US governmental online communication is the Concepts Statement N. 3. The choice came as no surprise since the statement, issued by the GASB in April 2005, is available on the GASB website and directly portrays some key communication prerequisites that should inform the process of financial reporting at the outset.

3.1. The GASB Concepts Statement N. 3

The Statement is intended to provide a conceptual framework of interrelated objectives and fundamental concepts that can be used as a basis for establishing consistent financial reporting standards and identifying objectives and fundamental principles of financial reporting.

Its core aspect is that there is a strong relationship between communication and financial reporting as well as a clear correspondence between the contents of the book on the one hand and the communication theory and its basic assumption on the other. Communication is intended as a relational process where each participant in the process is expected to play an active role.

It is structured in 60 paragraphs showing a concise and easy-readable format. The page of contents shows several main component parts: introduction, scope and purpose; General Purpose External Financial Reports (GPEFR) and Basic Financial Statements (BFS); communication and financial reporting, communication methods in GPEFR that contain BFS. The concepts shaped in Statement N. 3 – as the title immediately suggests – only apply to GPEFR that contain BFS, notes to financial statements and Supplemental Information (SI) presented with BFS.

The Statement addresses the following recipients: the GASB, the preparers of GPEFR that contain BFS and the ultimate users. They all have one thing in common: they use information to make decisions. Its main topics are: 1) communication and financial reporting; 2) communication and presentation methods; 3) communication and the objectives of financial reporting.

⁷The *Wordlist* shows all the component words of a selected text file by alphabetical or frequency order and provides an overall statistical window. The basic assumption in frequency studies is that word occurrences are meaningful indicators of the prominence the authors of texts transmit to readers. The *Concordancer* is a program making concordance files. It looks for selected words and displays their pragmatic use by highlighting the linguistic context where they actually appear. Thus, it finds out ‘collocations’, that are regular word combinations. That is why linguistics often refers to concord programs as tools aimed at displaying the so-called ‘KWIC’ (i.e. Key Word In Context). The *Keyword* shows words that are semantically peculiar to the text under analysis.

As for the relationship between communication and financial reporting, the statement directly refers to the different categories of an indented audience. Emphasis is given to the concepts of 'communication process' and 'effective reporting'. In the communication process, financial reports play an instrumental role in communicating results, being a pure means of communication rather than the content of the communication itself. The Statement also clarifies the responsibilities of all the participants in the foregoing process of communication. The GASB continuously studies the needs of users of financial reports by identifying the types of information required for supporting decisions and assessing accountability. It helps preparers not only by providing guidance on the content of financial reports, but also by selecting the communication methods that should be used to convey messages. The preparers of GPEFR must do their best to clearly transmit a message to users. Their responsibility covers the selection of events that are essential to assist the users in assessing accountability and making decisions, the quantification of such events and the choice of the methods of presentation. Conversely, the user must obtain a reasonable understanding of public finance activities and of the fundamentals of governmental financial reporting and has to study the messages conveyed with reasonable diligence and analytical skills.

As for the relationship between communication and presentation methods, the Statement gives due relevance to the three different concepts of 'communication methods', 'communication channels' and 'presentation methods'. A communication method is a financial reporting construct that conveys information to users of GPEFR and helps meet one or more of the objectives of financial reporting. It deals with the placement of a particular item of information within GPEFR that contain BFS. According to Statement N. 3, an item of information is a candidate for inclusion in GPEFR if it is consistent with the objectives of financial reporting and meets the basic characteristics for the communication of information in financial reports clearly stated in the GASB Concepts Statement N. 1 (understandability, reliability, relevance, timeliness, consistency, comparability). A method of presentation is a way chosen by preparers for transmitting financial information to user: it can be narrative, tabular or graphic. The channel of communication is the means by which financial information is made available to users (printed version, various forms of electronic media).

Moreover communication and presentation methods should enhance the process of financial reporting as described in the GASB Concept Statement N. 1 that is fundamentally oriented to: a) assist governments in fulfilling their duty to be publicly accountable and enable users to assess that accountability; b) assist users in evaluating the operating results of the governmental entity for the year and c) assist users in assessing the level of services that can be provided by governmental entities and their ability to meet their obligations as they become due.

3.2. The Consolidated Financial Report of the US Government for the year 2005

The Consolidated Financial Report (CFR) for the fiscal year 2005⁸ is available through the Treasury's website at www.treas.gov/. Similarly to a corporation's annual report, it can be defined as the federal government's general purpose report of accountability to the American public on its finances and presents consolidated and summarized financial information of the federal government agencies and departments. It was audited by the Government Accountability Office (GAO) in December 2005⁹, and then, submitted to the Congress by the Department of the Treasury in coordination with the Office of Management and Budget (OMB) by 31st March 2006. Thus, the document under scrutiny possesses all the characteristics Statement N. 3 prescribes and can be reasonably assumed as the 'GPEFR containing BFS' with respect to the federal government.

The CFR is structured in six main sections: 1) the Management's Discussion and Analysis (MD&A); 2) the financial statements; 3) the notes to the financial statements; 4) stewardship information; 5) supplemental information and 6) the GAO's report. Sections 2 and 3 contain audited information. The Secretary of the Treasury makes some opening remarks.

The MD&A gives evidence of the management's perspective on reported financial data, provides the President, the Congress and the American people with information about the financial results and position of the federal government and shows the interrelation among the five financial statements. Such statements are: the statement of net cost, the statement of operations and changes in net position, the reconciliation of net operating cost and unified budget deficit, the statement of changes in cash balance from unified budget and the balance sheet. The consolidated financial statements point out relevant results such as: the net cost, the net operating cost, the budget deficit, the increase in operating cash balance, and finally, the net position. The notes to the financial statements contain important disclosures and details about the items placed in the balance sheet. Among them: significant accounting policies; components of cash and other monetary assets; detailed information about property, plant and equipment; depreciation methods; federal debt securities held by the public and accrued interest; federal employee and veteran benefits payable; environmental and disposal liabilities; information about contingencies. The section devoted to stewardship information contains detailed information about the so-called stewardship assets that are non-operational resources such as natural, historical, cultural and collection-type heritage assets the government manages for the benefit of the nation. Consequently they are not likely to be used to face current and future obligations and they are not encompassed in the balance-sheet. The section of supplemental information mainly focuses on the distribution of the federal tax burden among individuals and corporations.

At this point, it is necessary to give some extra information contained in the GAO's section of the CFR. In fact, the contents of GAO's report are crucial to understand the degree of compliance between the basic requirements of GASB Statement N. 3

⁸ The American fiscal year conventionally starts on October 1 and ends on September 30.

⁹ As we will see, the GAO'S report is an essential part of the CFR.

and the communication processes with the American people implemented by the Federal Government.

According to the GAO, the CFR is intended to a) provide an overall view of the annual financial results of operations and the financial position of the federal government, including long-term commitments and obligations; b) demonstrate accountability both for raising money through taxation and for spending monetary resources according to the laws and regulations governing the federal government's budgets and financial operations; c) report on the federal government's operating performance, accounting systems and internal control and d) demonstrate the federal government's stewardship over its resources.

It is here useful to remember that the CFR is submitted by the Secretary of the Treasury and the Director of the OMB to the President and the Congress and that, in order to evaluate the reliability of the information conveyed, the GAO is required to annually audit some of its specific components. The MD&A, the stewardship information, and the supplemental information are not required to be audited, and as a consequence, the GAO does not express an opinion on them. Conversely, the five official financial statements and the notes to the financial statements are subject to the GAO's close scrutiny. In this relation, the GAO may express: a) an unqualified opinion (underlining fair presentation of information and compliance with GAAP and significant laws and regulations); b) a qualified opinion (underlining some exceptions to an unqualified opinion); c) an adverse opinion (underlining unfair presentation) or d) a disclaimer of opinion in case of serious lack of information. In the GAO's report issued in December 2005, the Comptroller General pointed out that the GAO was not able to express an assessment of the CFR for the ninth consecutive year and listed the main impediments preventing the GAO itself to render an opinion.

Such impediments are a) the existence of serious financial management problems at the Department of Defence, b) the federal inability to account and reconcile intergovernmental activities; c) the government's ineffective process used to consolidate financial statements, and d) the government's inability to establish and maintain effective internal control. Moreover, according to the Comptroller General there are two significant matters of emphasis. The first is the nation's fiscal imbalance. In this relation, he highlighted that 4 out of 24 governmental agencies¹⁰ – that accounted for 58% of government's reported total assets and 25% of the federal net cost – received disclaimers of opinion. He argued that on the basis of the reported information, the long-term fiscal outlook combined with the envisaged budget deficit are destined to deteriorate gloomily without significant changes on the spending and revenue side of the budget and that the present reporting model is not able to transparently render the actual range of the government's responsibilities and obligations. The second refers to the potential impact of restatements. In fact, at least 7 out of 24 Federal Agencies restated certain of their fiscal year 2004 financial statements to correct errors.

¹⁰ We are referring to the National Aeronautics and Space Administration (NASA), the Department of Defence, the Department of Homeland Security (DHS) and the Department of Energy.

To conclude, according to the GAO’s report, all the foregoing elements are likely to encumber the intelligibility of the reported information, and as a result, readers are strongly cautioned that the amounts reported in the CFR may not be entirely reliable and may lead to a misleading and unrealistic picture of the overall governmental performance and financial condition.

3.3. A computerized language analysis: overall statistics, Wordlists and Concordances

The American corpus consists of the CFR. The following windows retrieved by WordSmith show what the analytical tools¹¹ extrapolated from the text under scrutiny. In this section, the windows generated through the program will be shown in the same way as the software retrieved them and the results of Wordlists and Concordances will be often referred to in a combined form.

The following table shows the quantitative statistical results exploited through WordSmith.

Table 3 – Statistical data

Number of pages	185
Number of sentences	1,695
Number of tokens	39,456
Number of types	3,047
Type/token ratio (on a percentage basis)	7.72
Average sentence length (in words)	23.22
Average word length	5.06

As Table 3 clearly shows, the CFR is made up of 185 pages, 1,695 sentences, 39,456 words (tokens) and 3,047 different words (types or repeated words). Thus the type/ /token ratio is an indicator of lexical variety. Sentences are averagely made up of 23 words and words are averagely made up of 5 letters. Through Wordlist tool, each word or expression is retrieved from the corpus by indicating both its absolute and relative frequency. Table 4 shows the thirty-five most frequent words in the corpus.

¹¹ We refer to Wordlist and Concordancer described in Section 2.

Table 4 – The most frequent words in the American corpus

N	Word	Freq	%	Lemmas
1	THE	2,443	6,19	
2	AND	1,416	3,59	
3	OF	1,360	3,45	
4	TO	805	2,04	
5	IN	766	1,94	
6	FOR	498	1,26	
7	A	412	1,04	
8	ARE	346	0,88	
9	IS	340	0,86	
10	AS	283	0,72	
11	GOVERNMENT	256	0,65	
12	NET	248	0,63	
13	FEDERAL	242	0,61	
14	YEAR	235	0,60	
15	BY	226	0,57	
16	FROM	224	0,57	
17	S	224	0,57	
18	FINANCIAL	211	0,53	
19	COST	210	0,53	
20	ON	208	0,53	
21	THAT	198	0,50	
22	PERCENT	193	0,49	
23	OTHER	181	0,46	
24	BILLION	175	0,44	
25	INCOME	167	0,42	
26	EXPENDITURES	165	0,42	
27	FUND	157	0,40	
28	TRUST	153	0,39	
29	OR	141	0,36	
30	ASSETS	140	0,35	
31	BUDGET	135	0,34	
32	FISCAL	133	0,34	
33	STATEMENTS	129	0,33	
34	THIS	129	0,33	
35	THESE	124	0,31	
36	NEXT	110	0,28	

From a semantic standpoint, the most frequent words pertain to the economic and public sector field. The words that seem deserving attention are: *‘government’*, *‘federal’*, *‘financial’*, *‘expenditure’* and *‘budget’*. We also looked for the concordances of the above mentioned words and we found that the words *‘government’* and *‘federal’* often ‘unnecessarily’ collocate since the CFR is referred to the American Government which is undoubtedly a federal one: it seemed to us that the strong federal tradition of the USA left an important trace in the redundant expression *‘the federal government’*. The word *‘financial’* frequently collocates with *‘statements’* to indicate the homonymous section of the CFR. What is to be underlined is that the collocations of *‘expenditures’* disclosed a very interesting collocational behaviour. As Table 5 clearly shows, the foregoing word is frequently preceded by the adjective *‘future’*. In fact, given the several occurrences of the expression *‘present value of future expenditures’* preparers of the CFR are likely to evoke, maybe in an embryonic way, their intent to pursue some sort of intergenerational equity.

Table 5 – KWIC for the word ‘expenditures’

N	Concordance	Set	Tag/Word No.	File	%
1	1.95 to 2.2 results in a 10 percent smaller shortfall (i.e., expenditures less income), from \$5,704 billion to \$5,144 b		21,919	iad-1.txt	58
2	11,233 10,770 Present value of future expenditures less future revenue6 ... 8,6861 8,1192 ST		16,227	iad-1.txt	44
3	571 15,329 12,773 10,833 10,780 Present value of future expenditures less future revenue6 ... 12,3841 11,4402 9,6		16,132	iad-1.txt	44
4	ransfers are estimated to be \$12,384 billion less than total expenditures for the Part B account and \$8,686 billion le		25,010	iad-1.txt	66
5	264 17,468 14,577 13,412 12,467 Present value of future expenditures less future revenue .. 8,8291 8,4922 6,1863		16,016	iad-1.txt	44
6	eptember 30, 2005. Chart 13 shows projected black lung expenditures (excluding interest payments) and excise ta		27,749	iad-1.txt	73
7	173 167 167 162 161 Present value of future expenditures less future revenues7... 911 872 833 794 7		16,344	iad-1.txt	45
8	2024 2027 2030 2033 2036 2039 Fiscal Years Income Expenditures (benefits and administrative costs) Sour		27,922	iad-1.txt	73
9	057 2061 2065 2069 2073 2077 Calendar Year Income Expenditures Source: Railroad Retirement Board STEW		26,786	iad-1.txt	70
10	4 2060 2066 2072 2078 Calendar Year Historical Data Expenditures Income 2020: Trust Fund Exhausted De		23,195	iad-1.txt	61
11	4 2060 2066 2072 2078 Calendar Year Historical Data Expenditures Income Shortfall Source: www.ssa.gov/O		23,009	iad-1.txt	61
12	154 32,928 31,075 29,851 27,899 Present value of future expenditures less future revenue .. 5,7041 5,2292 4,9273		15,897	iad-1.txt	43
13	29,450 27,899 26,147 25,269 23,693 Expenditures for Scheduled Future Benefits for: Particip		15,840	iad-1.txt	43
14	them. Chart 2—OASDI Income (Excluding Interest) and Expenditures 1970-2079. (In billions of nominal dollars)		20,899	iad-1.txt	56
15	367.9 412.0 463.5 Future expenditures..... 353.7 405		28,801	iad-1.txt	76
16	n 2079. Chart 3—OASDI Income (Excluding Interest) and Expenditures as a Percent of Taxable Payroll 1970-207		21,202	iad-1.txt	56
17	4,187 3,889 3,119 2,708 2,696 Expenditures for Scheduled Future Benefits for: Particip		16,078	iad-1.txt	44
18	f GDP. Chart 4—OASDI Income (Excluding Interest) and Expenditures as a Percent of GDP 1970-2079 Sensiti		21,394	iad-1.txt	57
19	t of GDP by 2079. Chart 5—Total Medicare (HI and SMI) Expenditures and Noninterest Income as a Percent of G		22,892	iad-1.txt	60
20	181.3 35.9 604.9 822.1 1,331.2 2,153.3 Total expenditures to the public2..... 184.1 152.7 523.3 8		19,700	iad-1.txt	53
21	ure participants 82.80 85.83 84 Expenditures for Scheduled Future Benefits for: Particip		16,292	iad-1.txt	44
22	age 81.9 Estimated Future Expenditures:4 Current participants who have attained re		27,250	iad-1.txt	71
23	9,435 8,976 8,411 8,286 7,757 Expenditures for Scheduled Future Benefits for: Particip		15,962	iad-1.txt	43
24	Chart 8 Medicare Part A Income (Excluding Interest) and Expenditures as a Percent of GDP, 1970-2079.....		426	iad-1.txt	3
25	Chart 6—Medicare Part A Income (Excluding Interest) and Expenditures 1970-2079. (In billions of nominal dollars)		22,968	iad-1.txt	61
26	Chart 7 Medicare Part A Income (Excluding Interest) and Expenditures as a Percent of Taxable Payroll, 1970-207		407	iad-1.txt	3
27	Chart 7—Medicare Part A Income (Excluding Interest) and Expenditures as a Percent of Taxable Payroll 1970-207		23,155	iad-1.txt	61
28	Chart 8—Medicare Part A Income (Excluding Interest) and Expenditures as a Percent of GDP 1970-2079 0% 1		23,351	iad-1.txt	62
29	Chart 6 Medicare Part A Income (Excluding Interest) and Expenditures, 1970-207957 Chart 7 Medicare		394	iad-1.txt	3
30	ed higher real wage differential has a larger impact on HI expenditures than HI income, thereby increasing the short		24,089	iad-1.txt	64
31	were relatively small, representing about a quarter of total expenditures made to the public in 2005. The difference,		19,398	iad-1.txt	52
32	o fall below benefit payments, after which the gap between expenditures and revenues continues to widen. \$0 \$5,		20,937	iad-1.txt	56
33	art B and Part D Premium and State Transfer Income and Expenditures, 1970.....59 Chart 9		448	iad-1.txt	3
34	art B and Part D Premium and State Transfer Income and Expenditures as a Percent of GDP 1970-2079. Medica		23,717	iad-1.txt	63
35	(Excluding Interest and Financial Interchange Income) and Expenditures 2005-2079. (In billions of nominal dollars)		26,470	iad-1.txt	69
36	cluding Interest and Financial Interchange Income) and Expenditures 2005-2079. (In billions of nominal dollars)		67	iad-1.txt	2

We also used Wordlists to analyse the collocational behaviour of two-word and three-word expressions. Among them, ‘trust fund’, ‘the federal’, ‘the government’, ‘financial statements’, ‘social security’, ‘the financial’, ‘the public’, ‘net cost’, ‘present value’, ‘stewardship information’, ‘net operating cost’, ‘the present value’, ‘debt held by’, ‘the projection period’ and ‘from the public’ seem semantically relevant. We have already devoted a few words on the expressions ‘the federal’, ‘the government’ and ‘financial statements’; but the relevance given to the expression ‘stewardship information’ comes new to us. With 56 occurrences it seems to act as the most quoted component in the CFR. In our opinion, this does not happen by chance. In fact, stewardship information covers all the governmental non-operational resources and responsibilities that are not included in the balance sheet. Consequently, the disclosure of such kind of information constitutes a matter of great interest for the preparers of the CFR.

We turn now our attention to a set of expressions that – to some extent – should evoke communication processes. With this in mind, we first looked for the expressions ‘information’, ‘democracy’, ‘communication’, ‘accountability’, ‘citizens’, ‘American people’, ‘to the public’, ‘from the public’, and then, we analysed their frequencies and the specific contexts they appeared in the CFR. We surprisingly noted that such words as

'*democracy*' and '*accountability*' were not cited at all in the CFR. In addition, '*citizens*' and '*communication*' respectively appeared twice and once. The expression '*American people*' scored 12 but only twice it was related to communication. Moreover, the word '*information*' showed 108 occurrences, but 96 out of 108 it collocated with '*stewardship*'. In addition, expressions such as '*to the public*' and '*from the public*' occurred only 12 and 20 times respectively to indicate borrowing operations.

3.4. Communication theory and accountability in the USA: the most significant empirical results

The investigation has been carried out both from a qualitative and quantitative perspective. Qualitatively speaking, the governmental communication in the USA shows a very high level of integration with the communication theory. In fact, GASB Statement N. 3 directly refers to the communication process by describing its basic assumptions in the same way as the communication theory does. Moreover it lists the participants in the cited process and emphasizes their roles and responsibilities. Thus, the focus on communication permeates the whole structure of the American accounting reporting model.

Moreover, the interrelated interpretation of the contents of the CFR and the objectives of financial reporting allows us to firmly state that, at first sight, the American accounting context is characterized by both an overall attainment of such objectives and a sharp consistency between the conceptual framework portrayed in Statement N. 3 and the government's accounting practices.

Furthermore, the clear definition of the scope, purpose and contents of GPEFR, communication methods, methods of presentations, communication channels and objectives of financial reporting seem intended to wrap readers in a communicative environment where there is nothing else for them but to become aware of the communicative intents of the preparers.

Nonetheless, in the absence of the GAO's opinion on the CFR's reliability for the ninth consecutive year, we became surprisingly aware of a communicative paradox since an apparently perfect communication model adversely affected accountability.

In this respect, the computerized language analysis was of invaluable help in supporting us to understand the foregoing communicative paradox. In fact, on the one hand, through wordlists and word frequencies we learnt that the most frequent words in the CFR pertain to the economic and public sector fields, that the strong federal tradition of the country is given semantic relevance, that there is a redundant reference to the dichotomy between the diachronic effects of the present governmental policies and their conceivable reverberations in the future. Overall statistics enabled us to underline the conciseness of sentences and paragraphs that, from the preparers' standpoint, is intended to strengthen understandability. On the other hand, the absence of certain words that semantically refer to such concepts as '*democracy*', '*accountability*' and '*communication process*' together with the findings retrieved through the KWIC format depict a language use that seems to be in line with what the GAO called an "unrealistic and misleading picture of the federal government's overall performance, financial condition and future fiscal outlook."

To conclude, the present investigation reveals a sharp counterbalance in the American governmental communication: the adherence of the accounting information to the contents of the communication theory is likely to enhance the understandability and intelligibility of the reported information and potentially boost the capacity of the government to be accountable to the citizens. But it is not able to solve once and for all the accountability issue.

4. Governmental communication and accountability in Italy

The title of the reference book we chose is *How to be accountable to citizens* and was issued in 2005 by the Department for Public Administration. As the term suggests, this department is an institutional entity purposely created in 1983 as a part of the Prime Minister's office, to promote effectiveness and innovation in Italian Public Administrations. Since 2005, the publication has been available at www.funzionepubblica.gov.it/. It represents the joint effort of a research team including both theoreticians and practitioners. It is mainly targeted on regional and local government but the authors firmly declared that it was also intended for the central government. The book is divided into five main chapters preceded by a foreword written by the Minister for Public Administration, plus a general introduction. In the absence of legal constraints and a compulsory legislative framework governing the so-called stakeholder report¹², the implementation of the related contents and principles in the Italian governmental informative system is still carried out on a voluntary basis.

4.1. The reference book "How to be accountable to citizens"

We have already mentioned that the Italian reference book *How to be accountable to citizens* does not directly indicate the kinds of financial documents that are expected to be included while communicating with the citizenry. Instead, it refers to the stakeholder report as an accountability medium that should enhance understandability and transparency.

The book is intended to provide public administrations with a multi-functional reporting model that goes beyond the traditional financial reporting process. It is tailored to local, regional and central governments and tries to answer two main crucial questions. The first relates to the motivations that should stimulate public administrations to be accountable to citizens and the second deals with the procedural introduction of the new reporting process. It also shows a sharp communicative nature governing the relations that public entities have with the outside. Politically speaking, it should strengthen the democratic bases and the social legitimacy of the public action by means

¹² With such an expression we refer to that kind of reporting process aimed at defining, analysing and highlighting the social outcomes of the public actions that cannot be expressed through traditional financial reporting. The cited outcomes are shown from the point of view of different categories of stakeholders. Social and Environmental Report is another possible expression.

of transparent political choices and shared assessment of them by the general public. Moreover it should act as a feedback mechanism to improve internal governance and orient planning, programming and control-based activities. Finally, it is expected to stimulate civil servants' professional skills, motivation and vocation.

The basic assumption of the book is that Italian citizens are increasingly demanding accountability. The stakeholder report is a unique and innovative accountability medium, interpreting the government's necessity to effectively communicate public decisions, activities, actions and outcomes. The implementation of the stakeholder report may represent: a) a way of highlighting the essence of social and public action; b) a precious relation-oriented expedient aimed at stimulating an immediate rapport between policy-makers and citizens and c) a valuable opportunity for public administrations to adopt both new methodologies and more effective tools while defining, programming and evaluating the overall implementation of public policies.

The book is made up of five chapters aimed at investigating: a) whom the government must be accountable to and why; b) the different forms of stakeholder reporting; c) the basic principles of stakeholder reporting; d) the construction of the stakeholder report and e) the effectiveness of the stakeholder report.

In detail, as for the forms of the stakeholder report, preparers may stress the importance of different aspects characterizing the social effects of public action. To completely fit communicative objectives, they should be purposely combined. The book identifies the following kinds of stakeholder reporting: a) stakeholder annual report; b) political report; c) environmental reporting; d) gender report. As for the relationship with the budget planning and the operational management control, the implementation of such strategical form of reporting is not depicted as an erratic and autonomous communicative activity that disregards all the other traditional forms of financial reporting. Conversely, all the components of the reporting activity are expected to interact. The stakeholder report is introduced to implement an additional and circular process enabling public administrations to be accountable to citizens by first relying on the fundamental set of values summarized in political and electoral programs. Such values and programs should be 'translated' through budgeting and reporting documents that, in turn, should provide for useful information to be adequately re-packaged on the basis of stakeholders' information needs. Finally, as for the construction of the stakeholder report and the definition of the conditions underlying an effective use of such form of reporting, the authors identify the following main subsequent phases: preliminary setting of stakeholder reports, construction and issuance. From an organizational perspective, what is crucial is that all the foregoing phases should involve the whole public entity.

What is worthy of note, is that the Italian government does not prepare any stakeholder report at a central level. Thus, in striving for a truthful representation of Italian governmental online communication with the citizenry, we decided to look for online documents that referred to the Italian budgetary and reporting processes.

4.2. The analysis of the Italian online documents

On the net we found the following five documents: the Economic and Financial Planning Document for the time-span 2006-2009 (*Documento di Programmazione Economica e Finanziaria – DPEF*), the annual budget for the year 2006, the Financial Act for the year 2006, the Forecasting Document for the year 2007 (*Relazione Previsionale e Programmatica – RPP*) and the Management Discussion Statement (*Relazione Generale sulla Situazione Economica del Paese – RGE*) for the year 2005.

The economic and financial planning document is a descriptive file containing both general public targets and strategies purposely-created to reach them. It covers a time-span of four years (from 2006 to 2009) and has a strong political value since it must pass the close scrutiny of the Parliament. It ranks as cornerstone to which future governmental policies must comply with. It shows the operating cash inflows and outflows; the portion of the budget deficit to be financed through public debt increases and the European recommendations on public finance and its restoration. The budget is annually prepared by the National General Accounting Department and therefore submitted to the close scrutiny on the part of the Parliament. Finally, it is transmitted to central administrations, departments and ministries for execution. It envisages the expected costs recorded by nature and functional destination as well as their corresponding cash outflows. The financial act is the most formal and technical document in the financial manoeuvre. Data encompassed in its paragraphs and sub-paragraphs are consistent with the objectives of the economic and financial planning document and represent the benchmark against which the official budget as well as all the budgeted costs must be measured. The forecasting document is an accompanying file the Government presents to the Parliament by the end of September. It traces a careful economic domestic outline and explains programme targets and pragmatic strategies together with background information useful to understand clearly the whole governmental financial manoeuvre. It shows the most significant economic weaknesses and the ongoing economic trends covering public finance, public spending, taxation, labor market, temporary work, and irregular immigration. The management discussion statement is made up of three volumes: the first one refers to the most significant trends in the international and domestic economies; the second one is made up of three different sections that deal with: a) the contribution of the different economic sectors to the creation of GDP and its distribution; b) the labor market and social security; c) public finance and synthetic macroeconomic data. Finally, the third volume is made up of macroeconomic statistical data and tables.

What is worthwhile noting here is that the first four documents belong to the budgetary process whilst only the last one refers to the process of financial reporting. It goes without saying that the ‘budget’ still remains the universe of the Italian governmental online communication.

4.3. A computerized language analysis: Overall statistics, Wordlists and Concordances

The Italian corpus consists of the five documents listed in the former section. The following windows retrieved by WordSmith show what the analytical tools

extrapolated from the text under scrutiny. As for the American context, the windows generated through the program will be shown here in the same way as the software retrieved them and the results of Wordlists and Concordances will be often referred to in a combined form.

The following table shows the overall statistical results exploited through WordSmith.

Table 6 – Statistical data

Number of pages	1,500
Number of sentences	10,843
Number of tokens	612,337
Number of types	13,851
Type/token ratio (on a percentage basis)	2.26
Average sentence length (in words)	56.47
Average word length (in letters)	4.16

As Table 6 clearly shows, Italian documents are made up of 1,500 pages, 10,843 sentences, 612,337 words (tokens) and 13,851 different words. Sentences are averagely made up of 56 words.

Through Wordlist tool each word or expression is retrieved from the corpus by indicating both its absolute and relative frequency. Table 7 shows the thirty-five most frequent words in the corpus. The words that seem to deserve attention are: *'totale'*,

Table 7 – The most frequent words in the Italian corpus

N	Word	Freq	%	Lemmas
1	DI	16.695	2,73	
2	E	12.211	1,99	
3	DEL	7.591	1,24	
4	PER	7.389	1,21	
5	A	6.001	0,98	
6	DELLE	5.070	0,83	
7	IN	4.776	0,78	
8	IL	4.518	0,74	
9	LA	3.637	0,59	
10	DELLA	3.590	0,59	
11	AL	3.383	0,55	
12	DEI	3.052	0,50	
13	I	3.052	0,50	
14	LE	2.973	0,49	
15	DELL	2.864	0,47	
16	L	2.455	0,40	
17	NEL	2.306	0,38	
18	TOTALE	2.297	0,38	
19	È	2.242	0,37	
20	CON	2.146	0,35	
21	N	2.135	0,35	
22	MINISTERO	1.970	0,32	
23	DA	1.821	0,30	
24	UN	1.782	0,29	
25	MILIONI	1.680	0,27	
26	COSTI	1.667	0,27	
27	CHE	1.603	0,26	
28	EURO	1.590	0,26	
29	GENERALE	1.503	0,25	
30	CUI	1.443	0,24	
31	SONO	1.423	0,23	
32	LEGGE	1.392	0,23	
33	SUL	1.346	0,22	
34	FINANZE	1.322	0,22	
35	ECONOMIA	1.303	0,21	

‘*ministero*’, ‘*costi*’, ‘*generale*’, ‘*legge*’, ‘*economica*’, ‘*servizi*’, ‘*stato*’, ‘*relazione*’, ‘*comma*’, ‘*lavoro*’, ‘*spesa*’, ‘*decreto*’. The word ‘*totale*’ (total), usually collocates with ‘*costo*’ (cost). The words ‘*ministero*’, ‘*costi*’ and ‘*spesa*’ (ministry, costs and expenditure, respectively) mainly occur in the budget section and seem to emphasize the role of central public administrations. But, what is worthwhile noting here is that such words never collocate with their most reasonable economic ally: the word ‘*revenue*’. This might suggest that costs and revenues are not intended consistently with the concept of accrual accounting. On the contrary, they are likely to be treated as ‘independent’ monetary values, much more in line with the concept of cash accounting. The words ‘*generale*’ and ‘*economica*’ scored well since they are component words of either the name of governmental organizational units or the title of the official financial documents themselves. The words ‘*legge*’, ‘*decreto*’ and ‘*comma*’ (act, delegated law and paragraph of a law) witness the legal tenor of the Italian budgetary process. The words ‘*stato*’, ‘*servizi*’ and ‘*relazione*’ (State, services/public utilities and relation) should evoke the central political realm as well as the natural democratic counterpart of the regional and local governments: the citizenry. Nevertheless, from the collocational behavior of the words ‘*stato*’, ‘*comunicazione*’, ‘*pubblico*’ and ‘*cittadini*’, (State, communication, public and citizens) we realized what follows. The word ‘*Stato*’ is mainly used in the expressions ‘*budget dello stato*’ (the budget of the Central Government) and ‘*ferrovie dello stato*’ (State-owned railway company) and is not intended to emphasize the central state or the distinction between the central state itself and local governments. ‘*Comunicazione*’ is used to refer to specific programs of the Ministry of Education and University as well as to legal duties to be accomplished. The commonest expressions are: sciences of communication, communication theory, foreign languages and communication, multimedia communication and journalism, notifications and running prescription of communications. But there is no reference to actual communication processes with the public. Moreover the word ‘*pubblico*’ is used to indicate the public sector, public securities, public debt, public transportation and law but never refers to the general public. As far as we are concerned, the collocational behavior of the word ‘*cittadini*’, shown in Table 8, is somewhat unique. In fact, citizens are mainly mentioned to indicate fiscal duties to be compulsorily accomplished and the foreign people (immigrants) that necessitate legalization.

4.4. Communication theory and accountability in Italy: the most significant empirical results

The investigation has been carried out both from a qualitative and quantitative perspective. Qualitatively speaking, governmental communication in Italy does not seem to have reached the standards of the communication theory. What is to be underlined is that the central government does not prepare the stakeholder report. The theoretical overlap between the communication theory, the theory of agency and the concept of accountability seems feeble and does not pass through the traditional reporting system. Instead, it involves an additional document (the stakeholder report) whose contents are intended to enrich the usual concept of accountability. Moreover, it must be remembered that its introduction is voluntary still today.

Table 8 – The collocational behavior of the word ‘cittadini’

Line	Text Excerpt	Set	Tag	Word No.	File	%	
1	INAC - Istituto Nazionale Ass za Cittadini			21.671.5.3.11.237.788.5.3.15.108.577.5.2.15	364.112	alia-1.txt	73
2	(b) 8,2,8,7,10,5,10,4, 8,9,8,9,8,10,3, 12,8,10,3. I cittadini stranieri iscritti in anagrafe al 31.12.2004 sono				309.463	alia-1.txt	62
3	orare e rendere più accessibili i servizi disponibili per cittadini e imprese e a rendere coerenti interventi relativi				171.970	alia-1.txt	34
4	sione delle violazioni agli obblighi tributari Servizi ai cittadini, alle imprese ed agli enti locali Funzione giu				53.144	alia-1.txt	11
5	sione delle violazioni agli obblighi tributari Servizi ai cittadini, alle imprese ed agli enti locali Funzione giu				37.612	alia-1.txt	8
6	sione delle violazioni agli obblighi tributari Servizi ai cittadini, alle imprese ed agli enti locali Funzione giu				57.329	alia-1.txt	12
7	sione delle violazioni agli obblighi tributari Servizi ai cittadini, alle imprese ed agli enti locali Funzione giu				44.835	alia-1.txt	9
8	e n. 350/2003, relativi al pagamento degli indennizzi a cittadini e imprese operanti nei territori della ex Jug				343.641	alia-1.txt	68
9	nieri regolarmente soggiornanti. Al 31 dicembre 2003 i cittadini stranieri in Italia con un regolare permesso				310.403	alia-1.txt	62
10	a (conseguente alle procedure di regolarizzazione di cittadini immigrati e che ha riflesso "l'emersione" di i				192.509	alia-1.txt	38
11	ne straniera, ma anche agli arrivi di connazionali e di cittadini stranieri provenienti dal Mezzogiorno. In tal m				307.504	alia-1.txt	61
12	tori dipendenti e autonomi, dei pensionati, dei singoli cittadini italiani, stranieri ed apolidi presenti sul terro				363.640	alia-1.txt	72
13	composto, a sua volta, da costi per doveri assolti dai cittadini, costi amministrativi, imposte e tasse). L'a				33.227	alia-1.txt	7
14	gestione, che comprende i costi per doveri assolti dai cittadini, i costi amministrativi, le imposte e le tasse				31.943	alia-1.txt	7
15	li sia dell'innalzamento degli standard dei servizi per cittadini e imprese, sia della concreta attuazione dei				19.360	alia-1.txt	4
16	to gli effetti dei provvedimenti di regolarizzazione dei cittadini stranieri che hanno contribuito a portare alla l				175.022	alia-1.txt	35
17	to gli effetti dei provvedimenti di regolarizzazione dei cittadini stranieri che hanno contribuito a portare alla l				175.166	alia-1.txt	35
18	situazione economica del paese 2005 L'aumento dei cittadini stranieri rilevato nel corso del 2004 si realiz				310.315	alia-1.txt	62
19	ove possibile, anche in termini di servizi finali resi ai cittadini. In altri termini sono la risultante dei servizi,				94.926	alia-1.txt	19
20	vare la mobilitazione di policy maker, amministratori e cittadini verso il conseguimento dei risultati. L'impu				172.062	alia-1.txt	34
21	i soggiorno al 31 dicembre 2003 Appendice PD. 11 Cittadini stranieri iscritti in anagrafe per regione al 31				419.739	alia-1.txt	84
22	o le decisioni di consumo e investimento di milioni di cittadini e di imprese, richiede un sistema economico				13.368	alia-1.txt	3
23	ura, del terrorismo ed altre categorie svantaggiate di cittadini) e dal Ministero per i Beni e le attività cultur				31.210	alia-1.txt	6
24	taie di cui extracomunitari (a) Appendice PD. 11. - CITTADINI STRANIERI ISCRITTI IN ANAGRAFE PER				446.767	alia-1.txt	89
25	uscita economica non vi è maggiore benessere per i cittadini. Il clima di fiducia, da cui dipendono le decis				13.351	alia-1.txt	3
26	ato civili intenziate da fornitori, dipendenti o da privati cittadini, subisce, rispetto al 2004, un decremento di				33.747	alia-1.txt	7
27	T I E RESIDENTI IN ITALIA Permessi di soggiorno (a) Cittadini stranieri residenti RIPARTIZIONE TERRITORIAL				310.162	alia-1.txt	62
28	Ministero per i Beni e le attività culturali (sostegno a cittadini benemeriti della cultura e dello sport in diffi				31.223	alia-1.txt	6
29	ella gestione e un miglior rapporto qualità prezzo per cittadini ed imprese. Per la competitività delle are s				19.325	alia-1.txt	4
30	4 INAIL 1 MINISTERO - Rimborso rata rendita vitali cittadini conseguenze calamità naturali 2031/32/33 4				482.933	alia-1.txt	96
31	inistrazioni, anche obbligatorie a tenere rapporti con cittadini e imprese, se richieste, in via telematica.				6.614	alia-1.txt	1
32	resentate dalla quota parte delle somme versate dai cittadini alle aziende sanitarie per l'attività citata, che				370.390	alia-1.txt	74
33	ile in gran parte dall'effetto della regolarizzazione dei cittadini di origine straniera che la Contabilità Nazio				192.753	alia-1.txt	38
34	saranno favorite le iniziative per la tutela sanitaria dei cittadini italiani all'estero. Particolare rilevanza assu				14.209	alia-1.txt	3
35	ni, delle spese sostenute per le prestazioni erogate a cittadini stranieri esplicitamente autorizzati e a finan				376.172	alia-1.txt	75
36	2000 e 2001. (b) i servizi di gestione di cittadini extracomunitari (a) alle municipalità e alle m				220.055	alia-1.txt	68

Another datum that deserves mention is that the preponderance of budgetary data compared to reporting ones is a proof of the legal tenor of the budget process that focuses on the budgetary comparison as a tool enabling elected assemblies to pose legal and political constraints on the spending power of executive branches (Mussari *et al.*, 2003). While speaking about the relationship between the theory of communication and the theory of agency, we firmly underlined the instrumental role of financial documents in assisting the citizens' decisional process. It is probably necessary to specify that such a role primarily refers to reporting data since the budgetary ones are often subject to revision. As a result, it is reasonable to assume that Italian citizens are not able to carry out unbiased decisional processes on the basis of budgetary data only. Thus, it would be successful in terms of transparency and fairness if reporting documents were given the same prominence as the budgetary ones. Nevertheless, this does not seem to be the case in Italy. Moreover, in the absence of a clear indication of the objectives of financial reporting, it is not possible to fully assess the accomplishment of the citizens' information needs.

From the computerized language analysis we learnt that the full size of the Italian documents (more than 1,200 pages for budgetary documents only) is not in line with the basic assumption of the communication theory. In addition, the juridical lexis is the predominant one while there is no strong semantic reference to communication processes with the citizenry. All the foregoing elements enable us to conclude that the Italian governmental online communication is barely understandable by the average citizen

and is characterized by pure formalism and sharp auto-referential features. Despite the existence of some comforting signs of innovation, communication processes with the citizenry still seem distant from the goals set out by the communication theory. As a result, Italian communication does not seem to have faced all the challenges offered by a well-targeted use of the Internet and a proper implementation of communicative attitudes.

5. Limitations

The fundamental limitation of this study is the reliance on two reference books mainly targeted on state, regional and local governments to analyse communicational behaviours at federal/central levels. In Italy, the stakeholder report is explicitly intended for all governmental levels despite the fact that it is mainly implemented by local governments. As for the USA, public sector is characterized by the existence of two different accounting standard-setting boards (Allen, 2002; Chan, 2002): the Governmental Accounting Standard Board (GASB), created in 1984, that sets the so-called Generally Accepted Accounting Principles (GAAPs) intended for state and local governments and the Federal Accounting Standard Advisory Board (FASAB), created in 1990, that issues federal accounting standards. Although the two standard-setters are thoroughly independent, there are ongoing contacts at the board level to share attitudes, ideas and thoughts on related accounting topics. One crucial implication is that there is a present greater and greater conceptual convergence in federal and state/local accounting and reporting standards. Since we did not find any publication addressing federal communication methods in a way that is parallel to GASB's Concepts Statement No 3, we decided to contact the FASAB to have some useful indications. The request was timely because it relates to a conceptual framework project the FASAB has recently started. The project – Key Components of the Financial Report – focuses on the methods of communicating information in federal financial reports and one of the project objectives is to develop guidance for determining when a means of communicating information should be used. The project is one of several phases of the FASAB's initiative to revisit its conceptual framework and is currently in the early research stage. Moreover, part of the project will involve reviewing existing concepts on the GASB's literature. Consequently, it was reasonable to refer to the GASB's work to analyse the CFR of the US federal government from a communicative perspective.

Conclusions

The present paper has tried to analyse the American and the Italian governmental environments in order to investigate whether and to what extent governments that are communicatively oriented to their citizens may be assumed as politically accountable to them. By implication, we investigated the theoretical relationship between the two concepts of communication and accountability. Thus, by analysing the basic assumptions of both the theories, we found that they show a close theoretical correspondence. On this ground, it was reasonable to assume that the more the governmental financial information is able to mirror the prerequisites of the communication theory, the more it

would be likely to result in a successful encounter with the citizenry. At the same time, we became soon aware of the fact that such a theoretical overlap is likely to work in a different way according to the pragmatic contexts being investigated. With this in mind, the analysis strived to find empirical confirmation on the basis of a multidisciplinary approach encompassing content-analysis and corpus-based research.

Emerging from the study are the common themes of governmental accountability, political communication and political accounting. In fact, throughout online political communication, ICT and the Internet in particular became new communication spaces focusing on the relationship between governments and citizens while stimulating the maintenance of the common sense of the citizenry.

On the American front, the concept of accountability ranks – at first sight – as the cornerstone of all financial reporting and requires the US government to answer the citizenry as a justification for the raising of public resources and the purposes for which they are used. To really understand the overlap being investigated, stress must be put on the concept of reliability. Accountability, in fact, requires fair representation and full disclosure of financial data. To summarize, in the USA it is generally accepted that the government is established by the people and for the people. Citizens, electors, taxpayers and others interested in governmental operations believe that they are entitled to have open access to governmental information. Probably, this is the reason for which we found that the relationship between the communication theory and accountability is ‘internal’ to financial reporting even if it does not involve the budgetary process. In fact, communication processes address reporting documents only. Their structures, contents and interrelations are clearly stated and seem to be intended to enhance public understandability. The overall financial information conveyed to the citizenry is consistent with the primary objectives of financial reporting. The computerized language analysis highlighted that the overall Consolidated Financial Report (CFR) is made up of 185 pages, 39,456 words and 1,695 sentences. The language used pertains to the economic and public sector fields. The conciseness of sentences, the use of financial jargon, the clear definition of objectives, the representation of reporting documents and the presence of stewardship information seem to prove the completeness of the governmental information and the orientation to citizens. Nevertheless, the fact that the reference book does not mention any budgetary documents – since the combination of accounting and communicative issues is targeted towards reporting documents only – makes the concept of accountability weaker. Moreover, despite the fact that the reference book and the CFR show a sharp integration with the theory of communication, in the absence of the GAO’s opinion for the ninth consecutive year, the American government has been found to convey misleading and unrealistic information by the GAO itself. According to GAO, the completeness of financial data and their synthetic disclosure are not enough to achieve an acceptable degree of reliability that still remains the actual thorn in the American government’s ‘flesh’.

On the Italian front, the concept of accountability encompasses both budgetary and reporting processes. In addition, it entails a shift from traditional accounting – emphasizing formal documents and mere figures – to the stakeholder report. Such innovative form of reporting is intended as a tool of democratic participation showing the citizenry the overall social and environmental effects of the public action. It goes without saying that it is also expected to form an integrated informative system,

if properly combined with traditional reporting. The first datum to be underlined is that the contents of the reference book *How to be accountable to citizens* have not been implemented yet at a central level. Moreover, the declared targets referred to public administrations being involved in the implementation of the stakeholder report rather than to the citizenry. In the absence of a clear reference to the objectives of financial reporting, it is difficult here to assess accountability. From the documents we found on the net, we realized that emphasis was given to the budget, whilst the reporting side of the accounting process was almost completely disregarded. In this relation, it might be useful to underline that budgeting chronologically precedes reporting. Moreover, it provides reporting with the benchmarks to measure financial performances. But, financial reporting has other functions besides monitoring budgetary execution. Among them, a significant one is the provision of data to external user as the fair presentation of the governments' financial position and over-time modifications. A bit more in depth, all this might suggest that the absence of reporting documents is a proof of the mandatory role of the budget that continues to set almost only spending caps. The computerized language analysis highlighted that the online documents lacked synthesis. In fact, they are made up of more than 1,500 pages, 10,843 sentences and 612,337 words. The usual language belongs to the juridical field and does not encourage either understandability, or simple reading. The investigated overlap between communication and accountability is 'external' to traditional accounting processes, but is supposed to encompass both budgeting and reporting. Moreover the incompleteness of the information conveyed represents its crucial weakness.

To summarize, in the American context, accountability is 'internal' to traditional financial reporting; it disregards budgetary documents whilst financial reporting is able to mirror the prerequisites of the communication theory. The information conveyed to the citizenry is complete, concise and clear but, according to the GAO, it is seriously weakened by lack of reliability. Conversely, in Italy accountability is 'external' to traditional financial reporting; it is mainly targeted towards budgetary documents and the lack of synthesis together with the incompleteness of the information conveyed to the citizenry are the most significant weaknesses. The reasons for such diversities are controversial and call for further elucidation in future research.

Nevertheless, apart from the above-mentioned diversities that are peculiar to the American and the Italian contexts, what is worthwhile noting here is that the strict adherence to the prerequisites of the communication theory does not seem to act as a cornerstone of accountability in the investigated contexts. In fact, we realized that although the construction of the analysed overlap between the communication theory and the concept of accountability is the most significant theoretical attainment in this study, it nonetheless represents a pragmatic failure in the two countries.

References

- Allen, T. L. (2002), Public accountability and governmental financial reporting, in *Models of public budgeting and accounting reform*, OECD Journal on budgeting, Vol. 2, Suppl. 1.
- Althaus, C. (1997), *The application of agency theory to public sector management*, in G. Davis, B. Sullivan & A. Yeatman (eds.), *The New Contractualism?*, Centre for Australian Public Sector Management.

- Arrow, K. J. (1987), *Equilibrio economico e l'impresa nella teoria dell'equilibrio economico*, in *Equilibrio incertezza, scelta sociale*. Il Mulino, Bologna.
- Biber, D.; Conrad S. and Reppen R (1998), *Corpus linguistics. Investigating language, structure and use*. Cambridge University Press.
- Castells, M. (2002), *La nascita della società in rete*. Università Bocconi Editore.
- Chan, J. L. (2002), Government budget and accounting reforms in the United States, in *Models of public budgeting and accounting reform*, OECD Journal on budgeting, vol. 2, supplement 1.
- Cherry, C. (1957), *On human communication*, Cambridge.
- Department of the Treasury (2005), *The consolidated financial report of the United States for the year 2005*.
- De Vito, J. A. (1970), *The psychology of speech and language*, New York.
- Dipartimento della Funzione Pubblica (2005), *Rendere conto ai cittadini*.
- GASB (1987), Concepts Statement N. 1, *Objectives of financial reporting*, Norwalk.
- GASB (2005), Concepts Statement N. 3, *Communication methods in general purpose external financial reports that contain basic financial statements*, Norwalk.
- Jones, R. and Pendlebury, M. (2000), *Public sector accounting*, Pearson Education Limited, Harlow.
- Lüder, K. and Jones, R. (eds.) (2003), *Reforming governmental accounting and budgeting in Europe*, Frankfurt am Main, PricewaterhouseCoopers, Fachverlag Moderne Wirtschaft.
- Mayston, D. (1993), Principals, agents and the economics of accountability in the new public sector, *Accounting, Auditing & Accountability Journal*, Vol. 6.
- McEnery, T. and Wilson, A. (2001), *Corpus linguistics*. Edinburgh University Press.
- Meyer, C.F. (2002) *English corpus linguistics. An introduction*. Cambridge University Press.
- Minogue, K. (1995), *Politics, a very short introduction*. Oxford University Press.
- Montesinos, V. and Vela, J.M. (2002) *Innovations in governmental accounting*. Boston, Kluwer.
- Mussari, R.; Grossi, G. and Castelnuovo, A., (2003), *Italy*, in *Reforming governmental accounting and budgeting in Europe*, Frankfurt am Main, PricewaterhouseCoopers, Fachverlag Moderne Wirtschaft.
- Oakes, M. P. (1998), *Statistics for corpus linguistics*. Edinburgh University Press.
- Pavan, A. and Lemme, F. (2006), Central government financial information and user-orientation on the Internet in Italy and the USA, in *Accounting reform in the public sector: mimicry, fad or necessity*, Evelyne Lande and Jean Claude Scheid (eds.), Paris.
- Pavan, A. and Reginato, E. (2005), *Prospettive di accountability ed efficienza nello stato italiano*. Giuffrè Editore, Milano.
- Perrone, F. (2006), *Comunicazione interpersonale*. Edizioni Utet, Torino.
- Robinson, W. P. (1977), *Linguaggio e comportamento sociale*, Bologna.
- Ross, S. A. (1973), The Economic Theory of Agency: The Principal's Problem, *American Economic Review*, Vol. 63, N. 2, Papers and Proceedings of the Eighty-fifth Annual Meeting of the American Economic Association (May, 1973).
- Shannon, C. E. and Weaver, W. (1949), *The mathematical theory of communication*, Urbana.
- Sinclair, A. (1995), The Chameleon of Accountability: forms and discourses, *Accounting Organizations and Society*, Vol. 20, n. 2/3, 219-237.
- Smith, M. (2003), *Research methods in accounting*. Sage Publications, London.
- Zamagni, S. (1982), a cura di, *Conoscenza e economia*, in *Saggi di filosofia della scienza economica*, La Nuova Italia Scientifica.

(Página deixada propositadamente em branco)

**WHAT MATTERS IN LEGISLATORS' INFORMATION USE
FOR FINANCIAL REPORTING?
– THE CASE OF JAPAN**

Introduction

Financial management reform for the public sector, which transforms from a cash based to a modernized accrual based system has diffused around the world. According to the OECD/World Bank survey (2003), many OECD countries already adopted accrual based accounting in financial reporting. The reform has been driven by the New Public Management (NPM) movement. The instruments of NPM are introducing the business management methods accompanied with a market mechanism which could make government much more result oriented and customers focused, into the public sector. Therefore, the transformation into an accrual based system adopted in the business world is crucial to implement NPM reform. Financial statements in accrual basis “can form the basis for a close link between resource allocation and performance management”, “(w)hen coupled with a system of decentralized financial management” (Pollitt and Bouckaert, 2004). Without accrual based accounting, it is hard to make link between cost and performance.

The contemporary movement reached Japan in the 1990s. The Economic Strategy Council which was chaired by a business executive, the ad hoc committee in the Cabinet, recommended the government in 1999 to introduce an accrual based financial statements. In response to the recommendation, in 2000 a working group in the Ministry of Finance (MOF) firstly prepared the tentative balance sheet of the central government. Likewise a research committee on fiscal analysis for the local government in the Ministry of Internal Affairs and Communications published a reporting model of the balance sheet for the local government. The Economic and Fiscal Council, which was established by the Reform Act for Government Ministries in 2001, chaired by the Prime Minister himself, announced to forward to introduce an accrual based approach into the public financial management in the Fundamental Policy of Economic and Fiscal and Structural Reform for the FY 2003. It was the big policy change, because for the first time the government officially acknowledged the accrual based approach in public sector reform. Since 2005, the Central and

most Local Governments (correctly prefecture level) have prepared the consolidated financial statements including the Special Accounts and the related entities like public enterprises, other than the financial statements for the General Account¹.

Especially in 2006, the Tokyo Metropolitan Government introduced an accrual based accounting using double-entry bookkeeping into the financial management. It is noteworthy that all other governments including the central government have adopted a cash basis in a day-by-day operations and just have prepared financial statements through adjusting to accrual basis at the end of the fiscal year, while like other governments, Metropolitan Government also reports budgets and fiscal accounts to the Assembly and the public on a cash basis for which fiscal regulation prescribes. Accordingly the current situation in Japan has got into the new stage in financial management reform. The aim at enhancing transparency or strengthening accountability has been accomplished by reporting financial statements which show the financial performance and the financial position other than cash flow. In practice, NPM is seeking efficiency and it supposes that accrual based financial management is superior to cash based approach in establishing a link between performance and budget allocations in terms of cost performance.

In a democratic government, decision making in resource allocation shall be done by politicians, the representatives of the citizens, although the efficiency in operational management like service delivery might be improved through a market mechanism such as market testing. In other words, ensuring the allocation efficiency in strategic management is entrusted to politicians whether parliamentary system or president system. From this perspective, it is necessary to examine to what extent the newly produced financial information actually has impacted on politicians' decision makings in resource management. Once new accrual based reporting is introduced, the focus moves to the use and its outcomes. Of course standard setting bodies for public sector accounting recognize the legislative institutions and citizens as a primary user group of financial reporting in the public sector. For example, GASB (1987) mentions that three groups of primary users are the citizenry, legislative and oversight bodies, investors and creditors. The Concept Statement describes "financial reporting is used in making economic, social, and political decisions and in assessing accountability" and "information in financial reports must have these basic characteristics: understandability, reliability, relevance, timeliness, consistency, and comparability". It is presumed that financial reporting having the basic character shall be effective for communicating to the users, as a result, they will promote to use the information.

However, in contrast to many studies on *needs* of financial reporting, as Pollitt (2006) indicated, there are few empirical researches on the *uses* of the information for politicians and citizens. Most of the previous research studied on the needs of users such as creditors, investors, financial directors, and auditors. The exceptions are Bogt (2004) and Askim (2006). Both scholars investigate to what extent politicians use performance information in policy making. Askim (2006) also examines the relationship between use

¹ The government accounts in Japanese Central and Local Governments are divided into the General Account and the Special Accounts. The former is the account for basic public services funded by taxes; the latter are the accounts for other services funded by taxes and fees.

of performance information and individual attributes using bi-variate analyses, then he showed that politicians made relatively higher use of performance information. This is contrasting to Bogt (2004) who analyzed the relation between amount and relevance of the performance information and found politicians did not have much use it.

Despite the innovative studies, neither of the research controls the individual character or attributes, and they just consider some part (budgets and annual reports) of financial information. In resource allocation it is also necessary to consider performance and financial information in terms of cost performance. Further in order to evaluate the impact of accruals, we have to measure the differences in usefulness and uses of information between the traditional cash and accrual based reporting.

This article therefore focuses on politicians' uses of financial reporting in policy making. The next section develops a theoretical model representing to what extent and how politicians use the financial information in terms of costs and benefits after reviewing the previous studies. The second section explains the data and method in examining the model. The results of empirical analyses and discussion in case of Japan are presented in the third section. Finally, the conclusions and future research issues are drawn.

1. Theory and Model

1.1. Literature Review

The studies on usefulness and use of financial reporting in the public sector might be separated into normative and descriptive approaches. The former is found in the concept statements or financial reporting standards by GASB, FASAB and IPSASB. For example, IPSASB (2000) speculates the objectives of financial reporting are:

“to provide information about the financial position, performance and cash flows of an entity that is useful to a wide range of users in making and evaluating decisions about the allocation of resources.”

The latter approach appears in empirical studies by Boyett and Groux (1978), Jones *et al.* (1985), Daniels and Daniels (1991), Brusca (1997) and Paulson (2006). Although most studies have focused on the needs of the primary users of financial reporting, Paulson (2006) analyzes to what extent the politicians and non-politicians in the central government use the accounting information in cash and accrual bases. The reason why politicians less use the accrual based information is interpreted by having the scarce time and their difficulties to understand the accrual accounting information. The objectives of government entities are however not to make a profit like companies but to improve the public interests and welfare. As a result, non-financial information may be reported alongside the financial reporting in order to make decision in evaluating the value for money or cost performance. GASB itself acknowledges that financial reporting is only one source of information needed by users.

As in financial reporting, there have been little theoretical or empirical studies on the actual relevance or usefulness of non-financial information to the users. Reed (1986)

and Schrader (1995) have conducted the empirical research whether non-financial information does impact users' decisions on resource allocations. Especially, Reck (2001) evaluated the impact of adding non-financial information to financial information on allocation decisions, adopting a principal-agent theory. In the model, agents are department heads or managers and principals are government budget officials. Financial and non-financial information should be relevant in assessing their performance, since the financial measures focus on the inputs to agents while non-financial measures focus on the outputs or outcomes by agents. By contrast to the theoretical hypothesis, the findings show that non-financial information had no impact when financial information was available. In the similar vein, using a rational communication model, Bogt (2004) showed that politicians made little use of performance information, while they preferred rich, verbal information to written information. The limited use was explained by the complexities and uncertainties of politicians' tasks and their environments in which they have a stronger preference for rich information than a formal performance or financial information. According to the communication model by Daft and Lengel (1984), Daft and Macintosh (1978), managers prefer simple, standard information in low uncertainty, although they prefer rich, flexible information in highly uncertain situations. On the other hand, Askim (2006) presented a contrasted figure that politicians in local government use performance information at all stages of policy making and their usage is relatively high compared to other information sources such as citizens, interested groups, media.

Yet, antecedent research has several limitations in decision points, types of information, users as decision makers, and the focused issues. A large part of studies analyzed the specific phases in management or budgetary cycle; basic measures surveyed are either financial information or non-financial information; in case of financial reporting, there are quite few in comparing the impacts by accrual and cash based information; primary users are budget officials, investors and creditors, not politicians; the interested issues are to what extent or whether the information impact on decisions and how to use the information. As many authors indicated, politicians as representatives of the citizens have a varied types of information needs on decisions through management cycle, their interests expand to compliance with budgets and regulations, financial positions and performance, and efficiency and effectiveness. Also since they are institutionally expected to play a key role in democratic control against administration, it is crucial to examine why and when politicians use or do not use the information on decisions of resource allocation, execution and evaluation, in addition which factors matter in using the information.

1.2. Model

From this perspective, this paper aims at specifying which factors determine the use and usefulness of financial reporting, considering the impact of non-financial information, types of information and individual character of politicians. In order to examine the mechanism of decision making, we identify the utility of the politician on decision as follows:

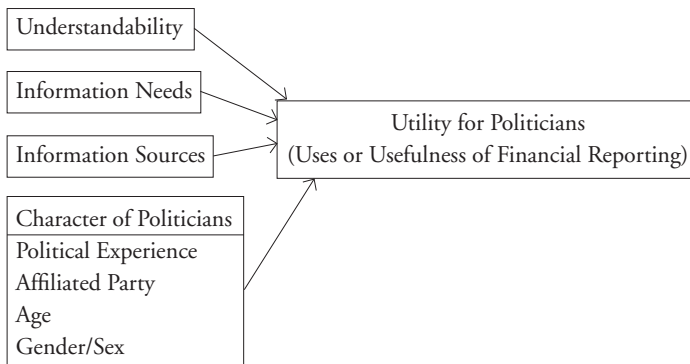
$$U_{ij} = U_i(B_j, C_j)$$

where

- U_{ij} means the utility of politician i in adopting information system j ;
- B_j means the benefits in case of information system j ;
- C_j means the costs in case of information system j .

Here C_j might be regarded as a negative benefit, therefore, we presume that B_j and C_j are composed of variables of understandability, information needs, information source, and individual character or attributes (see Figure 1). The understandability as an explanatory factor of the utility is derived from the normative decision theory. In practice, accounting standards such as GASB place understandability on the first element among characteristics of information in financial reporting, for the communication between government and users to be effective. The factors of information needs and information source are used to consider the politicians' environments in which they are interested in not only financial issues but also outcomes or consequences of public services. Politicians have different sources other than formal reporting by the government like financial reporting. Since the objectives of government activities are to improve public welfare, politicians are always seeking to grasp the people's needs through direct contact to citizens or their network. They are representatives of the citizens or voters. Consequently, information needs and sources for politicians might determine the level of their utility for financial reporting. The third group of factors is the individual character of politicians composed of political experience, political belief, age and gender/sex. It is assumed that as many studied postulated, the utility would depend on the character of politicians.

Figure 1 – Model for Uses and Usefulness of Financial Reporting



The specifications lead to the following assumptions. Firstly if the information provided by the financial reporting is well understandable for politicians, the value of the information will increase while the costs of reading and using might be lower. In this case, net benefits or the utility will become larger. Therefore it is hypothesized that:

H1: The more the financial reporting understandable for politicians, the higher the usefulness of the information on their decisions.

In the similar vein, when the contents of the financial reporting are met with the information needs of politicians, the value of the benefits will be increased given fixed

costs. Some politicians however might be less interested in financial performance or position compared to the quality of services and effectiveness or compliance with regulations. In this case, they have a weak preference for financial information. Consequently it is hypothesized that:

H2: As the financial reporting becomes satisfied with the information needs of politicians, it is likely the usefulness becomes large.

On the other hands, as discussed earlier, politicians have a lot of information sources other than formal reporting. Especially the politicians who are influential or in party are able to easily access to the senior department officials: they are advantageous in getting information for decision making in comparison with minority groups or opposition party. In other words, formal documents like a financial reporting might contribute to “satisfy the needs of users who have limited power, or resources to obtain information” (GASB, 1987, § 3). Accordingly it is hypothesized that:

H3: The more politicians rate financial reporting an important source, the higher they use the information.

Yet, the formal documents provide politicians with information for general purposes, while as Public Choice (Buchanan and Tullock, 1962) showed, most of them prefer the information for a specific purpose such as planning or program for development in the local constituency to the total figure of the government. Communication theory also indicated politicians have a preference for rich or qualitative information to formal or quantitative information, because they are placed in an uncertain environment. As a result it is hypothesized that:

H4: When politicians seek to maximize their utility in the uncertain environment, they are less interested in the financial reporting, rather want the qualitative and specific information in their constituency.

The transformation from cash to accrual based information is a component of financial management reform (Pollitt and Bouckaert, 2004). The change provides users with more informative and rich information through statement of financial position (balance sheet) and cash flow statement. When the switching costs from cash to accrual based reporting are huge, even though the benefits of adopting accrual based accounting are larger than those of cash basis, politicians prefer traditional cash based reporting to accrual based reporting because of path dependency theory (Nelson and Winter, 1982; Pierson, 2000). In fact, as found in UK’s parliamentary discussions on introducing resource accounting and budgeting (NAO, 1996), it takes significant costs and effort for politicians to understand the concept of accrual based reporting. Hence it is hypothesized that:

H5: Politicians do not have a stronger preference for accrual based information than cash based information.

2. Data and Method

In order to test the hypotheses from the theoretical model for politicians in Japan, the questionnaire was sent to all Parliamentarians (721) in the Central Government and Councilors (125) in the Metropolitan Government in 2006. As mentioned earlier, the survey for politicians of central and local governments aims to examine whether

the political system will affect politicians' uses or needs for financial reporting in their decision making. The postal mail included a questionnaire about the information use, needs, source (in case of Metropolitan Government), understandability and attributes. The names and addresses of members of the Diet and of the Metropolitan Assembly were obtained from the directory published and the Web respectively.

Responses were received from 81 Parliamentarians (11%) and 35 Councilors (28%). The response rates seem to be not higher. However, as shown in the Annex, in case of Central Government, the respondents are generally representative of member of the Diet. The response rate in survey by Jones *et al.* (1985), which is the most cited research, was about 10%. In addition, the 2006 Government Accounting Standards Board survey initiated by the Financial Accounting Foundation (FAF) received 21% of the questions. Consequently, the quality of survey stands comparison with the previous studies. The variables in the model are operationalized as shown in Table 1.

Table 1 – Operationalization of Variables

DEPENDENT VARIABLES: utilization of financial reporting (budgets, budget supplements, account, account supplements*, audit report, financial statements)
1) Usefulness of financial reporting** (very useful=1, somewhat useful=2, neutral=3, little useful=4, not useful=5)
2) Use of financial reporting** (completely read=1, read summary=2, read only interesting part=3, little read=4, not read=5)
INDEPENDENT VARIABLES
1) Understandability of financial information** (easy=1, neutral=2, difficult=3)
2) Information needs for finance ($=\sum I(F_i)/\sum I(NF_j)$; $i=1,\dots,9$, $j=1,\dots,5$)
I(F): importance of financial issues***(important=1, somewhat important=2, neutral =3, little important=4, unimportant=5)
I(NF): importance of non-financial issues***(important=1, somewhat important=2, neutral=3, little important=4, unimportant=5)
3) Financial reporting as information sources (important=1, somewhat important=2, neutral=3, little important=4, unimportant=5)
4) Political experience (number of elections): one=1, two=2, three=3, four=4, five and more=5)
5) Affiliated party (majority=1, opposition=0)
6) Age (less than 35=1, 35-44=2, 45-54=3, 55-64=4, 65 or older=5)
7) Gender/Sex (male=1, female=0)

* In case of Metropolitan Assembly member (Councilor).

** Total amounts of rating on financial reporting.

*** Financial issues=(1)financial position, (2)financial performance, (3)primary balance, (4)difference from budget, (5)funding and expenditure by program, (6)expense by objective, (7)expense by character or function, (8)service cost, (9)future financial performance and position.

Non-financial issues=(1)compliance with regulation, (2)benefit and pay, (3)cost and performance, (4)quality of service, (5)beneficiaries.

3. Results and Discussions

3.1. Descriptive and regression analyses

It is presumed in financial management reform that providing politicians with more adequate information will result in improving decision making on resources. Accrual based financial information is the crucial element of the reform. At the same time, as presumed in hypotheses 4 and 5, there are some arguments and empirical studies in which politicians less use the formal reporting from the government. Table 2 shows to what extent politicians actually use or read the financial information in their parliamentary or assembly activities. At a glance, we can find the contrasting figure in using between Parliamentarians and Councilors. The Councilors in the Metropolitan Assembly read much higher the financial information, while the Parliamentarians in the Diet little use. Yet in case of Councilors, the use of accrual-based information remains lower (17.6%) compared to cash-based information. Politicians might recognize that financial information is useful in decision making even though less using, when they could find critical information from these documents such as key issues in the constituency. For example, opposition party might be more interested in audit report that includes some mismanagements or inefficient programs for the administration, because it gives offensive subjects to the opposition. In practice, as shown in Table 3, a significant part of Parliamentarians and Councilors have rated the financial reporting 'very useful'. However, the usefulness of accrual-based reporting for both members was rated lower than that of cash based information. Accordingly, the hypothesis 5 was generally supported.

Table 2 – Use of Financial Reporting*

Type of Report	Parliamentarians (Central)	Councilors (Metropolitan)
Budgets	6.2%	35.3%
Budget Supplements	2.5%	41.1%
Accounts	3.7%	28.1%
Audit Report	8.7%	47.0%
Financial Statements**	3.7%	17.6%

* The percentage of respondents who answered 'completely read'.

** Accrual-based financial reporting, other reporting is cash basis.

Table 3 – Usefulness of Financial Reporting*

Type of Report	Parliamentarians	Councilors
Budgets	30.7%	44.1%
Budget Supplements	20.5%	50.0%
Accounts	32.0%	35.3%
Audit Report	30.4%	38.2%
Financial Statements**	15.2%	17.6%

* The percentage of respondents who answered 'very useful'.

** Accrual-based financial reporting, other reporting is cash basis.

As many authors indicate, documents or information for financial management in the public sector have difficulty to understand or at least require a great effort and time, because these documents use technical term and are prepared in accordance with regulations or law. Therefore, politicians need to learn the rules and procedures and acquire knowledge for public finance. In order to understand accrual-based information, additional effort would be required. Table 4 accords with the findings of previous research: less than 20% of the respondents were ranked as ‘easy to understand’ the financial report except for audit report in the Metro Government. Approximately 40% of councilors rated the audit report ‘easy to understand’. This much higher rating could be explained by communication theory. Since audit report is considered a kind of narrative reporting, the contents include rich information. There needs no special knowledge in accounting or public finance to understand: by contrast to the audit report for the financial statements that contains the technical phrase like ‘a true and fair view’ or ‘properly prepared’ in accordance with GAAP, the audit report in the public sector is composed of the opinion on whether budget executives and accounts were compiled with budgets and regulations, in addition, resources were managed efficiently and effectively. In the government sector, so far audit of financial statements has not been mandated in Japan. It might be therefore said that audit report resembles to annual report and policy paper to which general public also can access. Consequently the hindrance to understanding the audit report is quite low for politicians.

Table 4 – Understandability of Financial Reporting*

Type of Report	Parliamentarians	Councilors
Budgets	11.2%	3.0%
Budget Supplements	6.3%	18.2%
Accounts	15.2%	6.0%
Audit Report	12.5%	39.4%
Financial Statements**	5.0%	15.6%

* The percentage of respondents who answered ‘easy to understand’.

** Accrual-based financial reporting, other reporting is cash basis.

The information sources when politicians use in decision-making are not limited to formal documents by the government. In this regard, financial reporting whether cash or accrual basis is just an important source. Table 5 shows to what extent the sources are important for politicians in decision-making by information type. Factor analysis indicates that the information sources are aggregated into three groups: the first is formal documents composed of financial reporting and performance reports; the second is informal information provided by the institutions consisting of administration, assembly, affiliated party and media; and the third is information by direct communication with general citizens and local supporters. Among three groups, the most important source is the third group, in which 82.3% of politicians rated general public ‘important’ source in their decision making, while in case of financial reporting the highest response was ‘somewhat important’ (44.1%).

Table 5 – Information Sources for Councilors

Source	important	somewhat important	neutral	little important	unimportant
General Public	82.3%*	11.7%	5.8%	0.0%	0.0%
Financial Reporting	32.3%	44.1%*	20.6%	2.9%	0.0%
Performance Reporting	23.5%	58.8%*	11.7%	5.9%	0.0%
Supporters (Local Interest Group)	67.6%*	14.7%	14.7%	2.9%	0.0%
Administration	29.4%	38.2%*	32.3%	0.0%	0.0%
Affiliated Party	75.7%*	21.2%	0.0%	3.0%	0.0%
Assembly	35.3%	38.2%*	20.6%	5.9%	0.0%
Media	26.4%	50.0%*	11.7%	11.7%	0.0%

* Maximum percentage of response among answering items.

In order to test the hypotheses, Ordinary Least Square (OLS) regressions for uses and usefulness of financial reporting in the Metropolitan Councilors were used in case of cash and accrual-based reporting (financial statements). Findings from the regression analyses in Table 6 lend partial support to the hypotheses. As for hypothesis 1, understandability has a significant impact on usefulness in Models 5 and 6, although there is no significant relationship between understandability and uses. Regarding hypotheses 2 and 3, none of the information needs, affiliated party and individual characteristics such as gender, age and experience has a statistically significant impact on either uses or usefulness of financial reporting. On the contrary, information sources have a significant association with uses and usefulness in Models 2, 3, 5 and 6.

Accordingly financial reporting as an information source has a statistically significant relationship with uses and usefulness, whether cash or accrual-based reporting. As a result, we can say that hypotheses 1, 4 and 5 are generally supported while hypotheses 2 and 3 are rejected. The latter results might be explained by the politicians' attitudes. Politicians as councilors have usually more concern about individual issues in which constituencies are greatly interested rather than government performance as a reporting entity. In fact, as Table 5 shows, politicians rate the information from the public more important than that from financial reporting in their decision-makings.

Table 6 – Regression Results in the Metropolitan Councilors

Variables	Dependent variable = Use			Dependent variable = Usefulness		
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Independent variables						
Understandability	0.207(0.55)			0.794(1.92)	1.077(3.00)**	0.177(2.73)*
Needs	1.877(1.01)			2.678(1.32)		
Sources	1.494(1.30)	1.720(1.98) †	0.498(2.17) †	1.870(1.49)	2.207(1.97) †	0.517(2.55)*
Experience	0.101(0.14)			-0.286(0.36)		
Party	0.467(0.26)			0.497(0.16)		
Age	0.361(0.36)			-0.842(0.78)		
Gender	-0.184(0.07)			-0.449(0.17)		
Adjusted R2	0.199	0.088	0.110	0.381	0.415	0.443
F	0.817	3.922 †	4.714 †	3.647**	11.670**	12.928**

The parentheses show t-value. Models 1 and 4 are the regressions when all variables are adopted.

Models 2 and 5 are the regressions when only significantly related variables are adopted in full set of financial reporting. Models 3 and 6 are the regressions when only significantly related variables are adopted in accrual-based financial reporting.

**p<0.01, *p<0.05, † p<0.10.

3.2. Discussion

The analyses showed the mixed results from the perspective of either decision theory (utility theory) or communication theory. Although understandability and information source on financial issues are significantly associated with usefulness, relative importance of financial information to performance information (information needs) did not have significant impact on uses or usefulness. Besides, politicians recognize that information sources from direct contacting are more important than formal documents including financial reporting in decision making. Accordingly, the analytical results partly support the decision theory and communication theory. It is expected that new developed financial reporting which adopts an accrual basis would provide users with more useful information on decisions. Yet the findings did not indicate that politicians prefer accrual information to cash information in their uses or usefulness. According to a research survey (PwC, 2005), even in the private sector, the respondents attached the relative importance to contextual and non-financial information. This shows that like business sector, general types of reporting for the public sector have a limited value in decision making, because of varied information needs or demands by user group. Therefore, financial reporting has to be placed upon the information set that might be useful for politicians as the user group. The scope and quality of information would depend on the context and contents of decision making, for example on fiscal policy or approving a program appropriation or evaluation of a program or a project. For instance, in case of fiscal policy, the most relevant information will be financial measures, although in case of program evaluation, there needs the performance information such as outcome measures.

As a result, we can obtain three policy implications. First, in order to promote the uses and usefulness of financial reporting, it might be effective that politicians become more interested in financial performance and financial positions of the government as a reporting entity. In other words, this means that politicians do seek to improve public welfare as a whole rather than maximizing the benefits of their constituency. However, it is not easy to change the character of politicians into selfless, as Public Choice indicates their selfishness. Second, the other approach to increase the utility of financial reporting is to make it more understandable. The method is either to enhance readability by adding contextual information and notes to the reporting or to promote the skills or knowledge in accounting and public finance. The former stresses more rich information, while the latter emphasizes learning. Third, in the public sector, performance measures might be expected to have greater importance than financial measures, because the objectives are not to make a profit but to maximize public welfare. This means that financial reporting will contribute to improve usefulness accompanying with performance reporting.

Conclusions

Financial management reform in the public sector aims at improving efficiency and transparency in public finance. Accrual accounting is a crucial element in the reform, because the measurement focus is on the economic resources, not cash. NPM postulates that more flexibility in resource management will improve performance in exchange of strengthening accountability for results. In practice, NPM adopts business management tools like accrual accounting in corporations, where the resource allocation is determined in market mechanism in which goods and services are exchanged by a voluntary transaction through using a signal composed of prices and volumes. However, owing to the specific character of the public sector in which resource allocation is implemented by collective decision making, the role of politicians as the representative of the citizens remains significant. NPM assumes that politics as the principal determine the basic values and missions, in terms of finance, resource allocation on policies, and the implementations can be devolved to managers as agents accompanied by a monitoring system to ensure the basic values without their direct intervention (Aucoin, 1990). Despite this, there are so far few empirical studies on politicians' use of information on resource decisions.

In this regard, this article has examined to what extent politicians in Japan use the financial reporting on their decision making in cash and accrual bases. Besides, we analyzed about what matters in the use and usefulness on decisions. Using the survey data to parliamentarians and councilors, the hypotheses based on communication theory and decision theory were examined. The findings have shown the mixed results. In terms of decision theory, understandability of financial reporting was significantly associated with the usefulness, while few politicians completely read and understand it. NPM presumes that accrual information will promote more rational decision making through providing politicians with appropriate information, which could match the resources consumed against the results. However, we found that politicians neither recognized the accrual information more useful than cash nor greatly used it.

This means that unless politicians will understand an accrual based financial reporting, the intended outcomes through rational resource allocation decisions will not be caused. In fact, at the Finance Committee (held on 2, November, 2006) in the Metropolitan Assembly, a councilor affiliated in the proponents for introducing accrual based accounting mentioned as:

“This double-entry bookkeeping and accrual based accounting itself is greatly difficult to understand, in other words, far from or not familiar with general public including me. Therefore I think that it is necessary to provide understandable financial reporting with the public, when the first accrual based accounts will be published in the next year.”

On the other hand, as in the previous studies, it was shown that politicians used varied sources of information in their decision making other than financial reporting. The direct communication with general public, local interest group and affiliated party was more influential than the formal documents like financial reporting and performance reports, although the more important politicians recognize financial information as the information source, the larger the use and usefulness of financial reporting. The findings generally support the hypothesis based on communication theory. Accordingly, in order to make financial reporting more useful in political decision making, there needs to make a linkage between financial and non-financial information given politicians have the more macro perspective on public finance and accountability.

Future research shall be implemented to explore the relationships between decision making and information uses; how politicians use financial information accompanied with non-financial information. Also in order to generalize the findings, a larger and time series data in addition to those in other countries will be needed other than interviews to politicians, bureaucrats and citizens.

References

- Askim, J. (2006), The Role of Performance Information in Policymaking, paper presentert pa Den nasjonale fagkonferansen i statsvitenskap, Bergen.
- Aucoin, P. (1990), Administrative Reform in Public Management: Paradigms, Principles, Paradoxes and Pendulums, *Governance*, Vol. 3, 115-137.
- Bogt, ter, H. (2004), Politicians in Search of Performance Information? Survey Research on Dutch Aldermen's Use of Performance Information, *Financial Accountability and Management*, Vol.20, No. 3, pp. 221-252.
- Boyett, A. S. and Giroux, G. A. (1978), The Relevance of Municipal Reporting to Municipal Security Decisions, *Government Finance*, 29-34.
- Brusca Alijarde, M. I. (1997), The Usefulness of Financial Reporting in Spanish Local Governments, *Financial Accountability and Management*, Vol. 13, N. 1, 17-34.
- Buchanan, J. M. and Tullock, G. (1962), *The Calculus of Consent: Logical Foundations of Constitutional Democracy*, University of Michigan Press.
- Daft, R. L. and Lengel, R. H. (1984), Information Richness: A New Approach to Managerial Behavior and Organizational Design, in Staw, B. M. and Cummings, L. L. (eds.). *Research in Organizational Behavior*, Vol. 6, JAI Press.

- Daft, R. L. and Macintosh, N. B. (1978), A New Approach to Design and Use of Management Information, *California Management Review*, Vol. 21, N. 1, 82-92.
- Daniels, J. D. and Daniels, C. E. (1991), Municipal Financial Reports: What Users Want, *Journal of Accounting and Public Policy*, Vol. 10, N. 1, 15-38.
- GASB (1987), *Concepts Statement No.1 of Government Accounting Standards Board, Objectives of Financial Reporting*.
- IPSASB (2000), *IPSAS 1- Presentation of Financial Statements*.
- IPSOS-Reid (2002), *Survey of Parliamentarians, Submitted for the Office of the Auditor General of Canada*.
- Jones, D.; Scott, R.; Kimbro, L. and R. Ingram (1985), *GASB Research Report 1: The Needs of Users of Governmental Financial Reports*, GASB.
- NAO (1996), *Resource Accounting and Budgeting in Government: The White Paper Proposals*, HC334.
- Nelson, R. and Winter, S. (1982), *An Evolutionary Theory of Economic Change*, Harvard University Press.
- OECD and World Bank (2003), *OECD/World Bank Budget Practices and Procedures Database*.
- Paulson, G. (2006), Accrual Accounting in the Public Sector: Experiences from the Central Government in Sweden, *Financial Accountability and Management*, Vol. 22, N. 2, 47-62.
- Pierson, P. (2000), Increasing Returns, Path Dependence, and the Study of Politics, *American Political Science Review*, Vol. 94, N. 2, 251-267.
- Pollitt, C. and Bouckaert, G. (2004), *Public Management Reform: A Comparative Analysis*, 2nd edition, Oxford University Press.
- Pollitt, C. (2006), Performance Information for Democracy: The Missing Link?, *Evaluation*, Vol. 12, N. 1, 38-55.
- PwC (2005), *Trends 2005: Good Practices in Corporate Reporting*.
- Reck, J. L. (2001). The Usefulness of Financial and Non-financial/Performance in Resource Allocation Decisions, *Journal of Accounting and Public Policy*, Vol. 20, 45-71.
- Reed, S. A. (1986), The Impact of Nonmonetary Performance Measures Upon Budgetary Decision Making in the Public Sector, *Journal of Accounting and Public Policy*, Vol. 5, N. 2, 111-140.
- Schrader, R. W. (1995), An Empirical Investigation into the Decision Usefulness of Service Efforts and Accomplishments Measurements, *International Journal of Public Administration*, Vol. 18, N. 2&3, 443-466.
- Yamamoto, K. (2006), The Needs and Preference of Politicians for Government Financial Information: Evidence on Members of Parliament in Japan, paper prepared for the 4th International Conference on Accounting, Auditing and Management in Public Sector Reforms, Siena, September 7-9th, 2006.

Annex

Respondents and Population of Parliamentarians in the Diet

1. Age		
Age group	Respondents	Population
younger than 35	5 (6.2%)	34 (4.7%)
35-44	12 (14.8%)	123 (17.0%)
45-54	21 (25.9%)	184 (25.5%)
55-64	32 (39.5%)	252 (34.9%)
65 or older	11 (13.6%)	128 (17.7%)
Total	81 (100.0%)	721 (100.0%)
2. Gender		
Sex	Respondents	Population
Male	66 (81.5%)	646 (89.6%)
Female	15 (18.5%)	75 (10.4%)
Total	81 (100.0%)	721 (100.0%)
3. Experience in MP		
Accumulated election	Respondents	Population
1	32 (39.5%)	200 (28.1%)
2	19 (23.4%)	160 (22.5%)
3	10 (9.9%)	100 (14.1%)
4	12 (12.3%)	78 (10.9%)
5 and more	11 (13.6%)	172 (24.2%)
Total	81 (100.0%)	721 (100.0%)
4. Party		
Party	Respondents	Population
Ruling	47 (58.0%)	463 (64.2%)
Opposition	31 (38.3%)	232 (32.1%)
Independent	3 (3.7%)	26 (3.6%)
Total	81 (100.0%)	721 (100.0%)
5. Affiliated House		
House	Respondents	Population
Lower (Representatives)	57 (70.4%)	480 (66.5%)
Upper (Councilors)	24 (29.4%)	241 (33.4%)
Total	81 (100.0%)	721 (100.0%)

(Página deixada propositadamente em branco)

**RESULTS OF A CASE STUDY BASED INTERNATIONAL COMPARISON
IN FINANCIAL REPORTING OF PUBLIC HIGHER EDUCATION
INSTITUTIONS: GERMANY *VERSUS* UNITED STATES**

Introduction

In the international context higher education institutions are gaining more and more importance. In Germany the general public and also the media have recognized that education is an important topic for the future of the country. Traditionally, German higher education is dominated by public colleges and universities. Over 95% of the students in Germany attend a public institution.

From an administrative perspective the German states (*Bundesländer*) are mainly responsible for the colleges and universities. Every State government has a Ministry of Higher Education/Science which is in charge of administering the public colleges and universities. The universities and colleges are mainly financed by State funds and funds from the Federal Government.

The Excellence Initiative, the implementation of a Bachelor/Master system and finally the introduction of tuition fees in several states are major steps in the recent history of German higher education. Finally, globalization and internationalization have raised pressure on those institutions. Because of these developments the German universities and colleges are facing major challenges. One of these challenges is the introduction of advanced accounting systems.

In 2001 the author started his dissertation project on the topic “Financial Reporting of Public Higher Education Institutions: A Comparative Analysis of German and US Universities” (see Heiling, 2007b). The aim of his scientific work was to come up with recommendations for the future development of higher education accounting in Germany. For this reason he conducted a case study based comparative analysis on financial reporting of a German and a US university. In this paper he will present the main results of his PhD project. His research approach is based on the CIGAR methodology. For various reasons he decided to conduct a case study based comparison.

The paper is structured as follows. The next section presents the *status quo* of the financial reporting of Higher Education Institutions in Germany. Section 2 explains the case study based comparative analysis approach, followed by the presentation of

selected results in Section 3. The paper finishes discussing and offering recommendations for designing financial reporting in German Higher Education.

1. Financial reporting of Higher Education Institutions in Germany: *status quo*

The colleges and universities in Germany are on their way to introduce accrual accounting (Philipps, 2005). But the development is running slow due to several reasons. One central factor is the fact that the responsibility of the colleges and universities rest by the state governments. Therefore, the Ministries of Higher Education/Science are – in accordance with the state Ministries of Finance – responsible for the accounting of the higher education institutions. Thus, every state could have a different opinion on how the financial accounting of the colleges and universities should be formed. At the moment, most universities and colleges use the existing cameral accounting system sometimes complemented by cost accounting systems (which is called '*Erweiterte Kameralistik*'). Several public sector accounting researchers in Germany have shown that the cameral accounting system is not suited for an adequate governance of public administrations (Lüder, 2003) and also for higher education institutions (Behrens, 1996; Budäus and Srocke, 2003; Bayer, 2002; Eberhardt, 2003; Eichhorn, 1993; Hödl and Zegelin, 1999; Monopolkommission, 2000; Müller-Böling and Kuchler, 1997; Seidler, 2001; and Ziegele, 2002).

On the one hand, accountability about the efficient and effective use of public and also private funds for higher education (value-for-money) is gaining more and more importance (Hommelhoff, 2004). The citizens, the private enterprises and also the state governments are interested on how and to what purposes their money is used. On the other hand, due to the characteristics of the cameral accounting system, financial accountability by the public colleges and universities is per se rather low (Heiling, 2007b: 43 ff.). Therefore, in his dissertation the author started with the premise that the current financial accounting system of the colleges and universities is not sufficient with respect to the future challenges. He decided not to highlight the disadvantages of the cameral accounting system once again. Instead he concentrated on a comparative analysis of accrual accounting in higher education.

Also governmental accounting in general in Germany develops in the direction of accrual accounting (Lüder, 2002). The local governments are obliged to introduce accrual accounting and some state governments are on a similar way (e.g. Hamburg or Hesse). Nevertheless, there are some researchers which are critical about the introduction of accrual accounting in the German public administration (for example see Bräunig, 2000). They argue that the German legal system and the governance logic do not relate to the contract based governance of accrual accounting. Nevertheless, one can observe in the public administration practice that more and more cash-based and input-oriented cameral accounting systems are replaced by business-oriented and output-based accrual accounting systems on the basis of the double entry bookkeeping system. A similar development can also be expected for the public universities and colleges.

Because of the State responsibilities for the higher education institutions there are several different opinions and approaches about a reformed financial reporting system for (public) higher education. Furthermore, several theoretical publications in

the field of higher education financial reporting, like journal articles or dissertations, reinforce the variety of approaches.¹

A small comparative national study which was based on a collection and analysis of several accrual-based annual reports of German universities showed that there are several differences in financial reporting of higher education institutions. The identified differences rest mainly in:

- The names of the components of the annual reports (e.g. profit and loss account vs. income statement);
- The definition of the reporting entity;
- Display of certain positions (e.g. revenues in the income statement);
- Measurement focus (e.g. recognition of fixed assets and pension liabilities of public officials ('*Beamte*')).

In order to get an overview about the current state of financial reporting of public higher education institutions in theory, a further comparative study was undertaken (Heiling, 2007b: 62 ff.). This study showed that there are differences in:

- The recommended reference model (A: German public sector accounting model, more or less the concept of Prof. Lüder, vs. B: German Commercial Code, vs. C: specific public higher education accounting model);
- The financial reporting elements (components);
- The proposed bookkeeping system (single entry/cameral vs. double entry/accrual);
- Partially, no clear distinction between management accounting and financial reporting.

In order to draw a conclusion about the current status of financial reporting of higher education institutions in Germany one could state that financial reporting of public higher education institutions is still dominated by the cameral accounting system. There are only a few universities and colleges which has introduced accrual accounting. Most of the State legislators have not undertaken any effort in changing this situation. Financial accountability in the German public higher education sector is weak mainly due to cameral accounting based governance. And finally, in practice as well as in theory one can observe that there exist several opinions and approaches how the financial accounting/reporting of public higher education institutions should look like. No consensus between theory and practice could be recognized.

2. The case study based comparative analysis as CIGAR approach

Typically comparative studies in governmental accounting could have several research aims, like getting an overview of the international status quo, e.g. about the state of development of accrual accounting in certain countries, or a deeper understanding of a variety of accounting systems (Heiling, 2007a: 9 ff.). The intention of the dissertation project was to develop recommendations for the (future) design of financial reporting of public higher education institutions in Germany. As research

¹ Detail and further references in Heiling, 2007b: 58 ff.

approach for the dissertation the case study-based comparative analysis was used. This approach is a combination of a case study and a comparative analysis (Heiling, 2007b: 83 ff.). Because the comparative method is the main research approach the method was titled as case study-based comparative analysis. A significant advantage of the case study-based approach is that a financial accounting system can be studied in detail. Also, the context variables of financial accounting could be studied more into detail. The advantage of the comparative method is that experiences of other countries can be studied. By carrying out a comparative analysis the researcher is able to get a deeper understanding about her/his own system (Naßmacher, 2000: 77). According to the experiences of the author the main advantages of the combination of both approaches from a CIGAR perspective is that one is able to understand the functioning of an accounting system, i.e. the internal logic (mechanics of the accounting system) and the external functioning, i.e. the context (e.g. the relationship between financial reporting and auditing, between financial reporting and the governance structure, between budgeting and financial reporting etc.).

In order to have a structured course of action in executing the case study based comparative analysis, the author recommends to pursue the following five steps²:

1. Formulation of the Research Problem
2. Determination of the Research Design
3. Conducting the Comparison
4. Analysis and Interpretation of the Results
5. Presentation of the Results/Findings

In step 2 “Determination of the Research Design” a framework for comparison was developed. This framework was the basis for the whole research project and, at the same time, the outline of the dissertation. The comparison framework is depicted in Table 1.

² See also Homburg and Krohmer (2003: 187 ff.).

Table 1 – The Comparison Framework for Financial Reporting of Public Higher Education Institutions

The Comparison Framework	
Variable for Comparison (in German)	US-American Equivalent
A. Rechtliche Rahmenbedingungen	A. Legal Framework
B. Standard Setting Framework*	B. Standard Setting Framework
C. Zwecke der Rechnungslegung	C. Objectives of Financial Reporting
D. Adressaten der Rechnungslegung	D. Stakeholder of Financial Reporting
E. Rechnungslegungsgrundsätze	E. Accounting Principles
F. Rechnungslegungskreis, Rechnungsstil und Rechnungszept	F. Reporting Entity, Book Keeping System and Measurement Focus as well as Basis of Accounting
G. Bestandteile des Jahresabschlusses	G. Components of Financial Statements
I. Bilanz	I. Balance Sheet
1. Ansatz der Aktiva und Passiva	1. Recognition of Assets and Liabilities
2. Bewertung der Aktiva und Passiva	2. Valuation of Assets and Liabilities
3. Ausweis der Aktiva und Passiva	3. Format of Assets and Liabilities
II. Gewinn-und Verlustrechnung	II. Operating Statement
1. Ertrags-und Aufwandsrealisation	1. Recognition of Revenues and Expenses
2. Ausweis der Erträge und Aufwendungen	2. Format of Revenues and Expenses
III. Kapitalflussrechnung	III. Cash Flow Statement
IV. Anhang	IV. Notes
V. Lagebericht	V. Management's Discussion and Analysis
H. Rechnungslegung und Wirtschaftsplanung	H. Financial Reporting and Budgeting
I. Rechnungslegung und Corporate Governance	I. Financial Reporting and Corporate Governance
J. Rechnungslegung und Prüfung	J. Financial Reporting and Auditing

* Provided that there is a Standard Setter.

Source: Heiling (2007b: 92).

Interesting with regard to the comparison-framework was that there were no major differences to private sector accounting frameworks. Central for governmental accounting was that also budgeting was included. The author found out that the relationship between governance and financial reporting is an important factor in governmental accounting (Heiling, 2007b: 39 ff.). What is not included in the framework is the financing of the higher education institutions. Because of that fact that the comparison is generic in nature it could be used as a basis for other comparative financial reporting studies.

In his dissertation project the author picked the Ruprecht-Karls-University of Heidelberg and the University of Illinois as objects for comparison. The tertium comparationis was financial reporting. For a well designed comparative study it is central to explain why the researcher chose these institutions. The author chose the University of Heidelberg because it has a long history in German higher education and it belongs to one of the leading research universities in Germany. Furthermore, the university

was one of the first public universities in Germany which has introduced accrual accounting. For the US the literature review revealed that it would be decisive to pick a public higher education institution, because financial reporting of public higher education institutions differs from their private counterparts (Engstrom and Esmond-Kiger, 1997). Because of the fact that the Governmental Accounting Standards Board (GASB) has regulated the financial reporting of public higher education institutions in the US, it was only necessary to pick a university which followed GASB's Statements 34 and 35. In order to conduct a case study based CIGAR study, the author recommends that the researcher attends a course in governmental accounting in the country/countries which should be compared.

Table 2 summarizes some relevant facts of both universities:

Table 2 – Facts about the Ruprecht-Karls-University of Heidelberg, Germany and the University of Illinois, USA

Ruprecht-Karls-University of Heidelberg	University of Illinois
<ul style="list-style-type: none"> • One of the oldest universities in Germany, founded in 1385 • Research university • 12 faculties and ca. 70 institutes • Ranked in important international rankings (z.B. THES) • ca. 27,000 students (WT 2004/05) • ca. 5,300 employees (ca. 3200 FTE) • Budget: 225,3 Mio. EUR • Introduced accrual accounting since 2000 (opening Balance Sheet per 1.1.2003) 	<ul style="list-style-type: none"> • Founded in 1867 • Research University • University system consisting of 3 Campuses (UIC, UIUC, UIS) • UIUC among the TOP 20 Universities in the US • ca. 67,000 students (WT 2004) • ca. 32,500 employees (in FTE) • total budget: 3,8 Mrd. USD • Accrual accounting system based on GASB's Statements 34 and 35

Source: Heiling (2007b: 94 ff. and 157 ff.).

3. Selected results of the study

3.1. Regulatory Framework

The regulatory environment of public higher education institutions in Germany is characterized by the fact that there is no national standard setter for accrual accounting for public administrations. The same applies to higher education institutions. As already seen we have a diverse picture of accrual accounting in Germany. In the case of the University of Heidelberg, its financial reporting system is mainly determined by state law complemented by a financial charter. The State law determines that the University of Heidelberg has to follow for its business acts the rules of public enterprises. For this reason the University of Heidelberg follows the German Commercial Code.

With GASB Statement 35 there is an accounting standard for public colleges and universities in the US (GASB, 2005). The interesting aspect is that GASB Statement 35 links to GASB Statement 34 “Basic Financial Statements - and Management’s Discussion and Analysis - for State and Local Governments” which is the relevant standard for Local and State governments. Almost all public colleges and universities in the US follow therefore uniform financial reporting standards. GASB Statement 34 is the central standard for the financial reporting of public higher education institutions in the US but all the other GASB’s standards apply to them too.

Due to the fact that in Germany exists no standard setter for the public sector (and also not for the higher education sector) and because of the responsibilities of the States for public higher education the prerequisites for a uniform financial reporting are rather disadvantageous. The University of Heidelberg is a precursor in the introduction of accrual accounting. The university actually defined its own accounting rules based on the German Commercial Code. Because of a certain flexibility of the German Commercial Code and also because of missing standards for certain public sector typical transactions the University of Heidelberg is able to form to a certain extent its financial reporting system according to its own preferences. For example the pension provisions of the public officials and the fixed assets are not included in the financial statements (Heiling, 2007b: 63 ff.). The situation in Germany is characterized by the fact that there is a big regulatory gap. In the near future there will be several different financial reporting systems depending on each state. The differing annual reports will cause major problems. The financial results of the public higher education institutions cannot be compared.

For the US, the mission of GASB is to establish and improve standards of state and local governmental accounting and financial reporting that will result in useful information for users of financial reports and to guide and educate the public, including issuers, auditors, and users of those financial reports (GASB, 2005). GASB is also responsible for the standards for public colleges and universities. Important is that the standards set by GASB are recognized by the American Institute of Certified Public Accountants (AICPA). Because of the uniform accounting standards the annual reports of public higher education institutions could be compared in an easier way as it is possible in Germany. One of the main incentives for the public colleges and universities to prepare and to publish an annual report is the possibility of debt financing (Heiling, 2007b: 234). The public colleges and universities have the possibility to issue bonds and therefore to borrow debt capital.

3.2. Addressees/Users of Financial Statements

It is evident that the addressees (users) defined by the German Commercial Code do not match with the addressees of the annual reports of public colleges and universities, e.g. suppliers or banks. Therefore, the business officers of the University of Heidelberg defined their own addressees during the introduction of accrual accounting (Table 3).

Table 3 – Overview of Addressees/Users of Financial Reporting in Public Higher Education Institutions

Ruprecht-Karls-Universität Heidelberg	University of Illinois
primary internal addressees <ul style="list-style-type: none"> • president • advisory/oversight board primary external addressees <ul style="list-style-type: none"> • ministry of science • researchers, friends and sponsors • scientific organisations • political representatives • private enterprises • alumni secondary addressees <ul style="list-style-type: none"> • emeriti • former presidents • employees of the university • students • banks • German speaking partners abroad • press 	primary users of annual reports according to GASB Statement 35 <ul style="list-style-type: none"> • citizens • legislation and oversight bodies • banks and financial community financial decisions makers of public colleges and universities (Engstrom, 1988): <ul style="list-style-type: none"> • State Government • Federal Government • accreditation agencies • board of trustees • banks and financial community • donors • faculty • public

Source: Heiling (2007b: 107 ff. and 172 ff.).

Remarkably, they differed between internal and external addresses. Interesting is also that they did not include the State auditor in their list of external addressees. Compared to the US, the banks and the financial community do not play an important role. In the US according to GASB Statement 35 also the oversight bodies together with the legislation are important users of the financial statements. Engstrom's (1988: 10 ff.) study about financial decision makers pointed out that also accreditation agencies are interested in the financial statements of public colleges and universities.

4. Recommendations for the future design of German Higher Education Financial Reporting

4.1. Accrual Accounting as Basis for Autonomous Public Colleges and Universities

From a financial perspective the higher education institutions in Germany depend to a large extent on the appropriations of the State governments. Almost 80% are financed by State funds. The emergence of a European higher education market (notably further developed by the Seventh Research Framework Programme (FP7)) and the introduction of student fees will substantively change the financing structure of the higher education institutions in Germany. The accountability about the use of the research funds will be of interest to the European Commission. With respect

to tuition the students and their parents will be interested in the university and college financial affairs. Last but not least financing by donations is getting more and more important. Financial matters which are not related to state funds will gain on importance. These developments will lead to the fact that the universities will be more autonomous vis-à-vis the State governments. Because of these developments sophisticated financial accounting systems will be necessary to handle these challenges. Accrual based annual reports will be the adequate instrument to satisfy the various financial information needs. Also, the US example has shown that accrual accounting is the basis for autonomous public colleges and universities.

4.2. Uniform Financial Reporting in German Higher Education

The US case study has demonstrated that with a central standard setter it is possible that all public universities can follow the same accounting standards. The introduction of uniform financial reporting standards has several advantages. One of the main advantages is transparency and comparability. Uniform financial reporting standards assure competition in higher education. It is evident that the developments in Germany as described before will lead to confusion and bureaucracy (Heiling, 2007b: 249 ff.). The US case study has shown that in higher education there are different financial reporting standards for public and private colleges and universities. The separation of accounting standards has led to several debates and developed intentions to converge both set of standards. So far the GASB and FASB were not able to create a common set of standards for the public and the private institutions. In the light of these developments in the US the author proposes that accounting standards for higher education institutions in Germany should involve public as well as private institutions. Financial reporting in higher education should not depend on the legal form of the institutions³. A comparable approach can be found in the hospital sector in Germany. As far as the IPSASs are not substantially developed and as far as there is no theoretical framework for them they should not be used for the German higher education institutions. More important at the moment is the change from the cameral accounting system to an accrual based double entry book keeping system. A further question is if Germany should have a standard setter for public sector accounting. This question is related to the research question of this paper but it has to be discussed in a much broader context (Lüder, 2006). From the point of view of higher education uniform accounting standards are desirable. The introduction of a standard setter would help in developing and implementing them.

³This principle should also hold true for other public entities in Germany.

4.3. Accrual Accounting Based on the German Commercial Code Adequate for the Beginning

The study of the financial accounting of the University of Heidelberg has shown that the introduction of accrual accounting based on the German Commercial Code is principally suited as reference model for financial reporting of public higher education institutions. The hypothesis that business accounting standards are not suited for public enterprises which strive for the fulfillment of public task can be questioned. For example, the German hospitals (public and private) follow since the 1980s accounting standards based on the German Commercial Code. The example of the University of Heidelberg has shown that adjustments and supplementations to the German Commercial Code have to be made, e.g. accounting for non-exchange transactions. The major step in German higher education accounting is the change from cameral to accrual accounting. The question of an adequate financial reporting reference model can be left to a second step. The case study of the University of Heidelberg has shown that the German Commercial Code could be used as a basis. Nevertheless, the legislator should assure that the scope of accounting choices is minimized and that the annual reports are comparable. The US higher education accounting system has a much longer history than its German counterpart. Its characteristics reflect indicators how the accounting of German colleges and universities could develop.

4.4. Link between Financial Reporting and Financing and Implications for CIGAR

The US case study clearly shows that financial reporting of public higher education institutions is linked to their financing. From a business perspective tuition fees can be interpreted as revenues. With the introduction of tuition fees exchange-like transactions in higher education could be identified. Despite this development it should be clear that the tuition fees are no monetary equivalent to the services provided by the institutions. The study of the financial reporting system of the University of Illinois shows that debt financing based on the issuance of bonds is one of the main drivers for the preparation of annual reports. In Germany as well as in Europe bond financing is not very common. This explains that the incentives for the preparation of accrual based annual reports are rather low. Because of the importance of the financing variable in this setting the author proposes that the study of the financing structures of public administrations should be a key element in CIGAR studies.

References

- Bayer, I. (2002), *Strategische und operative Führung von Fakultäten, Herausforderungen durch Autonomie und Wettbewerb* Frankenthal.
- Behrens, T. (1996), *Globalisierung der Hochschulhaushalte, Grundlagen, Ziele, Erscheinungsformen und Rahmenbedingungen* Neuwied, Kriftel and Berlin.
- Budäus, D. and Srocke, I. (2003), Die Reform des Rechnungswesens an Hochschulen (Part 1), *Verwaltung & Management*, Vol. 9, N. 2, 78-81.

- Bräunig, D. (2000), *Öffentliche Verwaltung und Ressourcenbewirtschaftung, Institutionenökonomische Aspekte und betriebswirtschaftliche Rechnungen am idealtypischen Beispiel des Hierarchie- und Vertragsmodells* Baden-Baden.
- Eberhardt, T. (2003), *Informationssysteme für Hochschulen, Wettbewerbsvorteile durch interne und externe Rechnungslegung* Wiesbaden.
- Eichhorn, P. (1993), *Ansätze zur Modernisierung öffentlicher Verwaltungen am Beispiel von Universitäten, Informationsmanagement und Datenverarbeitung in der Universitätsverwaltung*, edited by Arbeitsgruppe Fortbildung im Sprecherkreis der Hochschulkanzler, Essen, 7-23.
- Engstrom, J. (1988), *Information Needs of College and University Financial Decision Makers*, Research Report by GASB, Newark.
- Engstrom, J. H. and Esmond-Kiger, C. (1997), Different Formats, Same User Needs: A Comparison of the FASB and GASB College and University Financial Reporting Models, *Accounting Horizons*, Vol. 11, N. 3, 16-34.
- GASB (ed.) *Facts about GASB (2004/05)*, 20 September 2005, http://www.gasb.org/facts/facts_about_gasb_2004-2005.pdf.
- Heiling, J. (2007a), *Der fallstudienbasierte Vergleich als Forschungsansatz für die vergleichende Analyse öffentlicher Haushalts- und Rechnungssysteme* Universität Hamburg.
- Heiling, J. (2007b), *Rechnungslegung staatlicher Hochschulen, Eine vergleichende Analyse deutscher und US-amerikanischer Hochschulen* Nomos, Baden-Baden.
- Hödl, E. and Zegelin, W. (1999), *Hochschulreform und Hochschulmanagement, Eine kritische Bestandsaufnahme der aktuellen Diskussion* Marburg.
- Homburg, C. and Krohmer, H. (2003), *Marketingmanagement, Strategie – Instrumente – Umsetzung – Unternehmensführung* Wiesbaden.
- Hommelhoff, P. (2004), *Unternehmerische Leitungsstrukturen in der Universität?* Festschrift für Erik Jayme, edited by Heinz-Peter Mansel *et al.*, Vol. 2, Munich, 1133-1139.
- Lüder, K. (2002), *Öffentliche Verwaltung, Unternehmensrechnung für*, Handwörterbuch Unternehmensrechnung und Controlling, edited by Küpper, H.-U./ Wagenhofer, A., 4th ed., Stuttgart, rows 1319-1328.
- Lüder, K. (2003), *Vom Ende der Kameralistik, Abschiedsvorlesung von Prof. Dr. Dr. h.c. Klaus Lüder am 15. Juli 2003 in Speyer* Speyer.
- Lüder, K. (2006), Ordnungsmäßigkeits-Grundsätze für das Neue Öffentliche Haushalts- und Rechnungswesen, *Die Wirtschaftsprüfung* Vol. 59, N. 9, 605-612.
- Monopolkommission (ed.) (2000), *Wettbewerb als Leitbild für die Hochschulpolitik, Sondergutachten Bd. 30*, Baden-Baden.
- Müller-Böling, D. and Küchler, T. (1997), Elemente eines neuen Steuerungsmodells im Hochschulbereich, *Betriebswirtschaftliche Forschung und Praxis (BFuP)*, Vol. 49, N. 6, 653-670.
- Naßmacher, H. (2000), *Probleme und Möglichkeiten des Vergleichs in der Politikwissenschaft*, Vergleichende Wissenschaften, Interdisziplinarität und Interkulturalität in den Komparatistiken, edited by P. V. Zima, Tübingen, 77-94.
- Philipps, H. (2005), Fernziel internationale Standards, Aktuelle Herausforderungen für das universitäre Rechnungswesen *Wissenschaftsmanagement*, Vol. 11, N. 3, 11-19.
- Seidler, H. H. (2001) Tendenzen eines neuen Hochschulrechnungswesens in Deutschland, *Beiträge zur Hochschulforschung*, Vol. 21, N. 1, pp. 69-77.
- Ziegele, F. (2002), Reformansätze und Perspektiven der Hochschulsteuerung in Deutschland, *Beiträge zur Hochschulforschung*, Vol. 24, N. 3, 106-121.

(Página deixada propositadamente em branco)

– PART 5 –

PERFORMANCE AND MANAGEMENT ACCOUNTING

(Página deixada propositadamente em branco)

Patrícia Gomes

Sílvia Mendes

João Carvalho

USE OF PERFORMANCE MEASUREMENT IN THE PUBLIC SECTOR: THE CASE OF THE POLICE SERVICE

Introduction

The introduction of integrated and multidimensional models of performance measurement in the public sector is a consequence of New Public Management (NPM) reforms. This new model is characterised by the adoption of business tools in the public management and greater accountability in the resources allocation, in order to reduce costs and increase the quality of service delivery. The creation of value for citizens through efficient and effective management is the basic principle of NPM that justifies the study of performance measurement models for the public sector.

The main proposal of performance measurement, in any organisation, is to improve process decisionmaking (Mayston, 1985; Julnes and Holzer, 2001; Dooren, 2005), and to allow for a learning process in all levels of the organisation (Jackson, 1993). Performance measurement in law enforcement is more concerned with outcomes measures and its relationship with outputs measures, in spite of the difficulty in defining this relationship given the ambiguity in the conceptualisation and definition of efficiency and effectiveness objectives, such as in the production of output and outcome measures (Carter *et al.*, 1993)¹. For example, the measurement of police work is based on the capacity to carry out its operational activities with the available resources (efficiency of outputs) and, on the other hand, it is based on the capacity to increase the level of public safety and to reduce crime (outcomes).

The generalised concern about the diversity of financial and non-financial information is a consequence of the relevance lost with the traditional accounting systems that are only based on financial information. The integration of both financial and non-financial information in management and accounting systems improves the adoption and implementation of a performance measurement model (Jackson, 1993;

¹ *Outputs* are defined as goods or services produced by government agencies (e.g., teaching hours delivered, welfare benefits assessed and paid, detected crime rate); *outcomes* are defined as impacts or effects resulting from the delivery of outputs (e.g., public safety, student learning, social equity).

Guthrie and English, 1997; Brignall and Modell, 2000; Julnes and Holzer, 2001; Dooren, 2005).

In this paper, we review the literature on the use of performance measurement and key performance indicators in public organisations, in particular in police services; we also debate about important constraints on performance evaluation of this specific and complex public service. The central objective is to analyse the use of multidimensional performance measures in Portuguese police system and to propose a strategic map, based on the results of a nationwide survey.

1. Performance Measurement

1.1. Relevance of performance measurement

Privatising principles, management control, power delegation, decentralisation, and the definition of responsibilities lead to a new way of thinking performance measurement (Streib and Poister, 1999a). The development of new management tools, in the private sector, allows for an important improvement in the advancement of these measures in non-profit organisations. However, in the public sector, the definition of performance measures represents a major difficulty because information concerning inputs is almost the only basis in performance measurement (Jones and Pendlebury, 1992). Output measurement becomes extremely complex, as there is rarely a market price defined for the goods and services delivered to the community. This would require one to know, for example, the cost of preventing a crime, educating a student, or treating a patient. The solution involves comparing monetary information of inputs with nonmonetary information of outputs. This originated the development of performance key indicators that incorporate quantitative and qualitative monetary and nonmonetary information (Kaplan and Norton, 1992 and 1996a).

Guthrie and English (1997) refer to the need for the distinction between performance evaluation in the public and private sectors, in the sense that the distribution of goods and services does not follow the market model. Profit is not a relevant performance measure, that is, profit analysis of a governmental entity does not reveal if it has reached the defined objectives (Carter *et al.*, 1993; Guthrie and English, 1997). If doubts remain regarding the importance of nonfinancial measures in public sector, they are even more prevalent in this sector once we take into consideration that their objectives are defined mainly in nonfinancial terms, according to the nature and complexity of its activities (Jackson, 1993; Guthrie and English, 1997; Kloot and Martin, 2000).

The relationship between the supply and demand of information concerning performance evaluation is used, by several authors, in assessing the different roles of performance measures and their utility (Mayston, 1985; Behn, 2003; Dooren, 2005). To assume a significant role, that information should be useful to its users; therefore, the production of performance information must follow a set of steps to assure relevance (Dooren, 2005): the definition of what is intended to be measured, as well as the adequate indicators; the collection of internal and external data; the analysis of the data and its transformation from data to knowledge and, finally, communication

of the information that will support decision making. This information is extremely useful in several activities, such as planning and budgeting, in performance auditing and in the definition and clarification of organisational objectives, in outcomes evaluation. It is also essential when it comes to the disclosure of information to citizens, the indication of effectiveness of the different services and activities, in the increase of quality of inputs and outputs, in the determination of units of the service with increased cost effectiveness, in the control of workers' behaviour, in the motivation to increase performance, in promoting what is being done well, in the celebration and recognition of success, in learning through the evaluation results, and, finally, in the better quality of the service delivered through a continuous feedback process (Dooren, 2005; Mayston, 1985; Behn, 2003).

1.2. International initiatives

A major lack of information for performance measurement led to the development of several initiatives at the international level. The Financial Management Initiative (FMI), introduced in 1982 by the British Government envisaged the creation within each department, of a system where managers at all levels, should have a clear vision of objectives and the possibility of measuring outputs and performance. Secondly, they should be able to define responsibilities in a way that allows for a better management of resources. Finally, they should have the necessary information, training, and qualification to exercise their responsibilities in an effective way (Jones and Pendlebury, 1992: 24).

The concern with performance measurement and evaluation originated profound reforms. It is important to remark that the unsuccessful application of some measures was due to the fact that the majority of existing managers in the departments are politicians and do not possess the necessary qualifications to undertake the planned objectives. This led to the Next Step Agencies, of British initiative, which stated that management should be assured by the executive personnel of the management area and not by politicians.

In the US, the Governmental Accounting Standards Board (GASB) also played a relevant role by encouraging governmental entities to develop, use, and disclose measures of performance concerning every activity (Julnes and Holzer, 2001). However, two years after the introduction of this initiative, the development of a performance evaluation system was still well below what was expected.

The Australian government has also suffered important changes during the last years, largely due to the importance given to performance measurement and evaluation and to the results-oriented management (Guthrie and English, 1997). The introduction of the Financial Management Improvement Programme, based on concepts of efficiency, effectiveness, and performance, constituted the start point to change. This programme followed three fundamental objectives (Guthrie and English, 1997: 154): "streamlining the budget formulation and simplifying and updating the rules regulating public financial management; improv[ing] the system by which departments and agencies make decisions, manag[ing] and evaluat[ing] achievements and enhancing public accountability and scrutiny".

In conclusion, if performance measures are efficiently used, then they can become a relevant instrument for decision making. "Performance indicators in political competition may be as important as prices in market competition" (Johnsen, 2005: 9) when these measures reflect all the stakeholders and organisational objectives.

2. Multidimensional Models of Performance Measurement

The literature calls for a multidimensional approach of performance measurement (Ballantine *et al.*, 1998; Brignall and Modell, 2000; Kloot and Martin, 2000; Modell, 2001; Johnsen, 2005). Brignall and Modell (2000) analysed the implications of the introduction of performance measures for organisational theory. Many scholars argue that the comprehension of performance measures in the public sector should be adapted to the cultural and political environment. If public activity is surrounded by numerous stakeholders (such as professionals, politics, citizens, and taxpayers), the development of multidimensional models of performance measurement is relevant for performance improvement, taking into account its specifications (Kloot and Martin, 1997; Brignall and Modell, 2000; Johnsen 2005).

The development of an appropriate performance measurement system is based on a model that considers internal and external stakeholders (Johnsen, 2005), as well as the context of ambiguity that affects decisionmaking (Carter *et al.*, 1993). The multiplicity of objectives that characterises the public sector makes the process of performance measurement more difficult (Ittner and Larcker 1998), so the measures developed should consider all of the interests and interactions. In the development of this model, is important to take into account the pressure and the power of different economic agents, especially government professionals and the users of public service. The latter agent (users) has a significant importance after the NPM reforms, considered the most important perspective in the public sector performance measurement.

Multidimensional models introduced in the 1990s appear as a way to surpass limitations of the traditional financial measures. The Balanced Scorecard (BSC), the Performance Pyramid and the Results and Determinants Framework are examples of multidimensional models found in the literature (Ballantine *et al.*, 1998; Brignall and Modell, 2000). Following the development of these models, many researchers focus on the best way to implement them as a strategic management tool (Kaplan and Norton, 1992, 1996a, 1996b and 1997; Kloot and Martin, 1997; Ballantine *et al.*, 1998).

Table 1 presents a comparative analysis of three performance models focusing on the performance perspectives used, as well as the characterisation of each perspective according to two categories: measures of results and success determinants. Each model focuses on different perspectives and should be adapted to the organisational mission (Ballantine *et al.*, 1998).

Table 1 – Multidimensional Performance Measurement Models

MODELS	PERSPECTIVES	RESULTS / DETERMINANTS	AUTHORS
Balanced Scorecard	Finance Costumers Internal Process Growth and Learning	Results Results Determinants Determinants	Kaplan and Norton (1992)
Results and Determinants Framework	Financial Performance Competitiveness Quality of service Flexibility Resource utilization Innovation	Results Results Determinants Determinants Determinants Determinants	Fitzgerald <i>et al.</i> (1991)
Performance Pyramid	Finance Customers satisfaction Flexibility	Results Results Determinants	Lynch and Cross (1991)

Source: Based on Ballantine *et al.* (1998).

The BSC is a performance measurement model with a significant application in the public sector in recent years. It is a business tool that can be useful for public organisations if it is properly adapted and implemented (Niven, 2003). Kaplan (2001) studied the application of this model in three not-for-profit organisations: United Way of Southeastern New England, Duke Children's Hospital and New Profit Inc. He found that the BSC was successfully implemented, as the performance and accountability of these organisations greatly improved.

The Chan (2004) and Ho and Chan (2002) studies, based on a sample of 132 American municipalities and 52 Canadian municipalities, found that only about 40% of the chief administrators have some perception and knowledge about the BSC features and objectives; only 7,5% of the municipalities (11 American and three Canadian) implemented the BSC. They also found a positive relationship between the size of municipalities and the perception of BSC among chief administrators; so, it is understandable that American municipalities, which are larger municipalities, have a greater level of its implementation.

After defining the most appropriate model, it is important to proceed to its implementation. The implementation process should integrate the employees and managers of all organisational levels (Kaplan and Norton, 1992).

3. Use of Performance Measurement in the Public Sector: some empirical studies

Performance measures have different uses, according to the defined objectives (Behn, 2003). They can be used at the operational level, as a control tool; at the strategic level, as a management tool; and in the analysis of the individual performance (Carter *et al.*, 1993). On the other hand, they can be different for the agents/actors in this measurement process, like public managers (of different levels), politicians (national and

local level), professionals, citizens, and civil servants, given that each one of these agents use measures differently.

Many scholars find that managers use performance measures more than politicians (Streib and Poister, 1999a and 1999b), and they are more commonly used in an environment of uncertainty and ambiguity (Carter *et al.*, 1993; Helden and Johnsen, 2002). They are still more frequent in local government than in central government (Streib and Poister, 1999a and 1999b; Kloot and Martin, 2000).

Streib and Poister (1999a and 1999b) were studied the validity, legitimacy, and functionality of performance measurement in municipal governments based on the results of a survey sent to 1,218 municipalities of the state of Georgia in the US, which have more than 25,000 inhabitants. Scholars concluded that output measures are used more frequently in many functional areas, where the improvement of the process decisionmaking, the accountability and the electorate pressures represent important incentives in the use of performance measures (90%, 40%, and 25%, respectively). In regard to the management processes, where performance measures are used, they found that strategic management, strategic planning, and the change process were those with a greater level of usage of these measures. They also concluded that over 70% of municipalities consider that performance measurement improves the quality of delivery service in a significant or moderate level.

Julnes and Holzer (2001) studied the factors that determine the use of performance measurement in public organisations, based on the results of a national survey of state and local government officials. Scholars were analysing the use of performance measurement based on the level of its adoption and implementation. They find that the process of adoption is predominantly affected by technical and rational factors (such as resources, information access, goal orientation, and external requirements), while the implementation process is predominantly determined by political and cultural factors (such internal and external interest groups, risk taking and attitude). Like Streib and Poister (1999a), Julnes e Holzer (2001) found that output measures are used with more frequency in strategic planning, resource allocation, programme management and monitoring, and in reporting to internal management, community, elected officials and media than are efficiency and outcome measures.

Dooren (2005) studied the demand and supply of performance information, focusing on its causes and conditions. He used a questionnaire that asks about measurement practices, data, and targets available and the use of performance information. This scholar found a positive correlation between the adoption and the implementation of performance measurement systems, based on a range of factors: characteristics of the outputs and outcomes measures, political interest, size of the organisation, level discretion of operators, available resources, and goal orientation. The main conclusions of this study appoint for a high level of adoption and implementation of performance measures in organisations that have more observable outputs, with low ambiguity and high routine, and normally in large organisations. Less discretion and goal orientation correlate positively with implementation; the adoption is not affected by these factors. The lack of resources does not explain the adoption and implementation of performance systems because it constitutes an important barrier for performance measurement (both for adoption and implementation). About the political interest it is not a determinant factor in the explanation of the degree of adoption and implementation (Dooren, 2005: 373).

In Table 2, we present a comparative analysis of the relevant research in public sector performance measurement. For each study, we identify the source, the organisation, the research method and the research question(s) used. In regard to the research question, many studies focus on the analysis of the factors that affect the utilisation of performance measurement; the analysis of the impact of performance measurement on the efficiency and effectiveness is still irrelevant.

Table 2 – Research in Performance Measurement in the Public Sector

Source	Organisation/ Country	Research method	Research question
Dooren (2005)	Ministry*/ Belgium	Survey	Which factors determine the adoption and the implementation of performance measurement?
Edwards and Thomas (2005)	Municipal governments/ USA	Case study	How can the experience of Atlanta Dashboard in performance measurement contribute to developing a municipal performance measurement system?
Bogt (2003)	Local government/ Germany	Survey	Which criteria and performance measurement styles are used by local politicians in the performance measurement of top professional managers?
Julnes and Holzer (2001)	Local and state government/US	Survey	Which factors affect the adoption and implementation of performance measures?
Modell (2001)	Health care / Norwegian	Semi-structured interviews and archival data	How do the properties of institutional processes of health care sector impinge on the extent of pro-active choice exercised by senior management in the development of multidimensional performance measurement?
Brignall and Modell (2000)	Public sector	Literature review	What are the implications of institutional theory in the successful implementation of multidimensional performance measurement and management?
Kloot and Martin (2000)	Local government/ Australia	Interview	How has performance measurement been applied to local government and how are performance measurement systems integrated with strategic objectives?
Johnsen (1999)	Local government/ Norway	Case study	How may decoupled or loosely coupled implementation approaches serve instrumental purposes rather than merely symbolic purposes?
Streib and Poister (1999a)	Local government/US	Survey	To what extent has performance measurement become integrated into contemporary local government management?
Collier (1998)	Police/UK	Case study	What is the utility of performance measurement in the police service management?
Peursem <i>et al.</i> (1995)	Health care	Literature review	To what extent should performance indicators be applied to the assessment of management?

* Ministry of the Flemish Community, Belgium.

4. Constraints of Performance Measurement

“Performance evaluation of government activities is essential in any democracy” (Jackson, 1993: 9). The importance of making government accountable to the electorate and other stakeholders takes to the definition and development of outcomes measures of the policy delivery. The goal is to measure whether adopted policies are efficient and effective in order to promote the value for money and the value for citizens.

Carter *et al.* (1993) assert that the use of benchmarks or standard measures to evaluate good or bad performance may constitute a problem in performance measurement. This is due to the problem of:

- choice in performance targets;
- temporal comparisons;
- comparability within organisational units;
- external comparability.

The ambiguity and confusion of performance measures, the integration of data and its introduction in the performance measurement system represent important constraints of performance measurement (Streib and Poister, 1999a). Johnsen (2005) found that some relevant questions in public sector performance measurement are still unanswered, essentially the lack of a conceptual framework and a model of performance measurement. On the other hand, the search for better indicators is not easy and the use of performance measurement systems in open societies and competitive democracies does not produce the desired outcomes (Johnsen, 2005). This author appoints out four important sets of questions on public sector performance measurement, according to four different public management cultures: hierarchist, egalitarian, individualist, and fatalist (see Table 3).

Table 3 – Constraints of performance measurement in Public Sector

Public Management Culture	Questions on Performance Measurement
Hierarchist	How politicians and the legislature can control the administration and the civil servants? This is the traditional top-down control system.
Egalitarian	How can performance measurement make government transparent? How can performance measurement empower citizen, users and interest groups? How can PIs function as checks and balances in order to counter formal political power?
Individualist	How can performance measurement systems be made accessible and user friendly? How can actors, such as managers, politicians and lobbyists use PIs for their own purposes? This perspective is favorable to decentralization and individual approaches.
Fatalist	How could public policies go wrong and end up crises, scandals and catastrophes? How can performance measurement be used to prevent crises, scandals and catastrophes? Fatalists argue that all systems and policies motivate crises, scandals and catastrophes.

Source: Based on Johnsen (2005: 13-14).

In a nutshell, the measurement of outputs and outcomes and its relationship with objectives, the existence of multiple stakeholders, the resistance to change, the lack of political motivation, the typical bureaucratic culture, and resource limitations are appointed as the most relevant constraints of public sector performance measurement.

5. Performance Measurement in Law Enforcement

5.1. Usefulness of performance measurement in law enforcement

Law enforcement is a complex area of public service because of its based on the diversity and heterogeneity of its activities and objectives. Given that police performance measurement is also complex and ambiguous and the existing research is still insufficient to improve the knowledge about the measurement of organisational performance in police work (Carmona and Grönlund, 2003). Additionally, the existence of different cultures and stakeholders and the conflict between managers and police officers also implies a difficult measurement the performance of police work (Collier, 1998)². As with the private sector and other public organisations, the importance given to performance measurement in police services has grown in the context of NPM initiatives. Some reforms were introduced in the policy agenda, in the last years, in order to increase investment in the deployment of performance metrics for police activity.

Besides the complexity, heterogeneity, and diversity, there are still many social and economic factors that influence police service performance, such unemployment, immigration policy and society behaviour relatively to crime (Carter *et al.*, 1993; Collier, 1998, 2001 and 2005; Drake and Simper, 2005). This implies the use of financial and non-financial performance indicators (e.g. crime rate, call number, time response, complaints against police agents, societal awareness about police service and citizen satisfaction). According to Vollaard (2003), the definition of performance indicators and the introduction of performance measurement systems are an important incentive to improve multidimensional performance.

Police forces carry out diverse functions, like crime prevention, community policing, law enforcement and maintaining public order, drug, and road traffic. Consequently, there are a variety of objectives, which many times are not consensual. So, performance measurement should succeed a clear definition of responsibilities and central activities (Rogerson, 1995) and the introduction of performance culture in public administration, namely in police services (Collier, 2001)³. In this context, police activity has witnessed a change of paradigm in the last decades. The new policing paradigm is a complement of the traditional paradigm based on the reduction of crime; it emphasises community policing – a new perspective of citizens where police work has an important role in raising the quality of urban life (Carmona and Grönlund, 2003: 1481).

²The effects of agency theory are important for the public sector given the high number of stakeholders with interest in the organisational performance.

³In 1993, only 27% of resources of the British police forces were related to central activity of crime prevention and reduction.

In the beginning of the 1990s, the British government introduced a new performance measurement system due to the increase of crime rate. The globalisation of the criminality and the increase of terrorism attacks drive a great review and reform of the competencies and integrity of police work (Collier, 1998 and 2005). Consequently, this process of change was developed in two steps: first, the development of a financial information system with the aim to enable costs to be matched with activities and outputs; costs should be allocated in eight functional categories of activities: operational activities (patrol, crime, traffic, public order, community relations, and others) and non-operational activities (training and management). Second, the development of a system of performance measures with 435 indicators allocated to various functional categories: organisational structure, crime detection, crime prevention, crime proceedings, traffic, recruitment and wastage, complaints, public order, drugs and civilianisation. However, many changes were occurred in the requirements and in the number of used performance indicators, essentially following the introduction of Best Value Performance Indicators in 1999, and the Statutory Performance Indicators in 2004 (Collier, 2005).

Currently, performance indicators are defined in the Policing Performance Assessment Framework, based on six important objectives for the police: citizen focus; reducing crime; investigation crime; promotion of public safety; providing assistance, and resource usage. These six objectives are grouped into four categories: input, process, outputs, and outcomes that rely on 14 performance indicators (see Table 4).

Table 4 – Relationship between objectives, performance measures and indicators

Objectives	Performance measures	Performance indicators
Citizen focus	Inputs	Number of 999 calls to the police
Reducing crime		Number of crimes
Investigation crime		Number of public order incidents
Promotion of public safety		Number of road traffic collisions
Providing assistance	Process	Time spent by officers in public
Resource usage		Response times
		Incidents of stop/search
		Adequacy and timeliness of case files for prosecution
	Outputs	Complaints against police
		Sickness/absence
		Medical retirements
	Outcomes	Number of arrests
		Number of detections
		Public satisfaction (based on survey results)

Source: Based on Collier (1998 and 2005).

Measures of outputs and outcomes relatively to the police activity are not easy to obtain given the traditional emphasis on the input and process measures. However, Collier (2005) found an increase in the use of outputs and outcomes measures, as opposed to the decrease of the inputs and process measures. On the other hand,

the central objective was shifted from the arrests and detection to the prevention and reduction of crime. He also found a significant decrease (about 40%) in the number of performance indicators used (relational to input and process indicators), as did Helden and Johnsen (2002) in regard to performance measurement in the German and Norish local government.

In the Greek police, a special armed military force with their own organic regulations, is also interesting given the increase in the criminality and the severity of crimes during the last decade (Lambropoulou, 2004)⁴. The image of the police with the public was not good due to the inefficiency of the delivery service (low professionalism, unqualified organisation and management, lack of education and training, and lack of constant control). In this context, the Greek government had to carry out, in 2000, three important reforms in the police service, such as the creation of the “Police Headquarters as an independent authority; the appointment of the Chief of Police for a specific period of at least two years ... and finally the composition of a Council for Operational Planning and Crisis Management” (Lambropoulou, 2004: 95). The objective of these reforms was to introduce more autonomy and more control in police work; to improve the relations between the police and citizens; to reduce the crime rate with less costs; to increase the ‘quality of services’; to improve officers education, training, specialisation and professionalism; to introduce more rigorous performance measures; to eliminate bureaucratic attitudes and, finally, to improve the decision-making process in Greek law enforcement.

Carmona and Grönlund (2003) developed a study on performance measurement in Swedish Law Enforcement. The Balanced Scorecard was the model chosen by the Swedish National Police Board to assess and assist police work. The Swedish police force is an interesting case study because it implemented a new paradigm that consists “of enhancing the quality of urban life on the mere making of arrests” and is based on three central activities: community policing, maintaining public order, and crime investigation. Performance measurement is based on a “set of measures of external success and internal performance that addressed present, past, and future time dimensions” (Carmona and Grönlund, 2003: 1475).

With regard to performance measurement in the Australian law enforcement, Hoque *et al.* (2004: 59) say that police service has “a rigid accountability structure and is continuously subject to performance evaluations”. However, the adoption of NPM initiatives is rising significantly and they have two main purposes: “legitimizing the police service to the electorate and ordinary citizens” and “encouraging efficiencies of resource use”. Efficiency, effectiveness, and customer orientation represents the main reasons for change and improve organisational performance. On the other hand, the introduction of business tools, such accounting and control systems, and the performance measurement based in outputs and outcomes are important changes introduced in Australian police services after the agenda of NPM reforms.

Besides the importance of performance measurement in the police service, there are many limits and restrictions, such as the collection of the appropriate data to measure the efficiency and the correct measurement of outcomes measures (Lambropoulou, 2004).

⁴The criminality increase from 1% to 8.5% during the 90th decade.

Many scholars defend that the crime rate is a traditional measure that narrows the effective performance and does not inform us on the real level of crime because many situations are not known and detected (Carter *et al.*, 1993; Collier, 1998; Carmona and Gronlund, 2003). Consequently, a decrease in the crime rate may not mean good performance, but a change in the behaviour of community relatively to crime (increase in the number of accusations and the number of people with telephone). ‘Performance measures of the police are, in fact, performance measures of the community as a whole’ (Carter *et al.*, 1993: 57); so, performance measurement of police work should consider a multidimensional analysis and the new concept of ‘community policing’.

5.2. Performance measurement in the Portuguese law enforcement

Portuguese law enforcement has also witnessed organisational change similar to other countries. The centralised structure, the emphasis on the rule of law, and the traditional bureaucracy hinders the process of change (Carvalho *et al.*, 2006). In this way, the intention of providing better services, increasing civil servants’ skills, improving resource management (Araújo, 2001), and adopting other initiatives of the NPM has not been successful, making Portugal a ‘later adopter’ of NPM (Carvalho *et al.*, 2006: 167).

The process of change implies a reorganisation of some police agencies of the National Guard (GNR), Public Safety Police (PSP) and the Judicial Police (PJ)⁵, with the main goal of increasing efficiency and effectiveness. Each one of these police forces has a national structure and responds hierarchically to the Ministry of the Interior, in the case of the first two forces, and the Ministry of Justice, in that latter case. Therefore, they only have administrative autonomy; the financial management is highly centralized. Portuguese government recently adopted a reform of the police system, based on the need to create a unitary model for the Portuguese police system, one that encompasses the GNR, the PSP, and the PJ – identical to the Spanish police model. The Portuguese police agenda reform recently led to the creation of the Municipal Police (PM)⁶ – a local police that operates at a more proximate level to the citizens. These police forces are organised by each municipality’s executive council and should cooperate with the other police forces⁷. Financially, their budgets are part of the municipal budget; so, although more autonomous than central police forces, they do not have local financial management.

Using a unique data set assembled by way of a nationwide survey sent to the police chiefs of the four branches of the Portuguese police (PSP, GNR, PJ, PM), we analyse the extent of BSC application and police willingness to apply the BSC in their agencies. A total of 265 questionnaires were returned, but only 243 (response rate of 48%) were considered valid for our analysis. The questionnaire is similar to

⁵ Decree-Law n° 231/1993, June 26; Law n° 5/1999, January 27, and Decree-Law n.° 275-A/2000, November 9, respectively.

⁶ Law n° 140/1999, May 20, and Law n° 19/2004, August 28.

⁷ In 2000, only 31 local governments had Municipal Police. This process is in the initial phase.

other questionnaires in the literature (Ho and Chan, 2002; Carmona and Grönlund, 2003; Chan, 2004; and Hoque *et al.*, 2004), although we adjusted it so as to include some suggestions obtained through interviews conducted with some police chiefs. Based on the collected data, we find that NPM initiatives have a high influence on the organisational change of police services. The 'quality of delivery service', the 'orientation towards citizens' and 'better management costs' are considered the most important issues introduced by NPM.

Police chiefs consider the use of performance measures and the improvement of the control system important for good performance measurement. However, the existing regulation only foresees the performance measurement of employees (chiefs, agents, and administrative employees) and operational activity (essentially, statistical information on the crime rate). Citizen satisfaction is not measured⁸. In regard to financial performance, this information is highly centralised, given the hierarchical structure of Portuguese police.

Table 5 shows the results of the use of performance measures in the Portuguese police, based on five perspectives of the BSC (Chan, 2004): citizen satisfaction, financial performance, operational efficiency, innovation and change, and employee performance. The results support what was said about the legal rules existent in Portuguese police. Employee performance and operational efficiency measures are more often employed by a great number of police agencies; financial measures are less employed because this information is centralised at the management level. The use of these measures is medium or high. About 27% and 42% of agency chiefs responded that the use of employee performance and operational efficiency, respectively, is high; 48% and 39% agencies consider a medium usage of them, respectively. Innovation and change measures are also used to some degree (48% and 30% agency chiefs responded that they use them at a medium or high level, respectively).

With regard to citizen satisfaction measurement, 52% and 31% of police chiefs reported that their agencies use these measures at a medium or high level, respectively. However, we should be cautious in reading these results, because according to informal conversations with some police chiefs, agencies only use information about complaints and suggestions by the community; it is not common practice to use surveys to gauge community satisfaction⁹.

⁸ Government requirements about performance measurement in the police forces are defined for the GNR (Instruction n° 279/2000, 2nd series); for the PSP (Instruction n° 939/2003, 2nd series) and for the PJ (Decree-Law n°. 275-A/2000). With regard to the Municipal Police, the general requirements of civil servants apply to agents.

⁹ The 'citizen satisfaction' measurement is one of the most important perspectives of the BSC for the public sector, given the social mission of public organisations (Kaplan, 2001; Niven, 2003; Chan, 2004).

Table 5 – Usage of Performance Measures

		Citizen satisfaction		Financial performance		Operational efficiency		Innovation and change		Employee performance	
		N	%	N	%	N	%	N	%	N	%
Total		249		249		249		249		249	
No		122		161		69		95		63	
Yes		127	100	88	100	180	100	154	100	186	100
Level of usage	Low	17	13	17	19	18	10	29	19	37	20
	Medium	66	52	48	55	71	39	74	48	89	48
	High	39	31	19	22	76	42	46	30	50	27
	Very high	5	4	4	5	15	8	5	3	10	5

Regarding the characterisation of the existing performance measurement system in the Portuguese police force, police chiefs consider that traditional financial and non-financial measures are sufficient; so they are comfortable with the existing system. On the importance of performance measures in organisational improvement and its articulation with the organisational strategy, the results are not conclusive, given that the majority of the respondents adopt a neutral level of concurrence.

Another question on the national survey asks about key performance indicators of police activity, for each one of the five perspectives mentioned above. This information is important in developing a strategic map to improve performance measurement in the Portuguese police. Results show that the ‘quality of service delivery’, ‘level of productivity’, ‘time response’, ‘adoption of new technologies’, ‘reduction crime rate’, ‘level of citizens and employees satisfaction’, and ‘image and prestige’ are among the indicators considered most important for the police (see Table 6)¹⁰.

Table 6 – Key Performance Indicators for Each Performance Perspective

Citizen satisfaction	Financial performance	Operational efficiency	Innovation and change	Employee performance
1. Quality of delivery service	1. Budgeting	1. Quality of delivery service	1. Investment in training and skills	1. Quality of delivery service
2. Image and prestige of police service	2. Level of budgeting execution	2. Reduction crime rate	2. Level of adoption of new technologies	2. Level of productivity
3. Level of citizen satisfaction	3. N° of policies per km and inhabitant	3. Level of productivity	3. Response time in the process resolution	3. Employee satisfaction

¹⁰ Note that for each performance perspective, we chose the three performance indicators most referred to by police chiefs.

In Table 7, we propose a strategic map for the Portuguese police forces, based on the key performance indicators referred to above, in much the same manner as Chan (2004) and Wisniewski and Dickson (2001: 1063). For each performance perspective, we define a strategic objective and the appropriate actions required to execute them. All key performance indicators are articulated with this objective, so as to ensure that we are measuring what we really want to measure. This strategic map should be adapted in consequence of changes in the strategic objectives; therefore, it is a dynamic and flexible map.

Table 7 – Proposal of a Strategic Map for the Portuguese Police Forces

Citizen satisfaction	Financial performance
Objective: Increase citizen satisfaction	Objective: Reduce costs
Action 1: Reduce crime and vandalism Action 2: Increase citizen participation Action 3: Improve the response time	Action 1: Increase financial and management control Action 2: Implement appropriate cost system
Indicator 1: Quality of delivery service Indicator 2: Image and prestige Indicator 3: Level of citizen satisfaction	Indicator 1: Budgeting Indicator 2: Level of budgeting execution Indicator 3: N° of policies by km and inhabitant
Operational efficiency	Innovation and change
Objective: Reduce crime rate	Objective: Increase the capacity to solve problems
Action 1: Prevent and identify crime Action 2: Increase policing community Action 3: Define central activities	Action 1: Improve information systems Action 2: Adoption of new technologies Action 3: Improve internal processes
Indicator 1: Quality of delivery service Indicator 2: Reduction crime rate Indicator 3: Productivity	Indicator 1: Investment in training and skills Indicator 2: Level of adoption of new technologies Indicator 3: Response time in the process resolution
Employee performance	
Objective: Increase productivity	
Action 1: Increase the level of qualification Action 2: Increase the level of motivation Action 3: Motivate the initiative capacity	
Indicator 1: Quality of service delivery Indicator 2: Level of productivity Indicator 3: Level of employee satisfaction	

5.3. The implementation of a multidimensional model – the Balanced Scorecard

The BSC, defined in the literature as a strategic management system (Kaplan and Norton, 1992 and 1996), has increased exponentially in the public sector, and specifically in law enforcement, as a way to solve problems of management and measurement performance. For example, the Swedish National Police Board (Carmona and Grönlund, 2003) implemented this management tool in 1998. The goal was to improve vertical and horizontal communication of the strategy and to complement the existing formal collection of criminal statistics with a management planning and

control system. The performance dimensions introduced in the BSC are: resources, citizens, success, and people. Measurement of citizen satisfaction is done through the use of questionnaires that incorporate public opinion on the police work. Scottish police, namely the Dumfries and Galloway Constabulary, have been implementing the traditional perspectives of the BSC in a gradual and progressive way since 1997 (Wisniewski and Dickson, 2001).

In Portugal, despite a very low level of application of the BSC, Gomes (2007) found an high willingness on the part of police chiefs to implement the BSC. The willingness to apply the BSC is greater in larger and more autonomous agencies, as well in agencies where police chiefs are more knowledgeable about its methodology, language, and functioning of the BSC and more aware of the importance of NPM initiatives. The Municipal Police of Matosinhos is an example of one police agency where the BSC is currently being implemented. Performance perspectives used are based on the original model proposed by Kaplan and Norton (1992): citizens, internal processes, learning and innovation, and financial performance.

In regard to difficulties in the implementation of the BSC in the Portuguese police forces, the excessive bureaucracy, the centralised structure and political context in which these agencies operate, the resistance to change in public administration, the focus on short-term problems, a lack of financial autonomy, and the inexistent association between employee rewards and performance are considered important barriers in this process.

The importance of the BSC in the organisational performance is recognised by police agents. However, given the Portuguese police system's centralised structure, the implementation of this strategic tool by each police agency is quite hard. This process change should begin with an adequate change in the law, one that increase the delegation budgeting and financial management.

Conclusion

Public sector organisations witnessed important changes after the NPM where efficiency and effectiveness are concerned. The existence of a multidimensional measurement performance model is crucial to the decision-making process, to the increase of transparency and accountability, and to the improvement of management resources. Important constraints on the public sector performance measurement include the lack of political and management interest in performance measurement, the 'old' bureaucracy, the political culture, the time and financial resources needed to implement this system, the lack of skills, and the lack of association between employee rewards and performance.

The literature reveals the importance given to the multidimensional models and its significant increase in public and not-for-profit organisations after the introduction of NPM reforms. The social mission followed by this kind of organisation, the ambiguity of objectives, and the diversity of stakeholders call for the adoption of multiple perspectives of performance, like citizen satisfaction, operational efficiency, employee performance, learning and innovation capacity and financial performance. The focus on community satisfaction represents the most relevant performance perspective

for public organisations. The introduction of performance measurement systems in the public sector require a multidimensional analysis of performance, one rigorous adaptation to the political context in which these organisations operate, a change in the resistance culture face to performance measurement and the consideration of citizens and its social needs as the main goal to obtain.

Law enforcement also has its limitations with regard to the management and measurement of performance. External factors that affect police work, like behaviour of community and unemployment, the complexity of activities, and the ambiguity of objectives, and the political context continuously alters initiatives and political objectives; so, the comparability of performance information is not easy. In Portuguese law enforcement, multidimensional performance measurement is still in an initial phase. Measures of operational efficiency and employee performance have higher level of usage. This is justified by the legal requirements for performance measurement in Portuguese law enforcement. Any process of change is initiated by the central government, thus the introduction multidimensional performance measurement system, like the BSC, must by a legislative initiative. There is a greater preponderance of the use of performance measures in the municipal police, given that it is a local police and it has more autonomy in the development of this kind of information.

Despite these limitations, governments have shown an interest in recent years to performance measurement in law enforcement. The implementation of the BSC in police forces of some countries, like Sweden, Scotland, United Kingdom, and Portugal is an example of the introduction of the strategic orientation and the improvement of performance organisational in law enforcement. The flexibility and dynamics of this management tool make it useful in the actual environment, both in the profit and not-for-profit sectors.

In the future, it will be interesting to replicate this analysis to see if the Portuguese police forces adopt the BSC, especially in those forces that this study deems most likely. Another suggestion for future research is to analyse a case study of a police agency having now just adopted the BSC in order to identify the main factors that influence the process of adoption and implementation.

References

- Araújo, J. (2001), Improving public service delivery: the crossroads between NPM and traditional bureaucracy, *Public Administration*, Vol. 79, N. 4, 915-933.
- Ballantine, J.; Brignall, S. and Modell, S. (1998), Performance measurement and management in public health services: a comparison of UK and Swedish practice, *Management Accounting Research*, Vol. 9, N. 1, 71-94.
- Behn, R. (2003), Why measure performance? Different Purposes require different measures, *Public Administration Review*, Vol. 63, N. 5, 588-606.
- Bogt, H. (2003), Performance evaluation styles in governmental organizations: How do professional managers facilitate politicians' work?, *Management Accounting Research*, Vol. 14, 311-332.
- Bogt, H. (2004), Politicians in Search of Performance Information? Survey Research on Dutch Aldermen's Use of Performance Information, *Financial Accountability & Management*, Vol. 20, N. 3, 221-252.

- Brignall, S. and Modell, S. (2000), An institutional perspective on performance measurement and management in the 'new public sector', *Management Accounting Research*, Vol. 11, 281-306.
- Carmona, S. and Grönlund, A. (2003), Measures vs actions: the balanced scorecard in Swedish Law Enforcement, *International Journal of Operations & Production Management*, Vol. 23, N. 12, 1475-1496.
- Carvalho, J.; Fernandes, M.; Lambert, V. and Lapsley, I. (2006), Measuring fire service performance: a comparative study, *The International Journal of Public Sector Management*, Vol. 19, N. 2, 165-179.
- Carter, N.; Klein, R. and Day, P. (1993), *How Organisations measure success: The use of performance indicators in government*, London, Routledge.
- Chan, L. (2004), Performance measurement and adoption of the balanced scorecard: a survey of municipal governments in the USA and Canada, *The International Journal of Public Sector Management*, Vol. 17, N. 2/3, 201-221.
- Collier, P. (1998), Operations and Accountability: the role of performance indicators, financial devolution and strategy in the management of a police force, *International Journal of Police Science and Management*, Vol. 1, N. 1, 81-93.
- Collier, P. (2001), Police performance management - an ethical dilemma, in Neyroud, P. and Alan, B. (eds.), *Policing, Ethics and Human Rights*, Devon, Willan Publishing.
- Collier, P. (2005), In search of purpose and priorities: Police performance indicators in England and Wales, 1992-2004, Working Paper, Aston University, 1-14.
- Dooren, W. (2005), What Makes Organisations Measure? Hypotheses on the Causes and Conditions for Performance Measurement, *Financial Accountability & Management*, Vol. 21, N. 3, 363-383.
- Drake, L. and Simper, R. (2005), The Measurement of Police Force Efficiency: An Assessment of U.K., *Contemporary Economic Policy*, Vol. 23, N. 4, 465-482.
- Edwards, D. and Thomas, J. (2005), Developing a Municipal Performance-Measurement System: Reflections on the Atlanta Dashboard, *Public Administration Review*, Vol. 65, N. 3, 369-376.
- Guthrie, J. and English, L. (1997) Performance information and program evaluation in the Australian public sector, *International Journal of Public Sector Management*, Vol. 10, N. 3, 154-164.
- Gomes, P. (2007), *O papel do Balanced Scorecard na avaliação do desempenho do Sistema Policial Português*, Master Dissertation in Accounting and Auditing, University of Minho, Braga, Portugal.
- Helden, J. V. and Johnsen, A. (2002), A comparative analysis of the development of performance-based management systems in Dutch and Norwegian local government, *International Public Management Journal*, Vol. 5, N. 1, 75-95.
- Hoque, Z.; Arends, S. and Alexander, R. (2004), Policing the police service: A case study of the rise of «new public management» within an Australian police service, *Accounting, Auditing & Accountability Journal*, Vol. 17, N. 1, 59-84.
- Ho, K. and Chan, L. (2002), Performance Measurement and the Implementation of the Balanced Scorecard in Municipal Governments, *Journal of Government Financial Management*, Vol. 51, N. 4, 8-19.
- Ittner, C. and Larcker, D. (1998), Are nonfinancial measures leading indicators of financial performance? An analysis of customer satisfaction, *Journal of Accounting Research*, Vol. 36, N. 3, 1-35.
- Jackson, P. (1993), Public Service Performance Evaluation: A Strategic Perspective, *Public Money & Management*, Oct-Dec, 9-14.
- Johnsen, Á. (2005), What does 25 years of Experience tell Us About the State of Performance Measurement in Public Policy and Management?, *Public Money & Management*, Vol. 25, N. 1, 9-17.
- Jones, R. and Pendlebury, M. (1992), *Public Sector Accounting*, Pitman, 5th Edition.
- Julnes, P. and Holzer, M. (2001), Promoting the utilization of performance measures in public organizations: an empirical study of factors affecting adoption and implementation, *Public Administration Review*, Vol. 61, N. 6, 693-708.
- Kaplan, R. and Norton, D. (1992), The Balanced Scorecard – Measures That Drive Performance, *Harvard Business Review*, Jan-Feb, 71-79.

- Kaplan, R. and Norton, D. (1996a), *The Balanced Scorecard. Translating into Action*, Boston, Harvard Business School Press.
- Kaplan, R. and Norton, D. (1996b), Using the Balanced Scorecard as a Strategic Management System, *Harvard Business Review*, Jan-Feb, 75-85.
- Kaplan, R. and Norton, D. (1997), Why does business need a balanced scorecard?, *Journal of Cost Management*, May-Jun, 5-10.
- Kaplan, R. (2001), Strategic performance measurement and management in non-profit organizations, *Non-profit Management and Leadership*, Vol. 11, N. 3, 353-370.
- Kloot, L. and Martin, J. (2000), Strategic performance management: A balanced approach to performance management issues in local government, *Management Accounting Research*, Vol. 11, 231-251.
- Lambropoulou, E. (2004), Citizens' safety, business trust and Greek police, *International Review of Administrative Sciences*, Vol. 70 (1), 89-110.
- Mayston, D. (1985), Non-profit performance indicators in the public sector, *Financial Accountability & Management*, Vol. 1, N. 1, 51-73.
- Modell, S. (2001), Performance measurement and institutional processes: a study of managerial responses to public sector reform, *Management Accounting Research*, Vol. 12, 437-464.
- Niven, P. (2003), *Balanced Scorecard step-by-step for government and nonprofit agencies*. New Jersey, John Wiley & Sons.
- Peursem, V.; Prat, M. and Lawrence, S. (1995) Health management performance: a review of measures and indicators, *Accounting, Auditing & Accountability Journal*, Vol. 8, N. 5, 34-70.
- Rogerson, P. (1995), Performance Measurement and Policing: Police service or Law Enforcement Agency?, *Public & Money Management*, Oct-Dec, 25-30.
- Streib, G. and Poister, T. (1999a), Performance Measurement in municipal government: Assessing the State of the Practice, *Public Administration Review*, Vol. 59, N. 4, 325-355.
- Streib, G. and Poister, T. (1999b), Assessing the validity, legitimacy and functionality of performance measurement systems in municipal governments, *American Review of Public Administration*, Vol. 29, N. 2, 107-123.
- Vollaard, B. (2003), *Performance contracts for police forces*, CPB Netherlands Bureau for Economic Policy Analysis.
- Wilson, C.; Hagarty, D. and Gauthier, J. (2003), Results using the balanced scorecard in the public sector, *Journal of Corporate Real Estate*, Vol. 6, N. 1, 53-63.
- Wisniewski, M. and Dickson, A. (2001), Measuring performance in Dumfries and Galloway Constabulary with the Balanced Scorecard, *Journal of Operational Research Society*, Vol. 52, 1057-1066.

(Página deixada propositadamente em branco)

Rita Cheng

Kenneth Smith

Ola Smith

**VOLUNTARY ONLINE PERFORMANCE REPORTING
IN THE 50 US STATES:
ASSESSMENT OF TWO AGENCIES**

Introduction

In this paper, we examine voluntary performance reporting by the 50 states in the USA in two agencies each: Departments of Transportation and Departments of Corrections. The prime activity in Transportations is roads, bridge, highways and other similar functions. The prime activity in Corrections is prisons with some parole, probation and other criminal justice activities. Both departments constitute a large portion of the personnel and the budget for state governments. Governments throughout the world have been involved in performance measurement and reporting for some time, with great attention during the growth of New Public Management – NPM (Hood, 1995).

This paper fills a gap in government accounting research as it looks at a country (USA) and uses a methodology (archival) that was used in only 5% of the studies reviewed by Helden (2005). We contribute to the accounting research by providing evidence on both the level and drivers of voluntary governmental performance reporting. This study is particularly relevant since the Governmental Accounting Standards Board (GASB) is considering issuing guidance on governmental performance reporting amid significant opposition. Moreover, this paper provides a benchmark of the current status of voluntary performance reporting by state agencies. While the paper does not examine cross-national differences, the physical size and economic scope of the US States are on par with many of the countries in other studies. Since States in the US have substantial freedom to set accounting policies, we believe studies comparing different approaches and practices have the potential to be useful to other researchers and to other cross-country analyses.

Henceforth the paper is organized as follows. First, performance measurement in the U.S. is introduced. Section 2 addresses the literature review focused on the U.S. and develops the research questions and hypotheses to be tested. The study continues presenting the methodology and results (Sections 3 and 4), finalizing with a discussion section.

1. Performance Measurement in the U.S.

Governmental performance measurement in the United States has been in development for at least 100 years, beginning no later than the formal incorporation of the New York Bureau of Municipal Research (NYBMR) in 1907 (Williams, 2003). The earliest efforts of NYBMR were aimed at reporting to citizens and policy advocacy groups, but evolved by the 1930's towards assisting managers to "get good results out of limited resources" (Williams, 2004: 157). Recent interest in performance measurement can be traced to several efforts in the early 1990's: (a) research of the Government Accounting Standards Board (GASB) and the "It's Time Has Come" reports (Hatry *et al.*, 1990); (b) the GASB's Concept Statement No. 2 on Service Efforts and Accomplishments Reporting (1994); (c) Osborne and Gaebler's (1992) "Reinventing Government" that appeared on several best-seller lists; (d) the federal government's National Performance Review led by Vice President Al Gore (1993); and (e) international growth of New Public Management or NPM (Hood, 1995).

GASB has always considered performance measures as part of its charter. However some professional associations, such as the Government Finance Officer's Association (GFOA), have opposed GASB's efforts to standardize performance reporting. Harris (1995a) analyzes the comment letters sent to GASB regarding Concepts Statement N. 2. She notes the significant concerns of the preparer community, as often represented by the GFOA. As discussed in Smith and Schiffel (2006: 591), the GFOA formally opposed GASB's involvement in SEA Reporting in 1993 issuing a Public Policy Statement. Despite this conflict, GASB adopted Concept Statement N. 2 in 1994 and recognized "reporting of performance information as part of general purpose external financial reporting."

Following the passage of Concepts Statement N. 2, the GASB received multi-million dollar grants from the Sloan Foundation to support research and experimentation on performance reporting. GASB staff produced several reports over this time, but a required reporting standard was never proposed. In 2003, the staff issued "Reporting Performance Information: Suggested Criteria for Effective Communication" (also known as the 'Green Report' because it was printed in green ink). The GFOA once again formally opposed GASB's efforts via a Public Policy Statement.

Soon after the 2003 GASB report, the Association of Government Accountants (AGA) developed a Certificate of Excellence in Service Efforts and Accomplishments Reporting (COE-SEA) program for local government similar to one it had developed for federal government agencies. The criteria for earning the Certificate, which is also our proxy for quality performance reporting, are listed in Table 1.

Table 1 – Description of SEACOA Criteria (Continued)

Criterion N.	Title	Description
1	Purpose and Scope	The purpose and scope of the report should be stated clearly. The statement of the scope should include information about the completeness of the report in the coverage of key, major, or critical programs and services.
2	Statement of Major Goals and Objectives	The report should clearly state the major goals and objectives of the organization and the source for these goals and objectives.
3	Involvement in Establishing Goals and Objectives	The report should include a discussion of the involvement of citizens, elected officials, management, and employees in the process of establishing goals and objectives for the organization.
4	Multiple Levels of Reporting	Performance information should be presented at different levels (layers) of reporting. The relationship between levels of available performance information should be clearly communicated and should include how the user can find information at the different levels reported.
5	Analysis of Results and Challenges	The report should include an executive or management analysis that objectively discusses the major results for the reporting period as well as the identified challenges facing the organization in achieving its mission, goals, and objectives.
6	Focus on Key Measures	The report should focus on key measures of performance that provide a basis for assessing the results for key, major, or critical programs and services; and major goals and objectives of the organization. Therefore, an external performance report should be concise, yet comprehensive in its coverage of performance.
7	Reliable Information	The report should contain information that readers can use to assess the reliability of reported performance information.
8	Relevant Measures of Results	Reported performance measures should be relevant to what the organization has agreed to try to accomplish and where possible should be linked to its mission, goals, and objectives as set forth in a strategic plan, budget or other source.
9	Resources Used and Efficiency	Reported performance information should include information about resources used or costs of services. It also could report performance information related costs to outputs or outcome (efficiency measures).
10	Citizen and Customer Perceptions	Citizen and customer perceptions of the quality and results of major and critical programs and services should be reported when appropriate.
11	Comparisons for Assessing Performance	Reported performance information should include comparative information for assessing performance such as to other periods, established targets, or other internal and external sources.
12	Factors Affecting Results	The report should include a discussion of identified external and internal factors that have had a significant effect on performance and will help provide a context for understanding the organization's performance.

Criterion N.	Title	Description
13	Aggregation and Disaggregation of Information	Reported performance information should be aggregated or disaggregated based on the needs and interests of the intended users.
14	Consistency	Reported performance measures should be consistent from period to period; however, if performance measures or the measurement methodology used is significantly changed, that change and the reasons for the change should be noted.
15	Easy to Find and Access	The availability of an external report on performance and how to obtain that report should be widely communicated through channels appropriate for the organization and intended users.
16	Easy to Understand	Performance information should be communicated through a variety of mediums and methods suitable to the intended user.
17	Regular and Timely Reporting	Performance information should be reported on a regular and timely basis (usually annually), The reported information should be made available as soon after the end of the reporting period as possible.

Note: The 17 criteria listed above were taken directly from the AGA COA SEA Reviewer’s Guidelines (Association of Government Accountants, 2006).

As recently as November of 2006, the question of whether performance measures belonged on GASB’s agenda was a matter of discussion for the Financial Accounting Foundation (FAF), the oversight body to GASB. The FAF confirmed that performance measures are a part of GASB’s charter and that it can move forward with setting standards in this area, should that be the result of its traditional due process. Performance reporting was added to GASB’s project agenda in April of 2007 and GASB plans to issue a ‘due process’ document in the spring of 2008.

2. Prior Literature and Hypotheses Development

2.1. Government Performance Measurement and Reporting Research in the U.S.

Research in government performance measurement in the U.S. is highly disparate and few studies address accounting issues. While government performance measurement receives great attention in the public administration literature (Harris, 1995b; Kloby and Kim, 2004) and in certain service industries such as education and healthcare, the field of performance measurement suffers from a lack of shared language and an academic disciplinary home. According to Smith and Schiffel (2006), there are at least five distinct ‘performance’ specialties which perpetuates this lack of disciplinary clarity: (1) performance *measures* (technical measurement issues); (2) performance *reporting*; (3) performance *benchmarking*; (4) performance *management*; and (5) performance *budgeting*. Similarly, Behn (2003) identifies eight different uses for performance measures, adding to the lack of clarity in the field.

As mentioned above and consistent with Helden (2005), few existing studies of U.S. government performance measurement and reporting address accounting issues. Smith and Schiffel (2006) note that with the exception of Smith (2004), almost no studies on performance measurement or reporting were published by accounting academics since 1995¹. Moreover, Frank and D'Souza (2004) find a mismatch between research method and research question in their review of the progress in governmental performance measurement research since the early 1990's. They note that most public administration research uses either one-jurisdiction case studies or fixed response mail surveys. Neither of these methods provides an accurate assessment of the extent or quality of performance measurement nor whether the measures meet the cost-benefit test. Smith and Schiffel (2006) concur with the conclusions of Frank and D'Souza (2004) and call for more research by accounting researchers especially in the area of describing the extent and quality of performance reporting across all governments.

Smith and Schiffel (2006) identify six specialties within accounting that are relevant to performance measurement. The two most salient to the current project are *financial accounting* and its focus on external reporting to stakeholders with an information disadvantage and *managerial accounting* and its focus on supporting internal management in making decisions. Most recently, Gendron *et al.* (2007) make a strong argument for the importance of accounting 'practitioners' in performance measurement/management/reporting reforms. This review of the literature reveals the need for additional accounting research on U.S. governmental performance measurement and reporting.

2.2. Lessons from the U.S. Government Accounting Literature

Current performance reporting by local governmental agencies is mostly voluntary. A review of the governmental accounting literature focused on accounting choice and quality of financial reporting may be very useful in understanding the state of voluntary reporting of nonfinancial information. Numerous government accounting studies have addressed the question of why accounting choices are made (see Cheng, 1994 for a review of this literature). Beginning with the seminal work of Zimmerman (1977) researchers documented the intercorrelation of several economic and political measures with accounting choice. By the mid-1990's, there was consensus that accounting choice in financial reporting is an outcome of unique interrelationships in the complex political environment.

The early work of Ingram (1984) may be most useful to understanding the current voluntary state of Service Effort and Accomplishments (SEA) reporting. He developed a practice index based on the extent to which recommended practices were adopted by each state. This index was used to proxy for both quantity and quality of

¹ An exception is Professors David Ammons and William Rivenbark and their colleagues at the School of Government at the University of North Carolina. They have written several articles that include issues related to cost accounting in connection with their benchmark reporting projects with cities and counties. However, Professors Ammons and Rivenbark are not in an Accounting Department at their University.

accounting disclosure. Other researchers (Robbins and Austin, 1986; Banker *et al.*, 1989; Cheng, 1992) used this index to better understand the political environment and complex linkages among social, political, and economic factors and disclosure practices. Drawing from the well developed theoretical basis in political science and public choice literature (Downs, 1957; Milbrath, 1965; Becker, 1983; and Mueller, 1989), the accounting researchers were able to identify important economic factors that affect the governmental financial accounting choice. These studies examined credit-market induced incentives (Baber, 1983; Ingram, 1984) to voluntarily disclose GAAP information, and voter monitoring (Ingram and DeJong, 1987) regarding the impact of voters on GAAP reporting. Finally, incentives of governmental accounting bureaucrats for an outward show of quality of financial reporting to signal quality management have been found to be significant to GAAP disclosure (Evans and Patton, 1983 and 1987).

In response to the considerable noise in the accounting literature concerning the relative significance of political, signaling, credit market, and size variables on the incentives of governments to use professionally endorsed accounting practices, Cheng (1994), Carpenter and Feroz (2001) and Carpenter *et al.* (2007) suggest government accounting models based on agency theory do not capture institutional and organizational pressures that constrain accounting choice in the governmental and not-for-profit sector. Cheng (1994) developed a politico-economic process model to examine financial reporting choice in terms of incentives and resources of individuals. Carpenter and Feroz (2001) employed a longitudinal cross-case study methodology and provide a rich historical context for identifying these incentives within the complex government environment. These studies argue that non-economic factors measuring organizational values, politics, and institutional norms, may have an impact on accounting choice. In summary previous research indicates that drivers of accounting choice in government financial reporting include both political and economic factors, and could also include non-economic factors.

2.3. Research Questions and Hypotheses Development

We are concerned with the normative question of whether GASB should require external performance reporting. Practically, this study is focused on the extent and quality of performance reporting by local governments with higher capacity, where size is a proxy for capacity. We assess whether the GASB Criteria as operationalized by the AGA's Certificate of Excellence in Service Efforts and Accomplishments reporting (COE-SEA) is a reliable and relevant indicator of quality performance reporting. We can not provide the definitive solution to GASB since we are not directly collecting evidence regarding the costs or the benefits of external performance reporting. However, we can provide insight into performance reporting challenges faced by governmental agencies. Therefore this study will focus on two research questions:

- What is the current level of voluntary reporting by state governmental agencies?
- What are the drivers of voluntary reporting by governmental agencies?

As mentioned in the previous section, accounting choice in government reporting can be drive by political factors. Following Ingram (1984) we develop an index of the

extent to which state departments of transportation and corrections are reporting on COA-SEA criteria. Given the GASB and AGA's interest in advancing the quality of nonfinancial reporting, an index calculated from the AGA's new SEA program designed to encourage state and local governments to prepare and issue high quality Service Efforts and Accomplishments Reports (i.e., performance reports) could be very useful. Therefore we will develop an index by State to test the following hypothesis:

H1: SEA reporting results will exhibit interstate variation, but little or no intrastate variation.

As mentioned earlier, it may be very useful to reflect on the appropriateness of the findings from the rich body of research directed at financial reporting to gain insights into the critical factors and conditions important in advancing the quality and quantity of SEA reporting. It will also be useful to determine what is different about SEA reporting so as to better inform policy makers. From previous research we expect to see variability in reporting depending on the incentives and resources of individuals. Since we do not have data at this level, we use the agency (i.e. transportation or prisons) as a proxy for incentives and resources of individuals. This approach is reflected in the next hypothesis:

H2: SEA reporting by state departments of transportation will vary from SEA reporting by State departments of corrections.

States are using mechanisms such as performance funding, performance reporting and 'report cards' to hold agencies accountable. In this context, accountability is about the appropriate use of state funds to meet state priorities and the importance that states attach to various activities in resource allocation. The increased attention to accountability has moved performance measurement from institutional self-responsibility for quality, with significant independence and self-determination, to a more public and evaluative arena. Measures that traditionally have been generated for use internally to improve management are now being considered for external reports. The potential for such measures to be used to evaluate and compare agencies across states adds considerable tension to the debate about what measures should be reported. The resulting link to funding and political support has also received attention among stakeholders. We believe these tensions and debates will result in variability of reporting, and that certain criteria will be reported more than others. Therefore we propose the following hypothesis:

H3: SEA reporting from State agencies will vary by COA criterion.

3. Methodology

We assume that state government agencies are of sufficient size to have resources of people and technology sufficient to implement a performance reporting system. We choose two large agencies within the states rather than the states as a whole: Corrections and Transportation. For each department, we went to the website and searched for the best single document that was a performance report to citizens. We used search terms including *performance report*, *annual report*, *statistics*, and *strategic plan*. We located reports for 48 State departments of corrections and 42 State departments of transportation. We conducted our online search during January of 2006.

We replicated the method used by AGA for coding the performance reports. Each report was coded by two ‘junior’ coders and one ‘senior’ coder. Our ‘junior’ coders are graduate students in a Masters of Business, Government and Non-profit Management program. They mirror the demographics and experience level of the ‘junior’ coders used by AGA. Our senior coder is one of the authors who had attended AGA’s training session and participated in the AGA process on multiple reports. Similar to the AGA’s senior coder, Hal Steinberg, our senior coder has more than a decade of experience with GASB’s efforts in performance reporting. This follows the AGA’s COA process where they use two reviewers from a general pool and the Director of Performance Reporting to supervise the discussion of the preliminary scores prior to issuing a final report. The discussion of the scores frequently results in unanimous scores or two scores of one level and the third score in the adjacent category (scores are 0, 1, 2 or 3 as described later).

Variables

The COA in SEA review guidelines suggest 17 criteria on which to evaluate an agency’s communication of performance information which are listed in Table I. The review guidelines include a detailed description of each criteria and a rubric for assigning points (Exhibit 1). An agency can receive from zero to three points on a criterion for a total of 51 available points. Each criterion represents a single characteristic that is suggested to be included in the performance report and is a variable in our study. The first seven characteristics relate to the external report on performance information. Criterion eight through 14 relate to comparisons for assessing performance. The final three criteria relate to the communication of performance information.

Exhibit 1 – AGA’s Coding Guidelines - Example

<p>N. 3-INVOLVEMENT IN ESTABLISHING GOALS & OBJECTIVES (Pages 53-56 in GASB’s Green Book)</p> <p>Evaluation</p> <p>There is no discussion of how stakeholders were involved in the creation of the organization’s goals and objectives. – 0 POINTS</p> <p>The report addresses the level and type of involvement of citizens, elected officials, management, and employees in setting the organization’s goals and objectives. It reveals that there was little or no stakeholder involvement. – 1 POINT</p> <p>The report addresses the level and type of involvement of citizens, elected officials, management, and employees in setting the organization’s goals and objectives. It reveals stakeholder involvement, to at least a limited degree. – 2 POINTS</p> <p>The report addresses the level and type of involvement of citizens, elected officials, management, and employees in setting the organization’s goals and objectives. It reveals extensive stakeholder involvement. – 3 POINTS</p>

Measurement

Six 'junior' coders were used in the measurement process. Each coder received training on the COA documentation and review guidelines. Then all coders assessed three reports to calibrate the coding. The researchers compared their results and differences in interpretation and application of the review guidelines were discussed. The researchers agreed upon a consistent approach to the measurement process. The remaining reports were independently examined, scored and then discussed among the two 'junior' and the one senior coder. Scores were modified as needed during the discussion. There were very few instances when scores were different by more than one (i.e. the three scores were often unanimous, and sometimes two coders had one score and the other score was different by an increment of just one).

Data

Three researchers evaluated every state for each of the 17 suggested criteria of the COA-SEA for both the departments of transportation and corrections. The resulting dataset contains 5,100 observations (three assessments multiplied by 50 states multiplied by 17 criteria multiplied by two departments). The averages of the three assessments were used for the statistical analysis. The results on each criteria were classified into four categories: FAIL, ATTEMPT, MEETS, or EXCEEDS. These categories are based on the COA rubric which requires the examiner to code each criterion as a zero, one, two or three (Exhibit 1). According to the rubric, the examiner should give "0 points if the suggested criterion as described in the Green Book is not applied; 1 point if it is partially applied; 2 points if it is fully applied; and 3 points if the report goes beyond the suggested criterion and incorporates one or more noteworthy practices" (Association of Government Accountants, 2006).

In our analysis, the points are converted to categories. The first category FAIL occurs when the average score from the three coders was below 0.67. An average score at this level would indicate that the maximum results on the criterion from the three coders were zero, zero, and one. The second category ATTEMPT occurs when the average score was between 0.67 and 1.33 indicating that the maximum results from the coders were one, one and two. The third category MEETS occurs when the average score is between 1.67 and 2.33 indicating that the maximum results from coders were two, two, and three. Finally, the fourth category EXCEEDS occurs when the average score is greater than 2.67 indicating that the minimum results from coders were two, three, and three. After classifying the results into the four categories, we converted the scores into percentages² to more easily analyze the outcomes.

²The percentage calculation is earned points divided by 30. The 30 represents a 'winning score' on the AGA's Certificate as they require a MEET on 13 criteria and at least an ATTEMPT on 4 criteria. Thus, (13 * 2) plus (4 * 1) equals 30. The results in Table 2 indicate that only one of the 100 reports (Missouri's Transportation) would have earned the Certificate.

4. Results

Table 2 shows the performance scores (in percentages) by state along with the ranking of each State. Results include scores and ranking for departments of Transportation (T-Rank), departments of Corrections or Prisons (P-Rank) and combined results. The table is ordered by ranking on the combined results and shows that Missouri ranks as first with an average score of 99.4% while Utah ranks last with an average score of 13.9%. Missouri also ranked first among the departments of Transportation with a score of 127%. Several departments of Transportation tie for last place (ranked at 43) with a score of zero. Oregon ranked number one in Prisons with a score of 98%, while Utah and Wisconsin come in at last place with scores of zero.

Table 2 – Ranking of Performance Reporting Scores by State and Agency (Continued)

State	Combined Results		Transportation		Prisons		Difference Between T-Rank and P-Rank
	Overall Rank	Average Score	Score	T-Rank	Score	P-Rank	
MO	1	99.40%	127%	1	72%	4	3
OR	2	96.70%	96%	2	98%	1	1
SC	3	76.10%	88%	4	64%	8	4
NY	4	75.00%	82%	5	68%	6	1
IA	5	67.20%	52%	21	82%	2	19
MN	t-6	65.60%	57%	15	74%	3	12
ND	t-6	65.60%	64%	10	67%	7	3
MD	8	64.40%	92%	3	37%	37	34
LA	9	61.70%	66%	9	58%	13	4
IL	10	61.10%	64%	10	58%	13	3
TN	11	59.40%	56%	16	63%	9	7
KS	t-12	57.20%	52%	21	62%	11	10
NE	t-12	57.20%	64%	10	50%	19	9
NV	t-12	57.20%	69%	7	46%	26	19
ID	15	53.90%	44%	30	63%	9	21
AR	t-16	53.30%	49%	28	58%	13	15
GA	t-16	53.30%	54%	19	52%	18	1
ME	18	52.80%	70%	6	36%	40	34
CA	t-19	52.20%	56%	16	49%	20	4
FL	t-19	52.20%	46%	29	59%	12	17
NM	21	51.10%	61%	13	41%	33	20
OK	22	50.00%	54%	19	46%	26	7
HI	t-23	48.90%	56%	16	42%	32	16
TX	t-23	48.90%	61%	13	37%	37	24
CO	25	46.70%	23%	41	70%	5	36
NH	t-26	45.60%	42%	33	49%	20	13
WA	t-26	45.60%	69%	7	22%	46	39
AL	t-28	44.40%	50%	25	39%	35	10
OH	t-28	44.40%	43%	32	46%	26	6
VT	30	43.30%	50%	25	37%	37	12
AK	31	42.80%	51%	23	34%	42	19
MI	t-32	42.20%	50%	25	34%	42	17
PA	t-32	42.20%	44%	30	40%	34	4
WY	34	40.60%	34%	38	47%	23	15
IN	t-35	40.00%	51%	23	29%	44	21
RI	t-35	40.00%	37%	37	43%	30	7
MS	37	37.20%	39%	35	36%	40	5

State	Combined Results		Transportation		Prisons		Difference Between T-Rank and P-Rank
	Overall Rank	Average Score	Score	T-Rank	Score	P-Rank	
VA	38	31.10%	41%	34	21%	47	13
WV	39	27.20%	0%	43	54%	16	27
NC	40	26.70%	0%	43	53%	17	26
AZ	41	23.90%	0%	43	48%	22	21
CT	t-42	23.30%	0%	43	47%	23	20
DE	t-42	23.30%	32%	39	14%	48	9
MT	t-42	23.30%	0%	43	47%	23	20
SD	t-42	23.30%	22%	42	24%	45	3
MA	46	22.20%	0%	43	44%	29	14
NJ	47	21.70%	0%	43	43%	30	13
KY	t-48	19.40%	0%	43	39%	35	8
WI	t-48	19.40%	38%	36	1%	49	13
UT	50	13.90%	28%	40	0%	50	10
AVG	25	46.68%	46.48%	24.64	46.86%	25.14	13.78

States	Transportation Score	Corrections Score	Avg Score
Average	47%	47%	47%
Median	50%	46%	46%
Std Dev	0.28	0.19	0.19
Max	127%	98%	99%
Min	0%	0%	14%
N=0	8	1	0

Note: This table presents the average percentage scores each State received from researchers on COE-SEA performance reporting on their web sites. Researches evaluated and scored both departments of Transportation and departments of Corrections (Prisons) for all 50 States. The overall score is an average of the two department scores. Results were ranked in descending order. The table is ordered by the overall rank which is based on the average score. T-Rank is the rank order for Transportation scores and P-Rank is the rank order for Prison scores. For overall results, all tied rankings are indicated with a “t-X” with X being the tied ranking. Observations are included for both agencies and all 50 States.

Hypothesis 1 proposed that SEA reporting results will exhibit interstate variation, but little or no intrastate variation. If performance reporting is primarily driven by state-specific factors, then there should be little difference between agencies within the state. To examine this hypothesis we calculate the absolute value of the difference between T-Rank and P-Rank. If this difference was small in most or all of the States, hypothesis 1 would be supported. The results show that the opposite is true. The difference between T-Rank and P-Rank varies greatly with a minimum of one for Oregon and a maximum of 39 for Washington with an average difference of 14. Because of the variability among ranks, hypothesis 1 is not supported.

Previous research indicates that voluntary reporting varies by the incentives and resources of individuals. Using the agency variable as a proxy for incentives and resources of individuals, hypothesis 2 predicts that results for departments of Transportation will be different from results for departments of Correction. Table 3 presents scores by agency (Transportation or Prisons) and criteria. The overall averages for the agencies are similar. For Transportation 35% of the departments FAIL, 47% at ATTEMPT, 17% MEET, and only 2% EXCEED. For Prisons, 33% of the departments FAIL,

TABLE 3 – Scores by Agency and Criteria (Continued)

SEA COA Criterion	Purpose and Scope	1	2	Involvement in Establishing Goals and Objectives	3	4	5	6	7	8	9
			Statement of Major Goals and Objectives			Multiple Levels of Reporting	Analysis of Results and Challenges	Focus on Key Measures	Reliable Information	Relevant Measures of Results (reported PMs)	Resources Used and Efficiency
Transportation		1	2	3	4	5	6	7	8	9	
FAIL (<0.67)	30%		26%	64%	18%	20%	28%	90%	28%	26%	
ATTEMPT (0.67>1.33)	42%		42%	22%	48%	56%	64%	8%	54%	44%	
MEET (1.67>2.33)	28%		30%	12%	32%	24%	6%	2%	10%	28%	
EXCEED (2.67+)	0%		2%	2%	2%	0%	2%	0%	8%	2%	
Prisons											
FAIL (<0.67)	34%		28%	90%	34%	24%	24%	78%	14%	34%	
ATTEMPT (0.67>1.33)	60%		60%	4%	56%	58%	66%	16%	64%	28%	
MEET (1.67>2.33)	6%		6%	6%	10%	12%	10%	6%	18%	34%	
EXCEED (2.67+)	0%		6%	0%	0%	6%	0%	0%	4%	4%	
Chi-Square	p=0.05		p=0.05	p=0.05	P=0.05	NotSig	NotSig	NotSig	NotSig	NotSig	NotSig

SEA COA Criterion	Citizen and Customer Perceptions	Comparisons for Assessing Performance	Factors Affecting Results	Aggregation and Disaggregating of Information	Consistency	Easy to Find and Access	Easy to Understand	Regular and Timely Reporting	AVERAGE
Transportation	10	11	12	13	14	15	16	17	Transportation Average
FAIL (<0.67)	70%	50%	42%	34%	20%	16%	16%	16%	35%
ATTEMPT (0.67>1.33)	26%	40%	40%	40%	74%	54%	74%	68%	47%
MEET (1.67>2.33)	4%	8%	16%	22%	6%	30%	8%	16%	17%
EXCEED (2.67+)	0%	2%	2%	4%	0%	0%	2%	0%	2%
Prisons									Prison Average
FAIL (<0.67)	96%	22%	42%	14%	6%	4%	6%	4%	33%
ATTEMPT (0.67>1.33)	4%	74%	46%	46%	90%	82%	74%	82%	54%
MEET (1.67>2.33)	0%	2%	8%	40%	4%	14%	18%	14%	12%
EXCEED (2.67+)	0%	2%	4%	0%	0%	0%	2%	0%	2%
Chi-Square	p=0.01	p=0.01	NotSig	p=0.05	NotSig	p=0.05	NotSig	NotSig	p=0.05

Note: This table contains the percentage of each of the departments that were scored as FAIL, ATTEMPT, MEET or EXCEED at each of the 17 criteria. Researchers classified the results from both the departments of Transportation and Corrections (Prisons) from all 50 States into these four categories. Each observation was coded by three researchers and represents the average of the three scores. FAIL represents the average of maximum scores of zero, zero, and one. ATTEMPT represents the average of one, one and two or less. MEET represents the average of two, two and three or less. EXCEED represents scores at two, three and three or above.

54% at ATTEMPT, 12% MEET, and only 2% EXCEED. A closer examination of the results by level and by criterion reveals that eight of the 17 criteria are statistically different (chi square statistic of $p < 0.05$). This indicates that the results do differ by agency and therefore supports hypothesis 2.

The current trends in reporting create additional tensions within the political and socio-economic environment in which government agencies report. The tensions are partly manifested in the opposition to the GASB's efforts. As predicted by hypothesis 3, we expect to see a variation in the criterion that agencies select to report on. Table 4 shows the results of our analysis by criterion. A review of this table shows considerable variation in reporting by criterion. For example, 77% of the agencies FAIL to report citizens involvement in establishing goals and objectives (criterion 3), 84% FAIL to report on the reliability of the information presented (criterion 7) and 83% FAIL to include citizen and customer perceptions (criterion 10). Similarly, 82% only ATTEMPT the minimum requirements for consistency, 74% only ATTEMPT the minimum for ease of understanding, and 75% only ATTEMPT the minimum for regular and timely reporting. On a positive note, 31% MEET reporting requirements of criterion 9 (resources used and efficiency), 31% also MEET the requirements for reporting the aggregation and disaggregation of information, and 22% MEET requirements of criterion 15 (easy to find and access). The analysis supports hypothesis 3 by demonstrating that certain criterion are reported more than others.

TABLE 4 – SEA Scores by COA Criterion

Criterion N.	Criterion	FAIL (<0.67)	ATTEMPT (0.67>1.33)	MEET (1.67>2.33)	EXCEED (2.67+)
1	Purpose and scope	32%	51%	17%	*0%
2	Statement of major goals and objectives	27%	51%	18%	**4%
3	Involvement in establishing goals and objectives	**77%	*13%	9%	1%
4	Multiple levels of reporting	26%	52%	21%	1%
5	Analysis of results and challenges	22%	57%	18%	**3%
6	Focus on Key Measures	26%	65%	8%	1%
7	Reliable information	**84%	*12%	*4%	*0%
8	Relevant Measures of Results (reported PMs)	21%	59%	14%	**6%
9	Resources Used and Efficiency	30%	36%	**31%	**3%
10	Citizen and Customer Perceptions	**83%	*15%	*2%	*0%
11	Comparisons for Assessing performance	36%	57%	*5%	2%
12	Factors Affecting Results	42%	43%	12%	**3%
13	Aggregation and Disaggregating of Information	24%	43%	**31%	2%
14	Consistency	13%	**82%	*5%	*0%

Criterion N.	Criterion	FAIL (<0.67)	ATTEMPT (0.67>1.33)	MEET (1.67>2.33)	EXCEED (2.67+)
15	Easy to Find and Access	*10%	68%	**22%	*0%
16	Easy to Understand	*11%	**74%	13%	2%
17	Regular and Timely Reporting	*10%	**75%	15%	*0%
	Average	34%	50%	14%	2%

** Indicates the highest scores.

* Indicates the lowest scores.

Note: This table summarizes the SEA scores by criterion. This table contains the percentage of each of the departments that were scored as FAIL, ATTEMPT, MEET or EXCEED at each of the 17 criteria. Researchers classified the results from both the departments of Transportation and Corrections (Prisons) from all 50 States into these four categories. Each observation was coded by three researchers and represents the average of the three scores. FAIL represents the average of maximum scores of zero, zero, and one. ATTEMPT represents the average of one, one and two or less. MEET represents the average of two, two and three or less. EXCEED represents scores at two, three and three or above. The average results from the two departments were computed on each criterion. The data summarized in this manner demonstrates trends in the reporting.

Discussion and Conclusion

In this study, we have examined performance reporting of state departments of Transportation and Corrections (prisons). We evaluated the reporting of all 50 states using the COA-SEA criteria suggested by the GASB, and the guidelines developed by AGA. From this we were able to develop a methodology and an index that measured the extent of performance reporting by the agencies. We conclude that performance reporting, while largely not driven by the state variable, does vary by agency and criteria. This study contributes to the both the public administration literature and accounting research on government performance reporting by providing insight into the level, quality, quantity and drivers of government performance reporting.

Overall, our results suggest that voluntary reporting is increasing, albeit with significant variance. While there are only two states reporting at a level close to preparing winning reports (Missouri and Oregon), there are also visible examples of performance measurement among many different states. We conclude that the criteria appear reasonably relevant and reliable indicators of quality reporting. We also conclude that there are no insurmountable technical issues with preparing an award-winning report.

Thus, it appears that GASB’s decision to require performance reporting hinges on the question of costs vs. benefits. Our review suggests that most states have the underlying data to prepare award-winning reports. Many of the criteria that were weak involved ‘writing about’ the performance measures, rather than problems with the measures themselves. Given that many agencies appear to have the capacity for external performance reporting (perhaps a much smaller capacity requirement than for a full-scale internal management system), gathering additional evidence on the

costs/benefits as well as incentives/disincentives for voluntary reporting becomes almost urgent.

We believe the cost/benefit test really has a different threshold if the primary purpose or audience is internal vs. external (Behn, 2003). By definition, required external reporting gives information to users that otherwise would not have that information. We assume that this information provides benefits to external users, a benefit that will not exist if performance measures are only used internally. Thus, the cost-benefit threshold for external reporting may not be as high as some have asserted.

Since we did not explicitly collect evidence regarding costs/benefits, we hesitate to provide a strong opinion regarding the policy decision faced by GASB. We are comfortable, however, in saying that our examination of these 100 reports did not give us any reason to expect that implementation costs will be higher than the opponents have feared. Also, we do not see any indication that the possible benefits from quality reporting are unattainable. Thus, we encourage GASB to make a decision based on evidence – and our evidence is that we find no insurmountable barriers to quality performance reporting, subject to the costs/benefit test.

Future research on service efforts and accomplishments reporting should expand to other local jurisdictions like cities, counties, school districts, special districts, etc. as well as to federal agencies. Cross-national comparisons would also be useful since performance reporting is required in many parts of the English-speaking world such as the United Kingdom, Canada, New Zealand and Australia.

References

- Association of Government Accountants (2006), *Certificate of Excellence in Service Efforts and Activities*, Reviewer's Guidelines. Alexandria, VA 22301.
- Baber, William R (1983), Toward understanding the role of auditing in the public sector, *Journal of Accounting & Economics* 5, (3) (Dec), 213.
- Banker, Rajiv. D.; Bunch, Beverly S. and Strauss, Robert P. (1989), Factors influencing school district financial reporting practices, *Research in Governmental and Nonprofit Accounting*.
- Behn, Robert (2003), Why measure performance? Different purposes require different measures, *Public Administration Review*, 63(5), 586-606.
- Becker, Gary S. (1983), A theory of competition among pressure groups for political influence, *The Quarterly Journal of Economics* 98, (4) (Aug), 371.
- Carpenter, Vivian L. and Feroz, Ehsan H. (2001), Institutional theory and accounting rule choice: An analysis of four US state governments' decisions to adopt generally accepted accounting principles, *Accounting, Organizations and Society* 26, (7,8) (Oct/Nov), 565.
- Carpenter, Vivian L.; Cheng, Rita H. and Feroz, Ehsan H. (2007), Toward an empirical institutional governance theory: An analysis of the decisions by the 50 US State governments to adopt generally accepted accounting principles, *Journal of Corporate Ownership and Control* 4(4), 30-46.
- Cheng, Rita H. (1992), An empirical analysis of theories on factors influencing state government accounting disclosure, *Journal of Accounting and Public Policy* 11, (1).
- Cheng, Rita H. (1994), A politico-economic model of government accounting policy choice. *Research in Government and Nonprofit Accounting*, Vol. 8, 39-68.
- Downs, Anthony (1957), *An economic theory of democracy*, New York: Harper.

- Evans, John H.,III, and Patton, James M. (1983), An economic analysis of participation in the municipal finance officers association certificate of conformance program, *Journal of Accounting & Economics* 5, (2) (Aug), 151.
- Evans, John H.,III, Patton, James M. (1987), Signaling and monitoring in public-sector accounting, *Journal of Accounting Research* 25, 130.
- Frank, Howard, and D'Souza, Jayesh (2004), Twelve Years into the Performance Measurement Revolution: Where We Need to Go in Implementation Research, *International Journal of Public Administration* 27, 701-718.
- Gendron, Yves; David, Cooper and Townley, Barbara (2006), The Construction of Auditing Expertise in Measuring Government Performance, *Accounting, Organizations and Society*, 32, 101-129.
- GASB – Government Accounting Standards Board (1994), *Concepts Statement No. 2: Service Efforts and Accomplishments Reporting*, Norwalk, CT: GASB.
- GASB – Government Accounting Standards Board (2003), *Reporting Performance Information: Suggested Criteria for Effective Communication*, Norwalk, CT: GASB.
- Gore, Al (1993), *From Red Tape to Results: Creating a Government that Works Better and Costs Less*, Washington D.C.: U.S. Government Printing Office.
- Harris, Jean (1995a), Service Efforts and Accomplishments Standards: Fundamental Questions of an Emerging Concept, *Public Budgeting & Finance* (Winter), 18-37.
- Harris, Jean (1995b), Service efforts and accomplishments: A primer of current practice and an agenda for future research, *International Journal of Public Administration* 18(2/3), 253-276.
- Hatry, Harry M.; Fountain, J.; Sullivan, J. and L. Kremer (1990), *Service Efforts and Accomplishments Reporting: Its Time has Come-An Overview*, Norwalk, CT: GASB.
- Helden, G. Jan van (2005), Researching public sector transformation: The role of management accounting, *Financial Accountability & Management* 21(1), 99-133.
- Hood, Christopher (1995), The “New Public Management” in the 1980s: Variations on a theme, *Accounting, Organizations & Society*. 20 (2/3), 93-109.
- Ingram, Robert W. (1984), Economic incentives and the choice of state government accounting practices, *Journal of Accounting Research* 22, (1), 126-144.
- Ingram, Robert W. and DeJong, Douglas (1987), The effect of regulation on local government disclosure practices, *Journal of Accounting and Public Policy*.
- Kloby, Kathryn and Kim, Younhee (2004), Performance measurement: Recent publications, *Public Performance & Management Review* 28(2), 281-289.
- Milbrath, Lester W. (1965), *Political participation; how and why do people get involved in politics?*, Rand McNally Political Science Series. Chicago: Rand McNally.
- Mueller, Dennis C. (1989), *Public choice II*, Cambridge England ; New York: Cambridge University Press.
- Osborne D. and Gaebler, T. (1992), *Reinventing Government*, Reading, MA: Addison-Wesley Publishing.
- Robbins, Walter A. and Austin, Kenneth R. (1986), Disclosure quality in governmental financial reports: An assessment of the appropriateness of a compound measure, *Journal of Accounting Research* 24, (2) (Autumn), 412.
- Smith, Kenneth A. (2004), Voluntary Reporting Performance Measures to the Public a Test of Accounting Reports from U.S. Cities, *International Public Management Journal* (1), 19-48.
- Smith, Kenneth A. and Schiffel, Lee (2006), The intersection of accounting and performance measurement, in Frank, Howard (ed.) *Public Financial Management* Taylor and Francis.
- Williams, Daniel W. (2004), Evolution of performance measurement until 1930, *Administration & Society* 36(2), 131-165.
- Williams, Daniel W. (2003), Measuring government in the early twentieth century, *Public Administration Review*. 63(6), 643-659.
- Zimmerman, Jerold L. (1977), The municipal accounting maze: An analysis of political incentives, *Journal of Accounting Research* 15, 107.

(Página deixada propositadamente em branco)

Salme Näsi

Pasi Leppänen

Pentti Meklin

CREATION OF INTERNAL MARKETS AND TRANSPARENCY AND CONTROLLABILITY OF THE MUNICIPAL SERVICES' COSTS STRUCTURES: COMPREHENSIVE EDUCATION IN THE CITY OF TEMPERE

Introduction

During the last fifteen to twenty years, a trend of adopting different market – in practice often quasi-market – models has taken place in the production of municipal services. Market models have been adopted not only in municipalities' relationships with external stakeholders but also within the municipalities, in the municipalities' internal relations. The public utilities particularly, such as energy, water and wastewater treatment, but also different internal support services, such as real estate management, machine and vehicle services, accounting and human resource services, have been organized to function as profit centres or investment centre type of units and as independent accounting entities.

From the perspective of those municipal units producing welfare services, such as education, health care, etc., for the residents, the use of internal profit and investment centre structures in producing municipal support services is in many respects problematic. First of all, the profit and investment centre models always include an idea of profit making. This means that the profits attained in support services centres are made at the expense of the welfare services. Another set of problems is related to municipal decision-making and transparency of budgeting and accounting information. The separation of the provision and production of services in the form of the purchaser-provider split (see, for e.g., Siverbo, 2004) or contracting out obscures the accounting numbers, e.g. the cost structures of producing the welfare services. Instead of presenting the cost elements (such as salaries, materials, heating, electricity etc.) in the accounting reports, there are aggregate cost items such as 'purchase of services' or 'purchase of internal services'.

The aim of this paper is to *examine and demonstrate how the internal markets, based on the use of profit and investment centre structures and the purchaser-provider split within municipalities, affect the municipal budgeting and accounting information regarding the transparency and controllability of the costs of the welfare services.* The empirical case is taken from the budgets and accounts of the authors' home city. The selected welfare

service is comprehensive education. Based on both the publicly available and internal budgeting and accounting information, we will examine the transparency of the cost information, the change of cost structures and controllability of costs of the “provider unit of comprehensive education” in the case city. The research method used is based on the analysis of accounting data. The results of the analysis are then linked to relevant theoretical accounting frames and concepts.

The paper starts introducing the theoretical background, following with the case study presentation and finalising with a discussion and conclusions.

1. Theoretical background

This paper will be connected to several theoretical perspectives, for instance markets and hierarchies (see, for e.g., Williamson, 1975; Williamson and Ouchi, 1981; Ezzamel and Wilmott, 1993; and Lapsley and Llewellyn, 1995) and fabrication (see Latour, 1987) of budgets and accounts (see, for e.g., Preston *et al.*, 1992). This paper is more empirically and technically than theoretically oriented and, therefore, we have limited our theoretical background to some key ideas and concepts often used in the accounting context.

Our theoretical framework is related to the New Public (Financial) Management (NPM/NPFM) and the development trends pertaining to that ideology (see, for e.g., Hood, 1995; Nashold, 1998; Olson *et al.*, 1998; Bowerman, 1998; Guthrie *et al.*, 1999; Pollit and Bouckaert, 2000; Nolan, 2001; and Lähdesmäki, 2003). Hood (1995) has listed seven elements or dimensions of change associated with NPM. The first of these is a *shift towards greater disaggregation of public organisations into separately managed ‘corporatized’ units for each public sector ‘product’* (each identified as a separate cost centre, with its own organisational identity in fact if not in law, and greater delegation of resource decisions, in a movement towards ‘one-line’ budgets, mission statements, business plans and managerial autonomy). Olson *et al.* (1998) have listed five NPFM components, the *development of commercially-based market-oriented management systems and structures to deal with the pricing and provision of public services, such as cash management, contracting out and charging mechanisms* being some one component of those five. Also on Gruening’s (2001) list of NPM characteristics *competition and contract-based competitive provision of services, contracting out, customers and user charges* have a central status. To apply ‘business models’ in the public sector means that the accounting and management control systems should also be developed accordingly. *Improved accounting, improved financial management, promotion of accrual accounting and reliance on professionally set accounting standards* belong to the lists of NPFM characteristics.

Municipalities in Finland have adopted different market – or quasi-market-models. They have established more independent economic entities to produce various support and welfare services. They may be net budgeted units, municipal enterprises or limited companies. In some cases, municipalities have also privatized their enterprises and assets. In many cases, municipalities use outsourcing and purchase services from the private sector. In addition, various public-private partnerships are increasingly used. Inside their own organisations municipalities have developed internal markets and internal (or transfer) pricing.

A common feature for all the aforementioned action models is that traditional municipal service production and hierarchical control of activities have been replaced by market-oriented models. By law, a municipality is responsible for providing services for its residents, but the producer of the services can be either the municipality itself or some other public or private organizations, often also in the third sector. In any case, there are two different parties: a purchaser and a producer; in English, the expression ‘purchaser-provider split’ is often used. In purchaser-provider split models, hierarchical control is replaced by contract management and control. The purchasers and providers of services negotiate and make contracts concerning the quantity, quality and prices of services.

In this disaggregated action model even the budgeting and accounting information are different than before in the hierarchical control model. Our keen interest in this paper is to examine what has happened to the ‘controllability’ of costs and ‘transparency’ of cost information as a consequence of the disaggregation and marketization of municipal activities. As a consequence of the build-up of profit and investment centres to produce different support services for the welfare service producers, transfer pricing and contracting have come to be used extensively in the Finnish municipalities. The municipal units are said to be financially more autonomous today and to have more self-determination in decisions on how to use their one-line or lump sum budget appropriations. But the situation is not necessarily that clear and simple. Increasing use of contracting out, internal profit centre structures and full cost plus – pricing means that the support service prices are at least partially ‘non-controllable’ from the welfare service provider’s decision-making.

‘Transparency’ is a commonplace term which means different things to different groups¹. One cannot find the term ‘transparency’ in accounting dictionaries (e.g., in the Macmillan Dictionary of Accounting). But in the literature related to corporate governance, public sector accounting and financial reporting, fiscal transparency and democratic accountability, for example, transparency is one of the key terms and issues (see, for e.g., Gray, 2000; Christiaens, 2001; Robinson, 2002; Ezzamel *et al.*, 2004; and Blomgren, 2007). The following definition of transparency (found in Wikipedia) serves us well in this paper: “Transparency implies openness, communication, and accountability. It is a metaphorical extension of the meaning used in the physical sciences: a ‘transparent’ object is one that can be seen through.” Again, it can be said that “In governments, politics, ethics, business, management, law, economics, sociology, etc., transparency is the opposite of privacy; an activity is transparent if all information about it is open and freely available.”

Especially in the public sector, accounting information should be transparent enough to make the use of information possible in decision-making. We argue that the development has been rather the opposite. As a consequence of NPM-related reforms, such as the use of lump-sum budgeting and competitive market models in

¹ Transparency refers to an environment in which the objectives of policy, its legal, institutional and economic framework, policy decisions and their rationale, data and information related to monetary and financial policies, and the terms of agencies’ accountability, are provided to the public in a comprehensible, accessible and timely manner (OECD, Glossary of Statistical Terms).

service production, less information is openly given and freely available today than earlier, for example, in the municipal budgets and accounts. In the new competitive environment there are less line items in the budgets and accounts and more space for business secrets and freedom for decentralised and delegated private-sector style of management and decision-making.

In the following case we are going to demonstrate some of the consequences of the above-mentioned characteristics of the NPFM in the municipal sector in Finland. We believe that the same developments are more than possible in other countries also and in all levels of public administration, not only in the municipalities and in Finland.

2. Empirical Case²

A Finnish municipality today can be described as a ‘concern’ or ‘group’ that consists of numerous internal ‘accounting entities’, doing ‘business’ with each other. Municipalities themselves are financiers and purchasers of different welfare services. The contract-based providers or producers of services might be either municipal, private or third sector units, or a combination of them all. The municipalities perceive themselves not only as financiers and purchasers but also as owners of municipal production facilities and other assets – an idea that has led to the profit and investment centre structures and strong ‘return on investment’ thinking in municipalities. This latter fact concerns especially all the public utilities and municipal support services.

In order to illustrate our research topic, we have examined our case city’s (City of Tampere, Finland) budgets and accounts. The case city is one of the first cities in Finland to apply a purchaser-provider split model throughout its organisation. This means that the Comprehensive School for instance, is one of the service providers (providing education for junior and senior grades; children 7-15 years old) as the city (City Council) is the purchaser of these services for its residents. The Comprehensive School system, which in the case city consists of some 50 schools and 17,000 pupils, is understood and referred to in the budgets and other documents as the “Comprehensive School Provider Unit” (hereafter CSPU).

In 2001 (that is, before the time of the extensive use of internal market and purchaser-provider split models in the case city), the City of Tampere’s annual budget approved by the City Council (Table 1) displayed the classification of total revenue and cost (in Million Euros) of the school system.

² Data were collected from budgets, annual reports and internal accounts of the City of Tampere, Finland.

Table 1 – Financial budget information (The Income Statement Plan) of the Comprehensive School Provider Unit (CSPU including higher secondary school) in the Case City’s annual budget for 2001 (1,000 Euros)

Operating revenue (million Euros):		
Sales revenue	0.0	
Other sales revenue	0.2	
Financial support and grants	0.2	
Other operating income	0.3	
Internal revenue	0.4	
Internal rent	0.0	
Total Revenue	1.2	
Operating costs (million Euros):		
Personnel costs	-62.0	65.89 %
Purchase of services	-17.4	18.49 %
Material	-3.5	3.72 %
Internal purchases	-1.5	1.59 %
Other operating costs	-0.3	0.32 %
Internal rent costs	-9.3	9.88 %
Total Cost	-94.1	100 %
Operating contribution	-92.9	
Depreciation (pre-set plan)	-0.9	
Deficit for the financial year	-93.8	

Note: Percentages displaying the cost structures were added by the authors.

The annual budget information in 2001 was detailed and transparent enough to tell the decision makers, school administrators and other interested stakeholders the total amount of the budget money and how it was to be allocated among different cost components, such as wages and salaries, purchase of services, material, rents, etc. Today (2007), as a consequence of the lump-sum budgeting reform and use of the purchaser-provider split model, the financial information concerning, for example, the comprehensive school system (CSPU) in the annual budget is extremely aggregated and non-transparent as to use of the money or the cost structure of the schools. Today, the city councillors make their decision of the total school funding only and the budget information contains a mere three lines as in Table 2.

Table 2 – Financial budget information of the Comprehensive School Provider Unit (CSPU now including after-school activities³) in the Case City’s annual budget for 2007 (1,000 Euros)

The CSPU	Budget 2006	Budget 2007	Estimate 2008	Estimate 2009
Operating income	850	815	843	868
Operating cost	- 112,775	- 118,124	- 121,668	- 125,318
Operating contribution	- 111,925	- 117,306	- 120,825	- 124,450

³ One of the common characteristics of the municipal budgets and accounts are annual structural changes that make periodic comparisons impossible. In our case, the CSPU budget in 2001 included higher secondary schools, but in 2007 after-school activities.

Compared to the annual budget information in 2001 (Table 1), the 2007 information is modest, as Table 2 above demonstrates. This information only reveals that the total costs and the net budgets of the comprehensive school system will increase slightly in the four-year period 2006-09. The verbal budget information additionally has it that the number of pupils in the comprehensive education (20.09.2006) is 17,281 and that it will decrease by about 1,000 in the 3-year planning period, and by about 2,000 in the 6-year period 2005-2010. The decision-makers can be proud and happy: the City is going to ‘invest more in school children’ each year during the four years’ period. But this is not the whole truth!

After the budget has been approved by the City Council, the Municipal Board of Education prepares a more detailed plan of how to use the budget money. The Income Statement Plan for the CSPU (now also including after-school activities), approved by the Municipal Board of Education for 2007 (in Million Euros) is displayed in Table 3.

Table 3 – Income Statement Plan for the CSPU in 2007

Operating revenue:		
Sales revenue (from the purchaser i.e. the City Council)	117.5	
Other sales revenue	0.3	
Financial support and grants	0.4	
Other operating income	0.2	
Total Revenue	118.4	
Operating cost:		
Personnel costs	-75.8	64.02 %
Purchase of services	-17.2	14.53 %
Material	-3.9	3.29 %
Rent costs	-21.2	17.91 %
Other operating cost	-0.3	0.25 %
Total Cost	-118.4	100 %
Operating contribution	0.0	
Depreciation (pre-set plan)	-0.9	
Deficit for the financial year	-0.9	

Notes: a) Percentages displaying the cost structures were added by the authors; b) In addition to the budget of operating activities listed above, the comprehensive schools are allowed to invest 1 Million Euros in new ADP software and projects and furnish new school buildings to the extent of 0.7 million Euros in 2007.

If we compare the 2001 and 2007 CSPU budgets, we can see that almost 2% less of the total budget could be used for personnel costs in 2007 than in 2001. In 2001, the share of the personnel costs was 65.89%, and in 2007 64.02%, respectively. Why? The budget does not provide any information on this issue – information is not open, available and transparent. Only a more thorough investigation and a tailor-made report prepared by the researchers using the case city’s internal budgeting and accounting information for 2007 makes the finances of the comprehensive school unit more transparent.

In addition to the “Personnel Costs”, there are two other big lump-sum cost items in the CSPUs Income Statement Plan: “Rent Costs” and “Purchase of Services”. The comprehensive school unit buys internal support services from several other units (profit or investment centres) owned by the city. In the Case City, these units are called ‘partners’ and they are, for e.g., the Premises Centre (*Tilakeskus*), the ‘owner’ of the school buildings and other premises, the Caterer (*Tampereen Ateria*) that produces and sells the daily school meals, the IT Centre (*Tampereen Tietotekniikkakeskus*) that takes care of the IT equipment and services, and the Occupational Health Care Centre (*Työterveyshuolto*).

In 2007, the CSPU is to pay (according the budget plans and based on contracts made with the partners) almost 24.4 million Euros for the Premises Centre in rent and cleaning services costs: rent 20.6 million Euros (compare the internal rent cost 9.3 million Euros in the 2001 Income Statement Plan) and cleaning services to the amount of 3.8 million Euros. In this sum, the Premises Centre, as the ‘landlord’ or ‘owner’ (in reality as the administrator) of the school buildings and other premises, collects pure profit, to the tune of some 9 million Euros. The Premises Centre is a municipal enterprise, a corporatized investment centre and accounting and reporting entity that has its profit objective approved by the City Council.

What was stated about the Premises Centre is also valid for the Caterer, the IT Centre and the Occupational Health Care Centre. They are all municipal enterprises, City Partners that provide support services for the CSPU – and often in a monopoly position. The total amount of the profit contributions of all these partners charged from the CSPU is about 9.6 million Euros in 2007, which are about 8% of the total costs and budget appropriations of the school unit (Table 4).

Table 4 – Profits of the City Partners in their internal transfer prices of support services for the CSPU in 2007

The Case City: Comprehensive School Provider Unit (CSPU) Budget funding 2007	Million Euros	Million Euros
Total Cost (incl. depreciation) (118.4 + 0.9)		119.3
Includes:		
Internal transfer prices: that includes Internal Profit	Transfer Price	Internal Profit
To the IT-Centre	1.3	0.2
To the Premises Centre	24.4	9.1
To the Caterer	7.1	0.3
To the Health Care Centre	0.3	0.03
SUM of Internal Profits		9.6
Internal Profits as percentage of the Total Cost:		8%
Number of pupils in 2007		17,200
Annual cost/pupil (Euros)		6,937
Annual cost/pupil (Internal Profits eliminated Euros)		6,379
Difference in the unit cost (Euros)		558

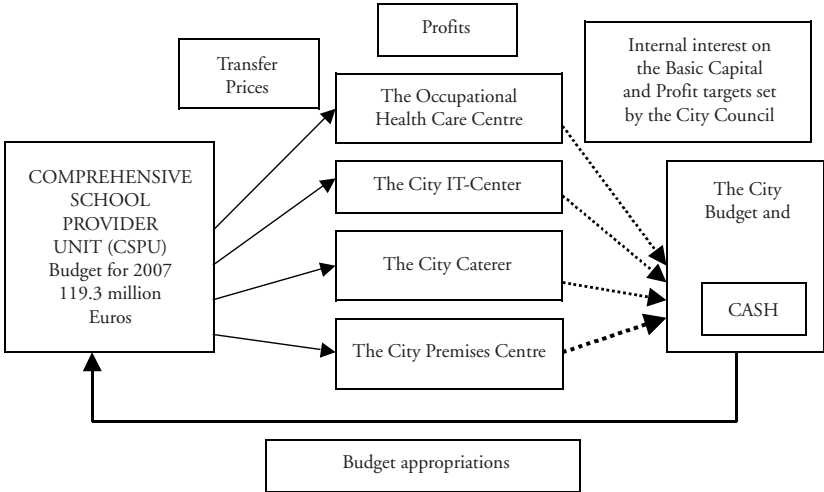
The turnover of the Case City’s Premises Centre, for example, has been estimated to be 108.8 million Euros, and profits 40.1 million Euros in 2007. More than 50%

of the profits are to be paid to the City in compensation (as interest) for the so-called basic capital ‘invested’ by the City in its Premises Centre. The ownership policy of the City is demanding: the City charges 6% interest on the capital invested that more or less tallies with the fair value of the school buildings and other premises. In this way, the city as the ‘owner’ of assets collects a lot of budget money back into its own cash as an ‘internal interest’ or ‘return on investments’. In practice, this system automatically decreases the amount money that can be used, for example, for the everyday school education activities.

Comparisons and benchmarking are done at national level and internationally between, for example, comprehensive education in different municipalities and countries. One criterion of comparison is the unit cost of education, i.e. the input or resources used by the governments in different countries for education. The cost per pupil in our case city is almost 7,000 Euros in 2007, but if the internal support service partners’ operating profits are eliminated, the cost per student is less than 6,400 Euros (see Table 4 above). The internal partners’ profits do not bring any ‘value added’ for the comprehensive school system and cannot be seen as the city’s input for comprehensive education. This fact alone means that international comparisons do not provide reliable results, if such background facts and differences have not been taken into account in calculations and eliminated from the information.

As a consequence of internal markets (quasi-marketization) and the use of disaggregated profit and investment centre model, the budget appropriations are being ‘recycled’ in the city organisation. The support service prices are set on a full cost plus principle. Profits are used partly by the support service producers themselves partly the profits are returned to the city cash as an internal interest on the unit’s so-called basic capital or as a profit target set for the unit by the City Council. Figure 1 describes the recycling of the budget money back to the municipal cash and again via budgets to different activities.

Figure 1 – Recycling of the budget appropriation money back to the city cash as the Profit and Investment Centres’ Internal Interest and Profits



The system described above is, from the transparency of the budgeting and accounting information point of view, even more problematic. Without expert knowledge and special access to the city accounting systems, decision-makers or other stakeholders cannot trace the real cost structures and developments of the finances of welfare services. The budgets and accounts have become more non-transparent than they were before the adoption of the purchaser-provider split model. There are large non-transparent lump-sums, such as “Internal Rents” or “Purchase of Services”, for example in the comprehensive school unit’s budgets and accounts. The municipal support service providers are often in a monopoly position (e.g., the Premises Centre as to the school buildings). Their transfer prices/rents are fixed and non-controllable for the service users. The users often have no other choice than to ‘use and pay’. This is particularly true with regard to the use of school buildings and paying rents.

Discussion and Conclusions

The New Public (Financial) Management ideology, with its numerous business-originated elements, has changed drastically the municipal sector – and especially the biggest cities – in Finland. Cities, such as our Case City, Tampere, are organized very much like a business firm: the City applies the purchaser-provider split model. The City (City Council) is the most important welfare service purchaser and financier. Service providers, especially public utilities and support services centres, act as profit and investment centre type of units and accounting entities. These units have their profit targets set by the City Council. Therefore, these units price their services based on the ‘full cost plus’ or some other proxy for market price – not only to cover their costs but also to make some profits. This means that the budget appropriations reserved for municipal welfare service production actually are partly used to generate the support service units’ profits.

The terms ‘ownership strategy’ and ‘ownership steering’ have gained a strong foothold in the Finnish municipalities during the past ten to fifteen years. The City is not only the purchaser and financier of the welfare services, but it also sees itself as the owner and investor of the city assets. As a consequence of strong ownership thinking and the use of internal market models, much budget funding is spent on internal interest and other profit targets. Profits increase the service prices and the support service cost elements become fixed in (for e.g., the comprehensive schools’) budgets and accounts. More money is spent on support services and less money is available for those activities that are needed to produce the welfare service itself (such as teaching in schools). Internal service fees, in addition to personnel costs, tie the use of the budget funding very effectively. Another problem is related to the fact that the internal support services units often act in a monopoly situation in the local markets. Even though the municipal units producing, for example, the comprehensive education receive an annual lump-sum appropriation in the municipal budget, they have very little discretion and scope in deciding how to use the money, where to buy the services and at what price. As to the management (the School Office and the schools’ rectors), most cost elements are non-controllable.

An additional problem is the non-transparency of the aggregated budget and accounts information. Decision-makers at all levels and other stakeholders do not have access to transparent information about the real development of the budget funding (for e.g., of the comprehensive school system). Profit-oriented transfer pricing of reciprocal intra-municipal support services makes it challenging – if not impossible – to trace the real costs of municipal services and provide transparent and relevant cost information for different decision makers and purposes.

To sum up the main results of our case study we can state that the use of internal market models in purchasing and providing municipal services often means quasi-marketization. Municipal support service units are often practically the only producers of services and can, therefore, ‘market price’ their services in a monopoly situation. The lump-sum budgets of the welfare services units do not necessarily add to discretion in the use of appropriations compared to the former line-item budgeting system, as more and more cost elements have become fixed as a consequence of obligatory partnership contracts between municipal units. Accounting information has also become more aggregated and non-transparent due to intra-municipal reciprocal service transfers and internal profit contributions charged in profit centres’ service prices.

From the New Public (Financial) Management ideology point of view, we can conclude that several undisputed characteristics of NP(F)M (see Gruening, 2001), such as freedom to manage (flexibility), strategic planning and management, improved accounting, separation of politics and management and improved financial management, seem to find more space in the business-like support service centres than in those units providing welfare services free of charge. For the former, the use of market models has become true, whereas in the latter, the welfare service providers have to operate in competitive markets – but only as buyers and not as sellers.

References

- Blomgren, M. (2007), The Drive for Transparency: Organizational Field Transformation in Swedish Healthcare, *Public Administration*, Vol. 85. N. 1, 67-82.
- Bowerman, M. (1998), The Public Sector Financial Management Reforms: Confusions, Tensions and Paradoxes, in Olson, O.; Guthrie, J. and Humphrey, C. (eds.), 1998, *Global Warning: Debating International Developments in New Public Financial Management*, Oslo Cappelen Akademisk Förlag, 400-414.
- Christiaens, J. (2001), Converging New Public Management Reforms and Diverging Accounting Practices in Flemish Local Governments, *Financial Accountability & Management*, Volume 17, Issue 2, May, 153-170.
- Ezzamel, M.; Hyndman N. S.; Johnsen, Å.; Lapsley, I. and Pallot, J. (2004), Has Devolution Increased Democratic Accountability?, *Public Money and Management*, Volume 24, Issue 3, Jun, 145-152.
- Ezzamel, M. and Wilmott, H. (1993), Corporate Governance and Financial Accountability: Recent Reforms in the UK Public Sector, *Accounting, Auditing & Accountability Journal*, Vol. 6, N. 3, 109-133.
- Gray, R. (2000), Current Developments and Trends in Social and Environmental Auditing, Reporting and Attestation: A Review and Comment, *International Journal of Auditing*, Volume 4, Issue 3, Nov, 247-268.
- Gruening, G. (2001), Origin and Theoretical Basis of New Public Management, *International Public Management Journal*, 4, 1-25.

- Guthrie, J.; Olson, O. and Humphrey, C. (1999), Debating Developments in New Public Financial Management: the Limits of Global Theorising and some New Ways Forward, *Financial Accountability & Management*, 15 (3&4), 209-228.
- Hood, C. (1995), The "New Public Management" in the 1980s: Variations on the Theme, *Accounting, Organizations and Society*, Vol. 20, N. 2/3, 93-109.
- Lapsley, I. and Llewellyn, S. (1995), Markets, Hierarchies and Choices in Social Care, Paper presented in the EAA Congress in Birmingham, May.
- Latour, B. (1987), *Science in Action*, Cambridge, MA. Harvard University Press.
- Lähdesmäki, K. (2003), *New Public Management ja julkisen hallinnon uudistaminen: tutkimus tehokkuuseriaaiteista, julkisesta yrittäjyydestä ja tulosvastuusta sekä niiden määrittelemistä valtion keskuhallinnon reformeista Suomessa 1980-luvun lopulta 2000-luvun alkuun*, Universitatis Vasaensis, Vaasa.
- Nashold, F. (1995), *The Modernization of the Public Sector in Europe. A Comparative Perspective on the Scandinavian Experience*, Ministry of Labour, Helsinki.
- Nolan, C. B. (ed.) (2001), *Public Sector Reforms. An International Perspective*, Palgrave Publishers Ltd., Basingstoke.
- OECD, *Glossary of Statistical Terms*.
- Olson, O.; Guthrie, J. and Humphrey C. (eds.) (1998), *Global Warning: Debating International Developments in New Public Financial Management*, Oslo: Cappelen Akademisk Förlag.
- Pollitt, C. and Bouckaert, G. (2000), *Public Management Reform. A Comparative Analysis*, Oxford: Oxford University Press.
- Powerman, M. (1998), The Public Sector Financial Management Reforms: Confusions, Tensions and Paradoxes, in Olson, O.; Guthrie, J. and Humphrey, C. (eds.) (1998), *Global Warning: Debating International Developments in New Public Financial Management*, Oslo: Cappelen Akademisk Förlag.
- Preston, A. M.; Cooper, D. J. and Coombs, R. W. (1992), Fabrication Budgets: A Study of the Production of Management Budgeting in the National Health Service, *Accounting, Organizations and Society*, Vol. 17. N. 6, 561-593.
- Robinson, M. (2002), Financial Control in Australian Government Budgeting, *Public Budgeting & Finance*, Volume 22, Issue 1, Mar, 80-93.
- Siverbo, S. (2004), The Purchaser-provider Split in Principle and Practice: Experiences from Sweden, *Financial Accountability & Management*, Vol. 20, N. 4, November, 401-420.
- Williamson, O. E. (1975), *Markets and Hierarchies: Analysis and Antitrust Implications – a Study in the Economics of Internal Organizations*, New Your: Free Press.
- Williamson, O. E. and Ouchi, W. G. (1981), The Markets and Hierarchies and Visible Hands Perspectives, in Van De Ven, A. and Joyce, W. F. (eds.), *Perspectives on Organisational Design and Behaviour*, Wiley.

(Página deixada propositadamente em branco)

- PART 6 -

SPECIAL TOPICS

(Página deixada propositadamente em branco)

Evelyne Lande

Sandrine Boulerne

Fatima Jaouan

THE IMPACT OF DATE OF RECOGNITION ON THE CONSOLIDATED ACCOUNTS: FROM RELIABILITY TO RELEVANCE

Introduction

To improve the quality and relevance of accounting information, and to develop a uniform accounting system, in 1996 the French government imposed new public accounting standards on all components of the Social Security System, with the transition to accrual accounting. Adoption of the new accounting standards in the social security bodies has seen the emergence of the notion of recognition of an event for accounting transactions. An event for a transaction is the event that triggers, either immediately or later, a monetary transaction; it is, therefore, the date of creation of a transaction for which payment will occur subsequently. If the definition of recognition of an event is relatively well established in the framework of a profit-oriented activity, it looks more complex for a Social Security body where several dates or recognition of events could be validly selected.

The determination of the date of recognition for a transaction will have implications for the assignment of revenue and expense to the year, and therefore the deficit. At year-end, transactions that arise in that year but for which collection or payment has not yet occurred are recognized in the year under receivables (claims), provisions or payables (liabilities). Accordingly, the transition to accrual accounting requires that items of expense and revenue be recognized in the same year as the creation of the event. The actual period-end accruals transactions will therefore be different depending on the date of recognition chosen, and this can have a significant impact on the financial information released.

This paper aims to assess and analyze the impact of the choice of date of recognition on financial information, and particularly on its reliability and relevance for decision making. In order to define the conceptual framework of our study, the first part of the paper reviews the various dates of recognition usable for the Social Security System, their impact on the quality of information provided, and the relevance of the recommended solution. The practices of the various national funds in the Social Security System are also discussed; the lack of a uniform date of recognition

for transactions across funds introduces biases in the information released. The second part sets out the paper's hypotheses and methodology. A three-year financial simulation measures the impact of the date of recognition on financial information released, and more specifically the impact on the profit and loss account of the Social Security fund. The policy implications of a change in the date of recognition are also discussed.

1. Presentation of the Research Question: the Impact of Date of Recognition on Measurement Reliability

1.1. From the usefulness of accounting information to the date of recognition

Much of the literature over the past decade investigating the usefulness of accounting information focuses on the criteria required for the information to be utilizable. Accounting information is defined as numerical data relating to past, present or future economic performance of an entity, based on observation in compliance with established rules (Burns and McKinnon, 1993)¹. Accordingly, accounting information is quantitative data generated in compliance with predetermined standards. Even if accounting information, under this definition, tends to be restricted to cash flows (in cash-basis accounting), it must also be understood in terms of flows based on accrual accounting in order to determine the economic value of a firm (Bierman, 1992). Accounting statements are intended to communicate accounting information and present accounting information intended to allow third parties to judge the firm's operations and management. Furthermore, the preparation of accounting statements in compliance with appropriate standards will provide a useful image of the firm if the accounting information is presented in a uniform manner (Caillau, 1996).

To maximize usefulness for decision-makers, the accounting information contained in the accounting statements must have two fundamental qualities: relevance and reliability². If either of these two 'qualitative' aspects of the accounting information is compromised, which can be the case, for example in the presence of a crisis of confidence (Evraert and Trebucq, 2003; Haddad and Khater, 2007), the information is no longer useful for decision-makers.

- To be relevant³, information must be able to enhance decision making by helping the user of accounting statements to judge past, present and future actions, and by confirming or correcting his expectations. As a consequence, the information must be able to reduce the inherent uncertainty in a situation, must be prepared and released in good time, and must have both predictive value and confirming

¹ As mentioned by Burns and McKinnon (1993), the definition stems from the American Accounting Association.

² FASB (Financial Accounting Standards Board) (1980), *Qualitative Characteristics of Accounting Information, Statement of Financial Accounting Concepts*, N. 2, p. 21.

³ The IASB definition was discussed in July 2006 in 'Preliminary Views on an Improved Conceptual Framework for Financial Reporting: The Objective of Financial Reporting and Qualitative Characteristics of Decision-Useful Financial Reporting Information', Discussion paper, July 2006. This definition is the same as the one proposed by the FASB in 1980.

value. According to Evraert (2000), relevance is a subjective notion that varies with each user and with the decisions to be taken.

- To be reliable, information must be free from significant bias and errors, and must provide a fair, neutral and verifiable image of what it is supposed to present. Evraert (2000) underscores the objective nature of reliability, when it is based on conformity with standards, rules and procedures.

Relevance and reliability are two parameters that must be weighed against the time factor: information that is reliable may no longer be relevant if provided too late, and inversely, how useful is ‘relevant’ information if it is based on unreliable elements? (See the IASC conceptual framework). The two parameters were not always clearly identified in the studies conducted prior to the implementation of accrual accounting in the Social Security system; this is now posing a number of difficulties in the operational implementation of recognition of the events.

The transition to accrual accounting in 1996 introduced the notion of recognition of an event for Social Security. In cash accounting, items are recognized at the time of payment. But accrual accounting, which recognizes receivables and payables, raises the question of the date of creation of the entitlement to benefits, and the date chosen for recognizing transactions. The choice of date of recognition will have an impact on the content of the financial statements. Two parameters must be considered: Does the specified date of recognition allow the presentation of information that is (a) relevant and (b) reliable.

No review of the literature on the ‘date of recognition’ (*fait générateur*, literally ‘originating event’) in public sector accounting can be undertaken, because research on the concept is virtually nonexistent; all that is available are a number of definitions of ‘date of recognition’ proposed by various national and international bodies. The international comparative studies fail to address this highly technical issue, which is nevertheless essential regarding the content of the information released; the comparative studies focus on the items included in the accounting statements (e.g., the nature of assets and liabilities) but not on the date those items are recognized.

1.2. The impact of the date of recognition on information reliability

1.2.1. Brief historical review of the choice of date of recognition in the Social Security System

In 1990, the Social Security Accounts Commission (CCSS) commissioned a report on “Consolidation of the accounts of social security bodies”⁴. The report addressed the feasibility of accrual accounting and explained that similar transactions must be recorded using the same accounting principle; the use of the same date of recognition for each type of transaction across all the schemes facilitates consolidation, in which large numbers of reciprocal transactions are eliminated. The report stated that the accounts

⁴ Report by the group chaired by Robert Mazars, December 1990.

of the various bodies should be prepared as soon as possible after year-end, in order to serve in decision making. The report recommended identifying ways to accelerate the production of the accounts of the various bodies, and of the consolidated accounts; it was specified that accrual accounting should not increase the time to produce the accounts. The report added that accrual accounting may involve estimates⁵.

In 1996, the CCSS issued a new report on “accrual accounting methods”⁶. The report indicated that the establishment of provisions for expenses and receivables relating to transactions executed after year-end required the development of statistical methods. It therefore explained that the deficit for the first years after the change would be based on conventions and that the use of statistical methods presupposes the acceptance of a degree of uncertainty in the accounts; the uncertainty would be all the greater as the methods used were new and the observation period limited, but with greater experience, the degree of uncertainty should gradually diminish. The statistical allocation affecting the accounts was to be done in the framework of the consolidation process. The report recommended that contributions for the employed persons scheme be booked on the basis of employers’ statements, while contributions for the self-employed persons schemes were to be booked on the basis of the calls for contributions sent out by the funds to the contributors; in the latter case, the Group decided against assigning regularizations to the corresponding prior years because of the fluctuating nature of the regularization amounts. Thus, even at that stage, there was a divergence in the date of recognition chosen, with two approaches depending on the scheme and the related technical constraints.

In September 2006, in its Preparatory Report on the Certification⁷ of the Accounts of the Social Security System, The Court of Accounts (*Cour des Comptes*) pointed to a lack of clarity in the consolidated accounts of most of the national funds, essentially in the Notes to the accounts⁸ concerning regularizations. For example, the 2005 consolidated accounts of ACOSS provide little explicit information on how receivables and provisions are calculated (partly using statistical methods). The Court

⁵ The Group indicates that the application of the principle of accrual accounting for URSSAF (family allowances) would mean recognizing the January instalments relating to the salaries for December and for the last completed quarter of the year of reference. But the information from contributors’ reports will not be known before the start of February, so the ‘complementary period’ for the basic level of ‘collections management’ would have to be extended until mid-February to gather the information needed for the implementation of accrual accounting.

For the family allowances branch, January payments to beneficiaries would be recognized in the year insofar as they correspond to entitlements for December. For the sickness and old-age schemes, awards of claims relating to health care claims and benefits would be booked to the year. Because of pending claims, a provision would be booked to cover applications received but not processed by year-end. It appeared technically feasible to perform those operations.

⁶ Final report of the working group chaired by Alain Deniel, *Conseiller Maître* at The Court of Accounts (*Cour des Comptes*), *Laurent Gratieux rapporteur*, February 1997.

⁷ The new Organic Law provided for certification of the 2006 accounts of the Social Security general scheme in 2007. Pending such certification, The Court of Accounts reviewed the financial statements of the national funds and the consolidated accounts of the Social Security general scheme from March to May 2006 in order to present, in September 2006, a Preparatory Report on the Certification of the Accounts of the Social Security System.

⁸ Under accounting law, the Notes to the financial statements are an integral part thereof.

of Accounts nevertheless observed that the move to accrual accounting generally does not increase the time required to prepare the consolidated accounts, for a majority of the social security bodies. The need to supplement or modify the existing list of date of recognition led to the 2001 revision of the Uniform Chart of Accounts for Social Security Bodies (PCUOSS). Decided by the National Accounting Council (*Conseil National de la Comptabilité, CNC*), this revision of the PCUOSS is part of the constant concern to fully comply with accrual accounting. The Court of Accounts has repeatedly noted⁹ difficulties in full implementation of accrual accounting for numerous social security bodies - difficulties evidenced by a lack of transparency in some of the accounting data. The new version of the PCUOSS, which is currently being finalized by the permanent accounting mission (*Mission Comptable Permanente des Organismes de Sécurité Sociale, MCP*), seeks to improve the content and the relevance of accounting information.

1.2.2. The impact of the time factor in the recognition of an event

The concept of date of recognition can be analyzed through a number of filters.

- After the adoption of accrual accounting in 1996, the Social Security bodies began to book accounting transactions based on the date of creation of the entitlement to benefits; this will be called the 'primary date of recognition' (primary DR).
- The earlier cash-basis accounting method applied through 1996 by the Social Security bodies entailed recognition of accounting operations as of the date of collection or disbursement; this will be called the 'tertiary date of recognition' (tertiary DR).
- Could an alternative event have been chosen, which we will call the 'secondary date of recognition', corresponding to the date of the declaration of contributions or benefits received?

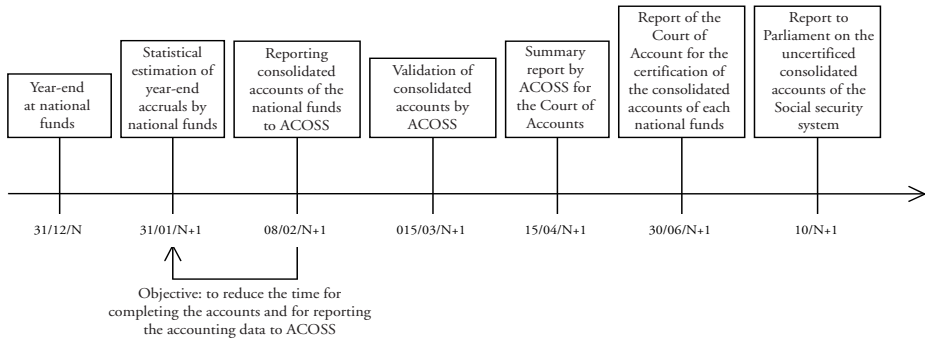
The Social Security production cycle is entirely dependent on the activity of its contributors and claimants (beneficiaries): the Social Security System itself does not initiate its revenue and expense transactions, and is thus dependent on its environment. The booking of Social Security transactions can then refer to the date of creation of an entitlement (health care, situations or income), which corresponds to the primary date of recognition of the event; or to the due-for-payment date, which corresponds to the declaration of contributions (claim for benefit or receipt of the summary statement of contributions) or the 'award of the benefit' (i.e., the processing of the statements of contributions and claims for benefit), which corresponds to the secondary date of recognition of the event. Two dates of recognition can then be envisaged in accrual accounting:

⁹The standard for sovereign revenues aims to ensure that State revenues are booked in compliance with the general principles of accrual accounting. Sovereign revenues correspond to transactions with no direct equivalent exchange for other parties. In this respect, they are a specificity of the State, and there is no equivalent in business accounting. Examples are taxes, fines and other penalties.

1. Choosing the due-for-payment date (secondary date of recognition of the event) places us within the Social Security production cycle: contributions registered in one year are used to pay the reimbursements and the benefits claimed or awarded in that year. Social Security is able to recognize all the information it receives with certainty, because revenues will be booked as contributions are declared, and expenses as claims for reimbursement or benefits from claimants are received and awarded. Period-end accruals are more limited than in the following case, and the data booked are more reliable in that they are based on actual documents, i.e., statements.
2. Choosing the date of creation of an entitlement (primary date of recognition of the event) means that the Social Security takes a date of recognition of the event symmetrical to what enterprises do when they recognize, say, social contribution expense pertaining to the period worked; and the date of recognition of the event for benefits would be the date of the delivery of the health care service, or would be a function of individuals' situations. However, the lead times for declarations of contributions or for claims would require substantial period-end accruals entries (payables, receivables, provisions for risks and expenses); and, insofar as the Social Security System wishes to publish its accounts rapidly, those entries are based on statistical estimates of the actual basis for contributions or benefits. Those difficulties vanish, however, if the accounting records are prepared taking the lead time for declarations into account, and if as a result the statistical calculations incorporate the statements filed by contributors and claimants. But improving the reliability of the statistical data by incorporating the declarations would prevent the Social Security accounts from being published in time for the budgetary process and the annual vote on the law on the financing of Social Security.

Accordingly, to continue to use the primary date of recognition of the event while also publishing reliable information, the lead times would have to be extended, which is incompatible not only with the budgetary process, but also with the constraints for completing the accounts arising from the procedure for certification of the Social Security accounts (Organic Law 2005-881 on Social Security, of August 2, 2005). The period-end accruals transactions (statistical estimates of the expenses and revenues to be recognized in the year) for a year ended 31/12/N must be completed by January 31 of year N+1 for all the national funds to report their consolidated accounts to ACOSS (*Agence centrale des organismes de sécurité sociale*, i.e., the central agency for social security funds) on February 8 of year N+1. This process leaves just over a month for ACOSS to validate the consolidated accounts, so it can forward them on March 15 of year N+1 to The Court of Accounts for certification. The report of the Court of Accounts is released on 30 June of year N+1 (Figure 1).

Figure 1 – Process for transmitting information to ACOSS



Do time constraints for completing the accounts and for reporting the information impose the choice of date of recognition of the event, when one wishes to limit the related uncertainty? Would it not have been more advisable for Social Security to opt for the secondary date of recognition of the event, which would yield more reliable information because of its ability to meet the time constraints, unlike the primary date of recognition of the event? Such, in any event, is the pragmatic choice that central government has privileged.

The French central government has made the choice of date of recognition of the event contingent on the reliability of the information obtained. Central Government Accounting Standard N. 3 on sovereign revenues¹⁰ indicates that “Sovereign revenues are recognized in the year in which they are ‘earned’ by the State, as long as the revenues for the year can be reliably measured.” The date of recognition of the event would be, for instance, the realization of the taxable base (for taxation). The primary date of recognition of the event is therefore to be privileged. But, when it is impossible to meet the condition of reliable evaluation of revenues, the due-for-payment date (secondary date of recognition of the event) is to be privileged if it yields more reliable accounting data. In that case, the recognition of the event would be, for instance, the tax return. Consequently, depending on the date of recognition of the event chosen, the item is booked either to the date of creation of the obligation, or on the date of declaration (the tax return).

To what extent could Social Security bodies apply the principle of Central Government Accounting Standard N. 3, which would limit their work on period-end accruals, which are essentially based on estimates? This would have two benefits: shortening the lead time for reporting the consolidated accounts (from February 8 to January 31) and providing more reliable accounting information.

¹⁰ Central Government Accounting Standards, 2004, *Ministère de l'économie, des finances et de l'industrie*, p. 52 (p. 53 in the original French version).

The issue of sovereign revenues is also under discussion at the IPSASB¹¹, which recognized, at the end of 2005, the need for further examination of the notion of date of recognition for Social Security bodies¹²: does the recognition of an event occur when the individual meets the criteria for eligibility for a benefit, or at an earlier stage? This issue is addressed by our analysis above regarding the impact of the time factor on the recognition of an event.

Similarly, Exposure Draft 29 on “Revenue from Non-Exchange Transactions (Including Taxes and Transfers)”¹³ prepared by the IPSASB particularly concerns Social Security entities. The exposure draft seems to adopt U.S. conceptual standards under which revenue from non-exchange transactions (mandatory contribution) must be recognized when it is probable that the inflow of resources will occur and their fair value can be measured. This approach tends towards the conceptual standards adopted by France and New Zealand. If ED29 is approved, entities adopting the IPSAB standards would have 5 years to comply.

It thus appears that the debate over standards is far from being decided, as the weight of technical constraints (reporting the information) and time constraints (the date for completing the accounts) has prompted pragmatic choices by the Social Security bodies.

1.3. Date of recognition used in practice

The PCUOSS (Uniform Chart of Accounts for Social Security) privileges the primary date of recognition for Social Security bodies. In practice, however, the position is far more ambiguous; primary and secondary dates of recognition of the events are observed to co-exist within Social Security bodies. This is examined in the following sections, which cover (1) the treatment of revenues (by the ‘collections branch’), (2) the treatment of expenses (by the ‘national funds’) of the Social Security bodies, and (3) the decisions that have been privileged in actual practice.

1.3.1. The date of recognition for revenues (collections branch)

In 1996, numerous discussions centred on the choice of date of recognition, given the difficulties in implementation in the pre-existing Information Systems.

¹¹ The IPSAS Board, under the authority of the International Federation of Accountants (IFAC), has prepared International Public Sector Accounting Standards (IPSASs) for accrual accounting, which is convergent with the IFRSs, but adapted to the public sector.

¹² Or an equivalent whose value does not correspond approximately to the value of the goods and services supplied. For the same reasons, the field of application of IPSAS 15, “Financial Instruments: Disclosure and Presentation” excludes Social Security bodies. The same holds for IPSAS 19, “Provisions, Contingent Liabilities and Contingent Assets”, which can, in no case, apply to provisions for social security benefits supplied by a body when the body does not receive any equivalent directly from the beneficiaries in return.

¹³ ED 29 “Revenue from Non-exchange Transactions (Including Taxes and Transfers)”, comments by Johan Christiaens, Ghent University, February 8, 2006.

Three proposals emerged: the due-for-payment date, the period worked, and the payment of salary. Accounting Agency of the Social Security bodies (ACOSS) Circular Letter N. 96/81 of September 24, 1996 indicates that the payment of salary is preferred to the period worked as date of recognition for Social Security contributions, following a request from the Ministry of Social Affairs¹⁴.

ACOSS Circular Letter N. 96/82, of September 24, 1996, confirms the date of payment as the date of recognition for employer contributions. That Circular Letter indicates, however, that the following are recognized in the year they are due for payment:

- Flat-rate contributions (Voluntary insurance, Personal insurance);
- Contributions by paramedical personnel;
- Provisional and definitive contributions by self-employed persons (TI).

It also sets out the rules for recognizing revenues for special cases, such as reductions or cancellations of fines and penalties, write-offs, forgiveness and cancellations, which must be recognized in the year of the date of decision. Thus, for revenues, two different dates of recognition of the events co-exist, depending on the contributors: for employed persons' contributions, the date of recognition of the event is indeed the payment of wages, whereas for the other categories of contributors, the date of recognition of the event is the due-for-payment date (and therefore the annual declarations); there is no calculation of receivables. This position is actually based on a trade-off between account reliability and relevance. If the date of recognition of the event chosen were the occurrence of the income, the contributions by self-employed workers due in year N (in respect of year-N income) would have to be estimated in full, in that it would only be declared in year N+1, or worse, in year N+2 (for those who contribute each quarter). In this case, the accounts would include only estimates, and their reliability would be uncertain¹⁵. In light of the date for completing the accounts (February of year N+1 for the accounts of year N), receivables are computed on an estimated basis. A national amount is determined by the Statistical Direction (DISEP), and the amount is then broken down by URSSAF. The calculation of receivables for year N is based on the forecast of collections in January of year N+1, rather than on a forecast of statements filed by contributors: if that were the case, potential non-payment would have to be accounted for via provisions, making the period-end accruals process

¹⁴ This is the response by the ACOSS Accounting Office to the Social Security Directorate: “[...] on the advisability of estimating receivables in respect of contributions and CSG from the self-employed. In conclusion, [...] we indicate that, in light of potential forecasting errors, such a change would impair the transparency (*lisibilité*) of the accounts, and does not appear to be of current interest, given the prospect of the establishment of the *Régime Social Indépendant* (scheme for self-employed persons, RSI) which should provide the opportunity for harmonizing the computational methods of the various Social Security schemes. [...]”. (Letter from ACOSS Accounting Office to Ministry of Health and Solidarity, the Social Security Directorate, July 2005.

¹⁵ «Art. D. 253-19-1. - Expenses relative to ‘technical management’ in respect of service performed or the opening of entitlement in a given year are booked to that year by the bodies referred to in article D. 253-1. At the start of each year, the director has ten days to identify the transactions in respect of service performed or the opening of entitlement during the previous year. All expense transactions relating to ‘technical management’, “irrespective of the branch concerned, for which the service was performed or entitlement was opened during that year, must be treated as expenses in respect of that year, even if the execution of the transaction occurs after year-end.”

even more complicated. To take account of the time difference between the dates of payment of wages and the contribution due-for-payment dates, the forecast of collections by URSSAF and CGSS cover the fourth quarter of year N, and is based on the following assumptions:

	2002	2003	2004
Year-on-year change in private sector payrolls in fourth quarter of year N	+ 3.3%	+ 2.1%	+3.0%
Change in contribution-exempt amount in respect of December of year N, relative to the same period a year before	+ 3.7%	Stable	+ 14%

With an adjustment in the forecast based on the collections at end-January or February of year N+1, the amount receivable was thus computed taking into account for each beneficiary:

2002	2003	2004	
94.78%	94.9%	94.96%	of collections from the private sector in January of year N+1*
Total			collections from the public sector in January of year N+1
Total			collections from employers of domestic workers (EPM) in January and February of year N+1

* The remainder corresponds to the amounts of the instalment on 25 January of year N+1 in respect of the salaries for January of year N+1, which is not recognized in the previous year.

The lines of receivables are prorated across the bodies, based on the collections of each in an 'average' month in year N.

1.3.2. Date of recognition for expenses (national funds)

Under Circular DSS/SDFGSS/5C N. 96-437, of July 9, 1996, on the implementation of the principle of accrual accounting for technical management transactions in the Social Security general scheme, the event corresponds to:

- health care service under the health insurance scheme and accidents at work, and
- the opening of entitlement, that is, the award of benefits in the family allowance and old-age branches¹⁶.

¹⁶ Instruction in the family allowances branch relative to the implementation of the principle of accrual accounting for 'technical management' transactions, Circular Letter N. 225-96, of September 18, 1996.

a) National health insurance fund for employed persons (CNAMTS)

For the sickness insurance scheme, the date of recognition chosen was not the processing of the health care claim form, but the date of the health care service. This choice is justified by the following three reasons:

- the date of health care service is systematically entered, and the applicable fee schedule is connected to the date of the health care service,
- the claim arises from the health care service, provided the claim for reimbursement is sent,
- with the generalization of electronic data exchange of the health care claim forms, the date of health care service is automatically entered by the health care professional.

For health care spread over time, the period is divided if it covers two years.

b) The national fund for old-age insurance (CNAV) and the national fund for family allowances (CNAF)

For the family allowances and old-age branches of the French Social Security system, the date of recognition is characterized by the ‘award of the benefit’. The table of date of recognition in the Uniform Chart of Accounts for Social Security Bodies published in Official Journal of the French Republic indicates that the recognition dates are “the year of the award for the first claim, and the normal instalment for subsequent instalments”. This does not appear to be a matter of computing claimants’ entitlements based on their situation, but rather simply a matter of the examination of the application. Applications processed and settled only in subsequent years (i.e., for which no award is made before year-end) are to be recognized in the previous year for the Old-Age branch, and a provision for accrued benefit is booked. The family allowances funds (CAFs) recognize such pending claims as payables at December 31, of year N (these are claims that will be examined by the CAFs in subsequent years). According to the official instruction for the family allowances branch dated September 18, 1996, “Up to now, the family allowances funds booked their ‘technical expenses’ on the basis of the date of payment of benefits. From 01/01/1996, those transactions must be recognized as soon as the benefit claim is filed. The filing is the date of recognition of the event in the Institution.”¹⁷ This instruction indicates that the recognition of the event is the filing of the claim for benefit. However, since 2004, the CNAF has been capable of estimating the amount of provisions for accrued benefit to be recognized in the current year, that is, the revaluation of the benefits recognized in the year.

¹⁷ Because the adjusted deficit for 2005 was not available at the time of writing, the data for 2004 will be used to highlight the relevance of the date of recognition.

The date of recognition thus differs in different cases, with the coexistence of the recognition date of transactions based on the creation of entitlements, with an estimation of provisions for accrued benefit (for revaluation), and recognition based on the date of the claim, as the branch recognizes transactions upon receipt of the claim.

1.3.3. The alternative between due-for-payment, and creation of entitlement

a) Recommendations of the Uniform Chart of Account for Social Security Bodies (PCUOSS)

For the health insurance scheme, the date of recognition is the award: “receipt, examination and approval of the application by the administrative service of the health care claim forms (*feuilles de soins*). Recognition is based on the date of health care service, with year-end provisions.” In the first part of this statement, the processing of the health care claim form should be the date of recognition of the event (i.e., this is a secondary date of recognition) but, in the second part of the statement, the date of recognition of the event appears to be the date of the health care service (a primary date of recognition): the statement is inconsistent. The family and old-age branches book only the benefits for which they receive a claim; this is indeed the ‘receipt, examination and approval of the application by the administrative service’. But not all applications are finalised in the year (with calculation of payables by the family allowances funds and provisions for accrued benefit (provision pour rappel) by CNAVTS for the old-age fund. The table of date of recognition published in the Official Journal of the French Republic may diverge in some respects from the practices of the Social Security bodies. The table is a general overview, as the ‘collections branch’ and its officers have far more detailed tables available. This raises the problem of stakeholders’ understanding of the notion of recognition of an event.

b) The possibility of accounting based on contributions registered and benefit claims

The choice of date of recognition requires a booking method that differs between claims, on the one hand, and declarations of contributions, on the other. If the choice of date of recognition is based on the creation of claimants’ entitlement, and the liabilities of contributors, then receivables and provisions for benefits under the health insurance scheme must be estimated. However, because macroeconomic factors affect agents’ behaviour, those estimates could prove considerably inaccurate. If the dates of recognition of an event were an item’s falling due-for-payment, it would no longer be necessary to estimate provisions and receivables. The following two examples provide support for this hypothesis:

- For benefits from the national funds, particularly the CNAF and CNAVTS, the date of recognition is the receipt of the application. A problem arises with respect to provisions for accrued benefit, namely the estimates of the year’s revaluations for the family allowances branch, and applications for which no award is made

by year-end in the Old-Age branch. In addition, the Information System in the family allowances branch cannot identify in year N+1 the amounts corresponding to applications from year N that were not processed before December 31. The method for booking payables in the family allowances branch is not entirely reliable, due to constraints identified when conducting comparisons against actual expenses. Such payables are simply reversed at the start of year N+1. The same holds for benefits payable at the CNAMTS, for which the estimated provisions always involve a degree of uncertainty. Booking the amounts corresponding to entitlements claimed in a given financial year would then be more reliable. By applying a 'due-for-payment' date of an event, only claims during that year would be booked.

- Regarding turnover-based contributions by pharmaceutical firms and the income-based contributions by self-employed persons, at present the date of recognition of the event is the date of issue of the calls for contributions, due to the highly variable nature of turnover and income. No receivables are booked. This pragmatic choice was made in order to provide greater information reliability, because the entries to the accounts are actual data and not estimates. The accounts cannot include contributions relating to the current year's income or turnover, which are reported annually, the following year. If these accounts were based solely on provisions, they would be totally unreliable. Unlike employer contributions (monthly data), the income of self-employed persons and the turnover of the pharmaceutical firms are reported annually. If the same line of reason were adopted for employer contributions, for which the last instalment in the year is estimated, booking on a due-for-payment basis would allow the accounts to have only actual data, rather than estimated data; the errors in the estimates cause inaccuracy in the deficit.

It should be noted here that the choice of a different date of recognition of the event does not diverge from the principles of accrual accounting; the only difference arises from the time difference between the creation of the entitlement (primary date of recognition) and the time it is reported and contributions are computed (secondary date of recognition). These two examples show that it is more legitimate to use the date of calls for contribution (due-for-payment date). The question can be raised in future, if and when the information systems and methods of filing are changed. If the mission assigned to the Social Security System is to collect revenues to meet the needs of claimants, it is legitimate to suppose that claims by beneficiaries and the statements filed by the contributors are two categories of transactions that are highly correlated in the Social Security production cycle.

Therefore, if the choice of date of recognition corresponds to claims by beneficiaries and statements filed by contributors, only reliable and meaningful data will be booked, if one takes contributions due-for-payment in the year, and claims and reimbursements awarded in the same year. Thus, in light of current accounting practices and information systems, the Social Security accounts are not characterized systematically by absolute reliability. All these considerations lead to the following conclusion: using the date of the claims and declarations is the most reliable method for providing greater substance to the Social Security accounts, while improving rather

than challenging the meaning of the deficit. In any event, improvements in practices and systems must be investigated.

The next part of the paper sets out the impact on the deficit of the Social Security funds of using the secondary date of recognition rather than the primary date of recognition.

2. Empirical Study of the impact of the date of recognition (DR) on Consolidated Information

2.1. Methodology and numerical simulation

The issues described above led us to formulate three research questions:

(1) Does a change in the choice of the date of recognition lead to a change in the accounting information, and more specifically in the amount of revenues and expense and consequently the deficit of the social security system?

(2) Is the accounting information more relevant after adoption of a different date of recognition?

(3) What are the policy implications of a change in the date of recognition?

This study examines inputs into the institutional decision making process, based on the accounts of the French Social Security system. Two hypotheses are investigated:

Hypothesis 1: Adoption of a Secondary DR has an impact on the reporting of Social Security revenues and expenses.

Hypothesis 2: Using the Secondary DR has a significant effect on the Social Security deficit, increases the degree of reliability of the accounting information released, and modifies decision-making.

To test these hypotheses and provide insight into the response, a three-year numerical simulation is carried out based on the accounting documents of the French national Social Security funds:

- The national health insurance fund, sickness insurance scheme (*Caisse nationale d'assurance maladie-branche maladie*, CNAM-AM);
- The national health insurance fund, accidents at work scheme (*Caisse nationale d'assurance maladie-branche accidents du travail*, CNAM-AT);
- The national fund for old-age insurance (*Caisse nationale d'assurance vieillesse*, CNAV);
- The national fund for family allowances (*Caisse nationale d'allocations familiales*, CNAF).

Over six months collaboration with the ACOSS (*Agence Comptable des Organismes de la Sécurité Sociale*) was required to carry out the study, essentially (a) to acquire statistical estimates of receivables and provisions and (b) to develop a methodology capable of providing more-relevant accounting data (see Table 1, which presents an excerpt of the statistically estimated period-end accruals).

The computational procedure set out in this paper takes these period-end accruals and restates the 'technical' revenue and expense (i.e., the revenues and expenses currently calculated with reference to the primary date of recognition) for the national funds

and then the social security general scheme in order to cancel the period-end accruals (receivables and provisions), by removing the estimated amounts booked at year-end in year N, and adding the estimated amounts reversed at the start of year N+1.

For revenues the equation is:

$$\Rightarrow \text{REVENUES with SECONDARY DR} = \text{REVENUES with PRIMARY DR (N)} \\ + \text{REVENUES RECEIVABLE (N-1)} - \text{REVENUES RECEIVABLE (N)}$$

For expenses the equation is:

$$\Rightarrow \text{EXPENSES with SECONDARY DR} = \text{EXPENSES with PRIMARY DR (N)} \\ + \text{PROVISIONS (N-1)} - \text{PROVISIONS (N)}$$

The deficit using the secondary date of recognition is then written:

$$\Rightarrow \text{DEFICIT with SECONDARY DR} = \text{DEFICIT with PRIMARY DR (N)} + \\ (\text{REVENUES with SECONDARY DR} - \text{REVENUES with PRIMARY DR}) - \\ (\text{EXPENSES with SECONDARY DR} - \text{EXPENSES with PRIMARY DR})$$

The restatements and simulations performed for the 3 years from 2003 through 2005 are set out in Tables 1 and 2 below. They are used to determine the deficit of the Social Security System if the date of recognition (DR) of an event is an item's falling due-for-payment (secondary date of recognition), and allow comparison against the current deficit as determined using the primary date of recognition. These two deficit items are then compared to a third item, the 'adjusted deficit', which is adjusted to remove the errors in estimates of receivables and provisions. The deficit published by the Social Security bodies is adjusted for overestimates or underestimates in receivables and provisions, using the CCSS report for the following year. The 'adjusted deficit' is thus more relevant than the published deficit. As a consequence, to measure the reliability of the accounts, the 'adjusted deficit' will be used as the benchmark, and will be compared to the deficit currently published, and to a deficit based on a secondary date of recognition.

2.2. Analysis of deficit

An examination of the data obtained shows that the Social Security deficit figures with the Secondary DR are very close to the deficit figures with the Primary DR. There is only a slight downward trend for the Secondary DR deficit figures for 2003 and 2005, in comparison with the official deficit figures, and a faint upward trend for 2004 (Tables 1 and 2).

Table 1 – Impact of the secondary date of recognition of an event on Social Security revenue and expense computed on the basis of the primary date of recognition of an event (€ billions)

DR: date of recognition, A.a.W.: accident at work, rcvble: receivable

Impact on revenue with primary DR					
2005	Health	A.a.W	Old-Age	Family	TOTAL
Revenue with primary DR (1)	119,801	8,696	61,799	39,118	229,414
- Receivable N	10,421	1,042	6,883	3,540	21,886
+ Receivable N-1	9,662	990	6,579	3,390	20,621
= Revenue with secondary DR (2)	119,042	8,644	61,495	38,968	228,149
Difference (2) - (1)	-759	-52	-304	-150	-1,265
2004	Health	A.a.W	Old-Age	Family	TOTAL
Revenue with primary DR (1)	112,175	8,498	59,635	37,933	218,241
- Receivable N	9,662	990	6,657	3,390	20,699
+ Receivable N-1	9,396	940	6,412	3,271	20,019
= Revenue with secondary DR (2)	111,909	8,448	59,390	37,814	217,561
Difference (2) - (1)	-266	-50	-245	-119	-680
2003	Health	A.a.W	Old-Age	Family	TOTAL
Revenue with primary DR (1)	108,031	8,226	57,711	36,858	210,826
- Receivable N	9,396	940	6,412	3,271	20,019
+ Receivable N-1	9,447	938	6,266	3,496	20,147
= Revenue with secondary DR (2)	108,082	8,224	57,565	37,083	210,954
Difference (2) - (1)	51	-2	-146	225	128
Impact on expense with primary DR					
2005	Health	A.a.W	Old-Age	Family	TOTAL
Expense with primary DR (1)	130,413	9,039	81,420	50,069	270,941
- Provisions N	7,067	282	—	—	7,349
+ Provisions N-1	4,681	264	—	—	4,945
= Expense with secondary DR (2)	128,027	9,021	81,420	50,069	268,537
Difference (2) - (1)	-2,386	-18	0	0	-2,404
2004	Health	A.a.W	Old-Age	Family	TOTAL
Expense with primary DR (1)	126,417	8,498	75,730	47,169	257,814
- Provisions N	4,681	264	—	—	4,945
+ Provisions N-1	4,801	290	—	—	5,091
= Expense with secondary DR (2)	126,537	8,524	75,730	47,169	257,960
Difference (2) - (1)	120	26	0	0	146
2003	Health	A.a.W	Old-Age	Family	TOTAL
Expense with primary DR (1)	119,815	8,567	72,112	44,992	245,486
- Provisions N	4,801	290	—	—	5,091
+ Provisions N-1	3,955	157	—	—	4,112
= Expense with secondary DR (2)	118,969	8,434	72,112	44,992	244,507
Difference (2) - (1)	-846	-133	0	0	-979

Table 2 – Impact of the secondary date of recognition of an event on Social Security deficit computed on the basis of the primary date of recognition of an event (€ billions)

DR: date of recognition, A.a.W.: accident at work

2005	Health	A.a.W	Old-Age	Family	TOTAL
Difference on revenue (2) - (1) - see table 1	-759	-52	-304	-150	-1,265
Difference on expense (2) - (1) - see table 1	-2,386	-18	0	0	-2,404
Net impact on deficit	1,627	-34	-304	-150	1,139

2004	Health	A.a.W	Old-Age	Family	TOTAL
Difference on revenue (2) - (1) - see table 1	-266	-50	-245	-119	-680
Difference on expense (2) - (1) - see table 1	120	26	0	0	146
Net impact on deficit	-386	-76	-245	-119	-826

2003	Health	A.a.W	Old-Age	Family	TOTAL
Difference on revenue (2) - (1) - see table 1	51	-2	-146	225	128
Difference on expense (2) - (1) - see table 1	-846	-133	0	0	-979
Net impact on deficit	897	131	-146	225	1,107

	2003	2004	2005
Net consolidated Deficit with primary DR	-10,209	-11,928	-11,638
Net consolidated Deficit with secondary DR	-9,102	-12,755	-10,498
Difference (€ billions)	1,107	-827	1,140
Difference (%)	-10.8%	6.9%	-9.8%

A detailed examination shows that the difference between the deficit figures computed with the Primary DR and Secondary DR, stated as a percentage of the deficit using the Primary DR, are significant: 9.8% in 2005, 6.9% in 2004 and 10.8% in 2003. These relative figures show the major impact of the Secondary DR, based on the due-for-payment date, relative to the deficit using the Primary DR. This difference between the deficit using the Primary DR and the deficit using the Secondary DR resides in the information content of the deficit. In the deficit using the Primary DR, revenues and expenses include forecasts that lead to a degree of uncertainty. On the other hand, computing the deficit using the due-for-payment (Secondary DR) will include only revenues that have fallen due-for-payment and benefits awarded during the year; so the accounting data are fully reliable and relevant. The degree of reliability of the deficit published by the Social Security system will therefore differ, depending on whether the Primary DR or Secondary DR is used. Therefore, the choice of the DR will have an impact on decision making by ministry authorities, and could result in policy. The greater relevance of the Secondary DR tends to enhance the quality of the financial information and permit greater reactivity by the authorities concerned in the decision process, thus confirming the first two hypotheses of our methodological approach.

Now, what would be the accounting impact using the secondary date of recognition, in terms of Social Security revenue, expense, and the deficit? Another simulation is performed to attempt to measure the impact on the data for 2005. Based on an

examination of the deficit in this simulation (Table 3), adopting the secondary date of recognition, in the transitional year 2005, should lead to an increase in the Social Security deficit of 125%, or 14,614 billion Euros¹⁸. However, use of the secondary date of recognition involves a change in accounting policy, insofar as it is justified by an attempt to improve information – which is a necessary condition for a change in policy to be considered acceptable.

Table 3 – Impact on the 2005 accounts

Impact on net worth in the opening balance, at 01/01/05	
- cancellation of revenues (receivables from 2004)	-20,699
- cancellation of expenses (provisions from 2004)	4,945
Net impact	-15,754
Deficit at 31/12/2005 (secondary date of recognition)	-10,498
Impact on net worth at 31/12/2005	-26,252

The impact of this change in policy should be taken to net equity, specifically on the ‘carried forward’ line at the opening of the year. Information on the context must be provided in the notes to the accounts, and pro-forma accounts for the prior years must be produced (as per Art. 314-1 of CRC regulation N. 99-03)¹⁹. Accordingly, under this accounting procedure, the deficit for the year is not affected by prior-year adjustments²⁰. According to the data in our simulation, for 2005, the impact of the change in policy, computed to be negative 14,536 billion euros, should be posted as a debit entry to the “Accumulated surplus/deficit carried forward”. At year-end for that year, the consolidated deficit for the Social Security general scheme will not be affected by the impact of the change in policy.

¹⁸ Impact on net worth at 31/12/2005 - Deficit CSSA (primary date of recognition) = -26,252 - (-11,638) = -14,614.

¹⁹ Article 314-1 of CRC (*Comité de la Réglementation Comptable*, French Accounting Regulatory Committee) regulation 99-03. “Upon changes in accounting policies, the after-tax impact of the new policy is calculated retrospectively, as if that policy had always been applied. If the impact on the opening balance cannot be estimated objectively, particularly when the new policy involves assumptions, the impact of the change shall be calculated prospectively. The after-tax impact of the change on the opening balance is allocated to the ‘carried forward’ line from the opening of the year unless, under tax rules, the enterprise must recognise the impact of the change in the income statement. When the changes in accounting policies lead to booking of provisions without being recognized in the income statement, the portion of those provisions that was not paid out (*qui n’a pas trouvé sa justification*) is written back to equity.” This French accounting rule is fully consistent with the provisions of IAS 8 relative to changes in accounting policy.

²⁰ In December 2005, the provision of Article 314-1 was applied by most of the national bodies, in agreement with the executive bodies of the Social Security System, following application of a change in accounting policy in a context different from the context set out in this study. See “Preparatory Report on the Certification of the Accounts of the Social Security System”, The Court of Accounts (*Cour des Comptes*), September 2006, pp. 28-29.

Conclusion: a Reformulation of the Research Question

The transition to accrual accounting creates the conditions for a true and fair view of the assets and liabilities and financial position of each body, branch or scheme. But the specificities of Social Security transactions (services, contributions, and claims) raise multiple difficulties in terms of their accounting treatment (identification, valuation and booking) and explain why they continue to be poorly captured by the new public accounting standards. In 2006, The Court of Accounts (*Cour des Comptes*) emphasized that a genuine effort had been made to file reliable information in line with the demands of the future consolidation standard, even if considerable work remained to be done to improve the quality and the completeness of the content of the notes to the consolidated accounts. The Court of Accounts also identified inadequacies in the application of accrual accounting, particularly for year-end transactions; this affects the informational and predictive content of the accounting data. In an attempt to clarify and make proposals to deal with the latter criticism, the authors have focused their study primarily on the impact of the choice of a 'due-for-payment' event – i.e., a secondary date of recognition – on the consolidation of the Social Security accounts. The deficit figures computed, after restatement of the accounting data for the national funds and numerical simulation, indicate that the secondary date of recognition has a significant impact on the consolidated deficit figures for Social Security in the 2003-2005 period. To avoid having annual criticism by The Court of Accounts regarding lack of clarity in the computation of receivables and provisions, in the financial statements of the national funds, adopting the secondary date of recognition is the surest solution. As this involves a change in accounting policy, the impact on the accounts will be carried directly to the opening net worth balance and will not affect the deficit for the year. Finally, this will allow ACOSS to shorten the time required for work on the period-end accruals, and thus submit its financial statements earlier to the Court of Accounts. The ACOSS information system, and specifically its process for recognition and measurement of revenues, is currently too unreliable or inconsistent to allow the publication of reliable information and, consequently, of reliable accounting statements. The research question should perhaps be reformulated, to focus less on the issue of information reliability and more on a major conceptual problem: How to match revenues that originate today but will fall due for payment only in future years? What type of revenues should be matched against current-period expenses? Shifting the focus in this way, the process of income recognition and measurement becomes a matter of relevance rather than of reliability. If the usefulness of accounting information must satisfy two fundamental criteria, relevance and reliability, it may be legitimate to consider that relevance must take precedence over reliability.

References

- Bulletin officiel de la comptabilité publique (2006), *Comptabilité de l'Etat*, January.
- Bierman, Jr. H. (1992), In Defense of Accounting Information, *Financial Analyst Journal*, May-June, 81-83.
- Burns, Jr. W. J. and, Mckinnon, S. M. (1993), Information and Managers: A Field Study, *Journal of Management Accounting Research*, 5, Fall, 84-108.

- Caillau J. C. (1996), Cadre conceptuel de la comptabilité en tant que système de présentation publique de la situation économique (et financière) de l'entreprise, *Revue française de comptabilité*, May, 17-51.
- Christiaens, J. (2006), Revenue from Non-exchange Transactions (Including Taxes and Transfers), comments on the IPSAS Exposure Draft 29, Ghent University, (8th February).
- Conseil national de la comptabilité (2006), Note de présentation afférent au projet d'arrêté relatif aux règles applicables à la combinaison des organismes de la sécurité sociale – Avis n° 2006, 30 June.
- Cour des comptes (Court of Accounts) (2006), Rapport préparatoire à la certification des comptes de la sécurité sociale, September, 28-29.
- Cour des comptes (Court of Accounts) (2005), Rapport annuel au parlement sur la sécurité sociale, September.
- Cour des comptes (Court of Accounts) (2005), Rapport de la Cour des Comptes de l'Etat de l'exercice 2005, 116.
- Déniel, A. (1997), Méthode de comptabilisation en droits constatés; *Rapport final du groupe de travail présidé par M. Alain Déniel*, Conseiller maître à la Cour des comptes, rapporteur M. Laurent Gratieux, membre de l'inspection générale des affaires sociales, Commission des comptes de la sécurité sociale, February.
- Direction de la sécurité sociale (Social Security Directorate) (2005), Courrier de l'agence comptable de l'agence centrale des organismes de sécurité sociale au Ministère de la santé et des solidarités, July.
- Evrart, S. (2000), Confiance et comptabilité, Article N. 34, in series edited by B. Colasse, *Encyclopédie de Comptabilité, Contrôle de Gestion et Audit*, Economica, Paris, 461-471.
- Evrart, S. and Trebuq, S. (2003), Crise de confiance et information comptable: une étude empirique des réactions du marché français à l'annonce des affaires Enron et Worldcom, 24th AFC conference, 22-23 May 2003, Louvain La Neuve.
- Haddad. M. and Khater M. (2007), La non fiabilité des informations comptables et les scandales financiers: Cas du groupe mondial Enron, *Journée internationale de management*, Université Saint-Joseph de Beyrouth, 3 February.
- Journal Officiel (2001), Annexe au n° 291 Plan comptable unique des organismes de sécurité sociale, 15 December.
- Ministère de l'économie, des finances et de l'industrie (2004), *Recueil des normes comptables de l'Etat*, 53.
- Mazars, R. (1990), Consolidation des comptes des organismes de sécurité sociale, *Rapport du groupe présidé par Robert Mazars*, December.
- Sécurité Sociale (2006) Rapport de la commission des comptes de la sécurité sociale, Résultats 2005, Prévisions 2006.
- Sécurité Sociale (2005), Rapport de la commission des comptes de la sécurité sociale, Résultats 2004, Prévisions 2005 et 2006, September.
- Sécurité Sociale (2004), Rapport de la commission des comptes de la sécurité sociale, Résultats 2003, Prévisions 2004 et 2005, September.

DISCLOSING LOCAL GOVERNMENT BUDGETS: COMPARING NORTH RHINE WESTPHALIA AND THE NETHERLANDS

Introduction

This article is written as a result of annoyance and opportunity. Until recently it was difficult to find budgetary and accountability documents of local governments which could be used for teaching purposes. That does not mean that information was not available, but considerable efforts had to be made to find the information. It resulted in the question how an interested layman could get hold of the information. An annual meeting of economists of the Universities of Münster and Enschede in 2005 gave me the opportunity to do some systematic research on the availability of accountability documents of public sector entities on the internet. Under the influence of NPM-theories, government budgeting and accounting is changing all over the (western) world (e.g. Pollit and Boukaert, 2004). In The Netherlands, accrual budgeting and accounting has been used since 1985. In 2004, a revised local government budgeting and accounting legislation was implemented, intended to focus on performance and outcome rather than on output. In Germany, a transition towards accruals budgeting and accounting is in the process of implementation. The idea of implementing accruals budgeting and accounting is accepted nationwide (Ridder *et al.*, 2005: 445). However, the federal structure of Germany allows for differences in local government budgeting legislation in each separate State in the Federation. In e.g. Hessen and NRW, implementation of accruals budgeting and accounting is to be realised by 2009, whereas in Baden Württemberg the city of Stuttgart announces that it will present an accruals budget in fiscal 2010/2011 (Stadt Stuttgart, 2007: 4). Due to these differences in regulations and timeframes, studying availability and contents of budget documents of more than one German '*Land*' (State) is likely to lead to ambiguous results. Therefore, I decided to focus on one Land, NRW, to study budgetary documents. The Netherlands and NRW share a common border, have a similar size of population as well as a similar number of cities and communities. Furthermore, Reichard (2003: 351) mentions that German reforms were influenced by knowledge from the Netherlands, which makes a comparison between the two jurisdictions attractive.

In the research I did in 2005, the conclusion was that in a direct comparison of Dutch and NRW local governments, NRW local governments are in an early stage of publishing information where as in the Netherlands there seems to be a trend to provide more information on the internet (Kruijf, 2006: 96). The study did however not assess the contents of budgetary and accountability documents of local governments.

More than a year has passed since that explorative study. In the Netherlands one can observe that several local courts of audit have prepared studies on the quality of especially budget documents (e.g. Rekenkamer Nijmegen, 2004; Rekenkamer Schiedam/Vlaardingen, 2005) as prepared under the format that was implemented in 2004. In NRW the implementation of the *Neues Kommunales Finanzmodell* [NKF] – accruals budgeting and accounting as part of a German version of NPM – (Ridder *et. al.*, 2005) is moving forward and has to be implemented by December 2008. Repeating the systematic search for accountability and budgetary documents will give an impression of developments in the use of internet as a tool to provide accountability information. Furthermore, there is an opportunity to get an impression of the information provided by local governments in both countries. The research question in this paper is: *Can informed users get an impression of the performance of local governments in the Netherlands and NRW based on budgetary and accountability documents on the internet?*

The research question will be answered along the following lines. In Section 1 I will give some theoretical background on issues of accountability and the use of internet by governments. In Section 2 I will address the key issues in the budgetary reforms in both countries. The methodology used in this article will be described in Section 3. After that I will address the empirical results, first with respect to what is actually found on internet, and secondly notes on the contents of the documents found (Section 4). Finally, I will draw some conclusions and give comments.

1. Accountability and the use of internet by governments

Blomgren Bingham *et al.*, (2005: 248) refer to governance as a process in which citizens and organisations are involved in developing and implementing government policies. The focus these authors use, is one on quasi-legislative and quasi-judicial processes¹ that give citizens the opportunity to get involved in the governance process. Boviard (2005: 219) summarises governance by stating that it is on the “role of non-state actors in decision-making on public issues”. Having a right to decide upon what is important implies that somehow information towards the public must be available to be sure that citizens are able to make their decisions.

The information issue has two complementary perspectives. First, there has to be a plan in which politicians state what they intend to realise within a certain period of time. In a democratic setting, the legislative power passes such a plan in the form of a budget law in which it authorises and appropriates budgets to the executive power. It is then up to the executive to actually realise the objectives included in the plan

¹ Examples given are, amongst others: e-democracy, mediation and arbitration.

and to report upon the results achieved. The annual report that results from this process is the accountability document in which the executive reports to politicians not only on compliance to the budget appropriations made available but also on the progress in achieving the objectives as stated in the budgetary document. These two documents are primary sources when interested citizens would like to have influence in the decision-making processes in the political domain. In the NRW local government regulations, the possibility for citizens' influence on the budgetary document is even institutionalised. Section 80.3 of the *Gemeindeordnung* [GO] (as of January 1, 2005) stipulates that citizens can express their objections and that the local parliament has to debate on these objections publicly. Such an institutionalised form of making comments does not exist in the Netherlands, but as in NRW, citizens must have had the opportunity for general inspection.

The opportunity given to citizens to inspect and or comment on budgetary documents can be regarded as a form of voluntary horizontal accountability (Goddard and Mannion, 2004; Schillemans, 2005: 29-30) from the perspective of local government. It fits into the NPM-philosophy where one of the issues is that a relation is made between resources used and realised results. Making information available gives opportunities for benchmarking. Bowerman *et al.* (2002: 445) note that in the public domain benchmarking is in many cases part of the basic accountability process rather than instrument for performance improvement.

The benchmarking opportunity has, at least in the Netherlands, had impact on local fiscal policy. Partly as a result of benchmarking efforts by scientists (e.g. Allers *et al.*, 2007) and lobby groups, restrictions were imposed on the most important local tax; effectively reducing the possibilities to raise tax income by local governments. Availability of information allows some (Verhoef, 2007), even to claim that the information provided in annual reports of Dutch local government is not reliable and underestimates the actual financial position of local government.

Like enterprises, governments may use internet as a tool to communicate with citizens. This does not necessarily lead to greater participation of citizens in political debates (Musso and Weare, 2005: 600). Particularly in the case of providing budgetary information on internet, technical restrictions can complicate downloading large documents². Some of the local governments that were included in this study tried to avoid downloading problems by splitting up the full budget document into smaller – easier to download – sections (e.g. Hertogenbosch and Düsseldorf).

Before I address the empirical data on budgetary and accountability documents, I will describe the developments in budgetary reforms in Germany and the Netherlands in order to deduct which information might be expected to be found on the net.

² In this study the largest document found was 52 MB.

2. The development of local government budgeting and accounting

This article is not intended to discuss in detail the necessity of using accruals accounting in local governments in detail. Lüder's contingency model (Lüder, 2001) gives a framework to analyse what factors have an effect on accounting reforms. Fact is that in many countries, accruals accounting in governments is developing; some countries are lagging behind, others are in the forefront of this development. From a strictly business economics point of view, one can argue that in case an entity does not have in theory an infinite tax capacity, and intends to produce services rather than consume income, continuity can only be guaranteed when accounting provides a measurement system that allows to assess whether or not the (productive) assets of the entity can be maintained in the course of time. To do so, revenues and expenses should be matched to each other, leading to a financial result that is at least covering costs in the long run. Accruals accounting is the generally accepted accounting framework for measurement in a business environment and is as a result of developments such as financial distress (Lüder, 2001) or perhaps the role of consultants (e.g. Brorström, 1998; Chan, 2003) more and more used in the public sector as well. Although some claim that cameral or cash accounting can measure financial performance in a similar way (e.g. Berens *et al.*, 1998; Günther and Schill, 2000; Monsen, 2001), in practice one can observe that accruals accounting is becoming the standard accounting framework in the public sector.

In both the Dutch and the German case, local government depends for substantial parts of their income from income transfers from other levels of government rather than from own resources. Reichard (2003: 346) indicates that in Germany independently generated income by local governments is about 44% of total income. In the Netherlands, this figure is lower, at the level of some 33%, half of which are taxes or user fees³. Such numbers indicate that local governments depend on income transfers from third parties, and that the accounting framework should allow assessing the financial position of local government in the long run. In Lüder's farewell speech he stated that the use of resources should be covered by revenues in such a way that citizens actually pay for the use of the resources (Lüder, 2003: 9) or in other words, the matching principle also holds in the public domain. Despite these arguments, Germany is only at the beginning of a transfer to an accruals budgeting and accounting system. In the Netherlands the system has been introduced at the local level some 20 years ago.

In the following subsections I will address the development of budgeting and accounting in both The Netherlands and NRW and up till the present (2007) regulations.

2.1. The Netherlands

As of January 1, 1985, the Dutch Local Government Accounting Regulations [LGAR] prescribe that budgeting has to be based on accruals accounting. Debates on

³ Own estimate based on Begroting Gemeentefonds 2007, pp. 48-49

using accruals accounting in the Netherlands started in the early 20th century (Van Gijn, 1912; as described in Van der Bij, 1993: 182-192) and a committee even proposed using accruals accounting for Central Government in 1960 (Simons Committee, 1960). Changes in funding of local government in 1984 lead to an increased need for cost consciousness, which was supported by the introduction of the accruals based LGAR1985. In the first stage of the change, traditional line item budgeting under a prescribed classification of Local Government activities was realised. A few years later, within the context of the work on revising the Local Government Act, one realised that the tools for city councils to decide upon policy programs were not adequate. A project called BBI⁴ – in English Policy and Management Instruments – was started in 1987 to improve the decision making opportunities for city councils. The project intended to create a relation between budgets and policy programs by subdividing the budgets in specific tasks (products) to be realised by local government. Budgets were to be presented at the level of tasks rather than on line item expense categories. As of 1995 LGAR were changed again, this time a major issue was the transition to full cost (i.e. including costs of staff) to the tasks identified. This change was intended to give the city council more opportunities to use its right to allocate budgets to tasks. In general, the project BBI was not as successful as had been hoped, the key focus still was financial technical and directed at compliance and internal organisation (Aardema, 2002: 328). Van Helden and Ter Bogt (2002) have shown in their research on the behaviour of Aldermen on the information available in the planning and control cycle that they hardly used the information they received, due to underdeveloped planning attitudes and lack of understanding of differences in tasks performed by local governments (Van Helden and Ter Bogt, 2002: 83).

At the end of the 1990s, efforts were started to make a separation between the legislative power and executive power at the local level. The objective of this project was to realise more political debate on essential political issues, rather than intervention at case level by members of the city council. The Aldermen which were part of City Council until then, had to focus on the realisation of the objectives set by city council and should therefore not be a member of that council anymore. This change was implemented by 2002. To facilitate the change in the political process, as of 2004 the LGAR were changed again.

The LGAR2004 reform had a more political than technical impact. Key issues in the change are that local governments are free to decide upon policy programs fit upon their local situation, rather than using the standard framework that was prescribed by the Minister of the Interior. Second, two budget documents are to be prepared. The first one – the program budget – is a document for city council in which the objectives and outlines of the policy programs are defined and in which city council decides upon a budgetary framework for each of the policy programs. The whole system is based on three questions: “What are our objectives? What activities have to

⁴The description given here is based on Aardema’s study of the project BBI, more specifically Aardema (2002: 83-91).

be realised? and (at) What cost?”⁵ Budgets may be proposed on program level in total expenses and revenues for a program; further detailing or even line item budgeting is not needed anymore. The second budget document – the product budget – is intended to be an internal control tool for the executive power. Given the program budget decided upon, a budget is appropriated for each of the specific activities that have to be realised to achieve the objectives set by the city council. In principle, city council will not discuss the product budget. To assure statistical comparability, some provisions are made which require communities to deliver data based on the classifications that were used before. However, this requirement does not need to result in presentation or discussion in city council.

The direct effects of this last change are that local government budgets primarily are classified on local needs, rather than on central governments’ standards. Comparability of budgets of different local governments has become more difficult, but it is hoped that city councils and citizens can identify themselves with the locally designed programs and as a result political debate will improve. Another direct effect is that performance indicators have become more important than they were before as it is expected that the budget explicitly includes the objectives that have to be achieved.

The development of the budgeting process in The Netherlands is accompanied by more emphasis on the annual report as well. As of 1997 this is institutionalised by the requirement that the city council has to receive both a statement of accounts and an annual report (Bonnema *et al.*, 2001: 132). These authors also note that in LGAR there has been a shift in focus from budgeting to accountability, which is continued in the present LGAR2004 (Bonnema *et al.*, 2001: 136). Preparing a separate accountability document, which is required to be submitted to monitoring institutions before July 15, $t+1$, gives the opportunity to discuss the results achieved in the city council along the lines identified in the budget document.

To illustrate the effect of the changes, I describe an example of one program in the program budget 2007 of a small town. The program is called: “Work and income”. It includes objectives aimed at services for local business and creating jobs, income provision for those who need financial support and activities related to give people new chances to find jobs. Under the LGAR1995 members of city council had to assess at least two different parts of the budget document. Economic development and income provision were separate issues, but were more or less identical in each local government. The new program classification may contribute to more coherence in operations with respect to participation on the labour market and economic development at the local government level. Another local government may have chosen for a slightly different classification than is used in this example.

The programs in the budget document have, as a result of the changes, become more flexible, it is possible to change definitions of programs over time (section 4, LGAR2004). The only requirement is that programs in budget documents and the accountability documents on the same fiscal year must be the same. Theoretically this means that when a new majority comes into power, they may have a different

⁵ These 3-W questions were implemented before in a budget reform as of 2002 at the national level.

emphasis on local government and express that emphasis in the budget documents they prepare. LGAR2004 prescribes a specific format for budgeting and accountability documents. The format prescribes (sections 7.2 and 9 LGAR2004) that there must be a program budget, accompanied by 7 separate sections⁶, each of them addressing a specific category of risks that may affect the financial position of the local government. To complete the budgeting documents information must be given on labour costs, proposed investments, reserves and provisions.

Due to the degrees of freedom given to local governments substantial differences in budgeting documents have emerged. On the one hand, there are still local governments who use a budgeting model that is set up along defined policy domains of the old LGAR1995 resulting in a 250+ pages budgeting document with hardly anything more than numbers. On the other hand, a local government of a similar small size (<40,000 inhabitants) has managed to deliver a – in my personal opinion – well written and illustrated – 84 A5-pages budget document. Whether both documents deliver the information required to make the relevant political decisions or comply to legislation is another issue, not necessarily depending on the size of the document.

The conclusion of this section is that in The Netherlands, accruals budgeting and accounting at local level has been used for more than 20 years now. The system has developed from a classic line item budgeting system towards a more or less integrated system in which objectives and performance as well as using additional tools to assess financial risks have been integrated.

2.2. North Rhine Westphalia

Budgetary reforms in Germany seem to have had a rather different history. Lüder (2003: 3) refers to discussions in the 1950s in which politicians tried to change the then present cameralistic accounting system into an accruals accounting system. More than a century before, there had been statements of accounts in Austrian Government, but due to the influence of a more legalistic approach of government this tradition was lost (Lüder, 2003: 4.). Under the pressures of financial distress and the NPM-developments, the discussion to implement accruals accounting put on the political agenda again in the early 1990s. The discussion did however start from a debate on management control in local government rather than the need to assess the financial position of local governments. According to Ridder *et al.* (2005: 444) a NPM model that originated from Tilburg (NL) was promoted by a local government association in Germany. This has led to reforms in the domain of budgeting and performance but also e.g. in the domain of total quality management. The complexity of the German public sector, where autonomy of *Länder* is an important issue (Adam and Behm, 2006: 217), leads to the fact that there is no single solution to the issue of accruals budgeting and accounting. By now all but two *Länder* (Stock, 2006) are working on forms of accruals accounting within their jurisdiction. North Rhine

⁶These sections are: local taxes, required equity, maintenance of assets (buildings, roads and the like), finance, operations, affiliated entities and finally risks related to land development.

Westphalia [NRW] is one of the early adapters (Ridder *et al.*, 2005: 447), which will be discussed below.

As of January 1, 2005 the Local Government Regulations of NRW allow for the implementation of accrual budgeting and accounting under the acronym NKF⁷. By January 1, 2009, all Local Governments in NRW have to use accruals budgeting and accounting and must have prepared an opening balance sheet (NKFG-NRW, section 1). In the early stage of the reform, six towns and a district are implementing the reform within the framework of a pilot project. These organisations are supported by consultants and the Ministry of the Interior of NRW. In the literature that is available to me⁸ one can observe some parallels to the development of BBI in the Netherlands. Weaknesses of BBI were internal orientation and the mainly financial technical character of the reform. According to Aardema, these weaknesses can also be regarded as useful in times of distress and a preparation stage towards a more external oriented planning and control system (Aardema, 2002: 291). In a report on the results of a questionnaire amongst NRW-communities, it is concluded that the attitude towards change is positive (Steria Mummert, 2006: 37). This is in line with an observation of Stock (2006: 46) who quotes a controller in stating that both politicians and civil servants must have a positive attitude towards change. However, at present the core of the change is regarded as an accounting change rather than a change to output and performance management. The authors of the questionnaire report (Steria Mummert, 2006: 37) stress that it is necessary to emphasize the management and control perspectives of the reform. Similar remarks are also expressed by Ridder *et al.* (2005: 468) who refer to “poor utilization of ... opportunities’ and ‘implementation in a more or less technical mode.” Reichard (2003: 354) emphasised that in the first stage of implementation of NPM reforms, the focus is on the technical aspects such as product definitions, budgeting and monitoring rather than on organisational change or quality management.

The second part of this subsection will address the requirements that are laid down in the NRW Local Government Regulations. Due to the transition phase in the process towards accruals budgeting and accounting, two different models exist. I will first address the legal requirements under the traditional cameral accounting system. Accounting bases are expenditures and revenues. The budget consists of a budget decree (*Haushaltsatzung*) and a budget document. The decree lists on a totalised level the expenditures, income, long run debts on behalf of investments and encumbrances as well as the basis for taxation and the limits for short run debts. The budget document specifies the contents of the budget decree on a lower level with respect to expenditures, income and encumbrances and is split up into an operating budget (*Verwaltungshaushalt*) and an investment budget (*Vermögenshaushalt*). Furthermore details on cash flow plans, provisions and earmarked equity and staff have to be provided. At the end of the fiscal year, a statement of accounts has to be prepared disclosing actual expenditures and

⁷ NKF = *Neues Kommunales Finanzmanagement*; New Local Government Financial Management; NKFG = Law on NKF

⁸ May references in German literature be hard to access from abroad; see for a list of references e.g. http://www.neues-kommunales-finanzmanagement.de/dokumente/literatur_und_aufsaeetze.pdf, visited April 2, 2007.

revenues as well as the opening and closing levels of provisions and equity. The last element in the annual report documents is a statement on affiliated and associated parties (*Beteiligungsbericht*). In case a local government must propose an imbalanced budget, an additional requirement is a multi-annual plan to create a balanced budget again (*Haushaltsicherungskonzept*).

Under accruals accounting, basically the same documents exist, although now of course based on revenues and expenses. I neglect preconditions such as an opening balance sheet when the transition from cameral accounting to accruals accounting is realised. The budget decree now consists of an accruals based budget, a cash flow budget, an investment budget and an encumbrance budget; the latter remains cash based (jdk). Cash limits, use of provisions and equity as well as tax basis are to be included as well. The budget document now consists of separate specifications of revenues and expenses (both including cash flows), level of encumbrances and details on staff. Remarkably, no requirements exist on specifying provisions and equity (section 79 GO). As under cameral accounting, a cash flow plan has to be included as well. At the end of the fiscal year, a statement of accounts has to be presented in which the financial position has to be assessed based on equity and debt, financial result. A balance sheet and cash flow statement have to be prepared. Affiliated and associated parties have to be reported upon and these entities have to be consolidated in the overall statement of accounts / balance sheets that have to be prepared.

2.3. Regulations compared

When regulations in NRW are compared to those of The Netherlands, some differences emerge. First, in NRW a separate budget decree has to pass city council. This is an explicit requirement, whereas in the Netherlands such a requirement is of a more implicit nature. In The Netherlands, a decision document will be prepared after the budget proposal has been adopted but there is no explicit legal requirement. A second difference is found in consolidation. Where in NRW consolidation of affiliated and associated parties is required, in the Netherlands it is explicitly forbidden. Both in NRW and The Netherlands, references are made to the use of performance indicators in the budget (section 4 of the *Gemeinde Haushaltsverordnung* in NRW and section 8.3 of LGAR2004 in The Netherlands). The difference between the two is that in the Netherlands, performance has to be outcome oriented, whereas in NRW it is output oriented. Both the NRW system and the Dutch system are basically product oriented⁹ and in that respect comparable. Other German *Länder* primarily present a budget based on organisational units rather than a product oriented budget (Adam and Behm, 2006: 220). A final difference is the use of cash flow statements. In NRW these are included in budget plans. In The Netherlands no cash flow statement is required. A separate section on finance in Dutch documents aims at identifying possible (interest) risks with respect to long and short term debts, but that is not comparable to a cash flow statement. Local governments in the Netherlands are required to develop their own

⁹ Indicating activities and services delivered either on output or outcome basis.

treasury regulation within the framework of a national regulation in which standards are set for the maximum levels of short term debt and interest risk on long term debt.

In this section a short overview on the present regulations in both NRW and The Netherlands was given. The requirements described here can be used to assess the actual information that is provided in budget documents of local governments. Before I will address the results of the empirical study, I will first make some remarks on research methodology in the next section.

3. Budgeting information on the internet

In this study two objectives are to be realised. First, an assessment of the actual availability of budgeting (and accountability) documents of NRW and Dutch Local Governments on internet. This part of the study is more or less a replication of my 2006 study (Kruijf, 2006), although for the NRW case the search is explicitly extended to find NKF-information. Second, giving an impression of the quality of these documents realised from the perspective of an informed reader. Young (2006: 596) made an assessment of financial documents from a users' perspective that is used by accounting standard setting bodies. Her conclusion is that standard setters used a perspective of a rational decision maker, very close to the position of investors and creditors. A more or less similar position is taken by Verhoef (2007) when he contests the financial results of Dutch local governments and discusses technicalities. Although that is important from an investor or creditor perspective, the objective of a government budget is to present the objectives to be achieved and the decisions to be made to realise these objectives, related to the (financial) risks that exist. Not all members of a city council are financial experts, but yet they have to decide on the objectives local government wants to realise within the next fiscal year (and perhaps a few years after). The interested reader who is willing to participate in political debates will be looking for objectives to be realised. Restrictions as a result of remaining financial risks and the levels of expenditure in relation to the performance achieved are supposed to help understanding the activities (to be) realised by local government. Therefore, I regard an informed reader as someone who is politically interested and has some knowledge of government budgeting and policy making. I will focus on objectives and the relation between performance and expenses when assessing the actual documents available.

3.1. Research method

The assumption in this study is that when accountability information of private sector entities can be disclosed on internet, similar information in the public domain can be disclosed as well. The basic accountability documents in the public domain are budgeting documents and annual reports of the entities which are object of the research. In this case the question focuses on information on local governments in NRW and The Netherlands.

The first question is what information should be available. The descriptions in Section 2 give an idea of the information that is required in deciding on budgeting and accountability in both jurisdictions. The problem is how to find the information on the internet. In some cases direct links may be available on a home page, in others the information is only revealed after a more detailed search. To find the information I made a list of relevant keywords to use in the search engines of the websites. Such keywords should direct at the information that is relevant to the legislator and the public; internal management documents are omitted. I refer to my 2006 paper (Kruijf, 2006: 81) for a more detailed description of the procedure, but the key is that for the German case I did not only used legislation¹⁰, but used a pilot study to find keywords and asked some native speakers to corroborate the keywords I found. In addition to the keywords used in the previous research I added the specific keywords for accrual based budgeting and accounting for the NRW-case. The full list of keywords used is included in Annex 1.

The second step is selecting the research objects. I chose to search for data of all municipalities above 40,000 inhabitants in 2005 in both jurisdictions. As it happens the number municipalities of that size is almost the same. I already noted that NRW and the Netherlands are more or less similar in size and that by choosing one Land, differences in German regulations are controlled for. I took notice of the 6 municipalities who run the NKF-pilot project in NRW and will discuss them separately. By making this selection, generalisation to all German municipalities is not possible. I will make some notes on other German *Länder* at the end of this article.

The fact that differences in tasks exist between NRW and Dutch municipalities, partly due to the role of the *Kreise* (Districts) in NRW, does not affect the research because the issue of budgeting and accountability is universal, although the objects of budgeting may be different.

The third step is collecting the actual data. When no direct link on the home page of a municipality was available, the keywords were used to find full budget documents and annual reports; press releases and speeches were neglected. In a number of cases large lists of hits were found. In that case, I scanned the list for the first 20 items; assuming that when a document was not found by then, it is not likely that it is available at all. When documents were found, the relevant fiscal year was recorded. The data in my 2006 research revealed that in NRW it is possible to pass a budget decree for two fiscal years at once, and I therefore had to assess what is actually the most recent document available. I completed the search for data on Dutch Local Governments in January 2007. By that time, all budgets should have been passed City Council and Local Governments who only present data after decisions in the City Council would have had a month to publish data. The annual report 2005 is in general discussed in June 2006. The municipalities that did not publish them by January 2007 will most

¹⁰ *Gemeindeordnung für das Land Nordrhein Westfalen* (Local Government Act), *Neufassung vom 14. Juli 1994*, and *Gesetz über ein Neues Kommunales Finanzmanagement für Gemeinden im Land Nordrhein-Westfalen* [NRW-NKFG-NRW] *vom 16. November 2004* (changing Local Government Act and describing NRW-LGAR). The Dutch legislation is *Gemeentewet* (Local Government Act) and *Besluit Begroting en Verantwoording* (LGAR2004).

likely not publish at all. The NRW data were searched for in March 2007, mainly for organisational reasons. From a legalistic point of view, one could argue that the ‘*Haushaltsatzung*’ (Budget decree) can only be published one month after it has been submitted to the monitoring institutions (section 79.5 GO), which would imply that such data are available no sooner than at the start of the fiscal year. Searching in March gives a time frame of two months after that critical date.

The objective of this study is not only to look at availability of documents, but also give an impression of the quality of documents for decision making. Some authors (e.g. Vollmer, 1990; Coy and Dixon, 2004) have developed extensive disclosure indices to monitor quality of public sector documents, more specifically with respect to annual reports. In this case it is not possible to develop a single disclosure index that can be applied to both The Netherlands and NRW due to the different stages of development of accruals based budgeting documents. I chose to design two different indices. The index used by Vollmer (1990) is by now out of date. In the Dutch case, the emphasis is on completeness (both budget and annual report), risks, consistency of programs over time, performance information and summaries in the Dutch case. Creating a disclosure index based on these items is similar to the assessments Dutch local courts of audit use to assess the budget documents (e.g. Rekenkamer Utrechtse Heuvelrug, 2007).

The NRW index focuses on budget documents, non financial explanations¹¹, NKF explanations and summaries. The disclosure indices used are in this case not systematically developed and tested by peer groups. Coy and Dixon (2004: 85) suggest that a systematic construction of a disclosure index is possible when reporting is well established and mature. In NRW a transition from one accounting system to another is still in an early stage, which makes a systematic construction of a disclosure index rather difficult. As a consequence of the stage of development and the fact that my 2006 study (Kruijf, 2006) had revealed that only a few NRW local governments had information submitted on the internet, I chose to restrict the study on NRW to availability of information only.

A full list of the composition of the disclosure indexes can be found in Annex 2.

4. Availability of information

4.1. Budget documents on internet

Searching for information of local governments on the internet requires that such a facility is available for all local governments under scrutiny. All 96 Dutch and all 101 NRW local governments above 40,000 inhabitants have their own website, which means that it is possible to study the whole population. The previous research on 2004 annual reports and 2006 budget documents indicated (Kruijf, 2006: 91) that in NRW there are very little separate accountability documents available. This is

¹¹ The 2006 research revealed that where budget documents were available, in most cases these only consisted of numbers and very little explanation. Giving explanations is from that perspective an improvement towards better understanding of the budget proposals.

confirmed in the present research; only 3 (2004: 2) cities made separate documents on accountability available. In The Netherlands, in 40 (2004: 30) cases annual reports were available. Two conclusions can be drawn. First, in NRW publishing separate accountability documents by local government is only at its early stages. The relevant financial information is available, but is only disclosed within the context of a new budget proposal. In The Netherlands, accountability is an issue and the figures presented here indicate that there is an upward tendency to publish the main document on accountability on the internet.

In the remainder of this section I will focus on the availability of budget documents and their contents. Table 1 shows the results of searching the internet for budget documents in both jurisdictions.

Table 1 – Budget documents available on internet by jurisdiction

	NL		NRW	
	2006	2007	2006*	2007
No document	42	32	83	63
Most recent document	54	64	18	27
Older document	n.a.	n.a.	n.a.	11
Total	96	96	101	101

* The data for NRW 2006 include budgeting documents of either 2005 or 2006 which were available by November 2005.

A first conclusion is that in both jurisdictions, an increase in publishing budgetary documents can be observed. The increase in publishing documents in NRW is twice as high as in the Netherlands when only the availability of the most recent documents is observed. In the Dutch case I did not search for older documents because of the fact that each year a new document has to be submitted. In the NRW case, the mere fact that a document is available seems to be of more importance until now.

A more detailed look into availability of budgeting documents reveals that the smaller municipalities are lagging behind in submitting recent documents in both jurisdictions. Especially the larger cities in NRW have increasingly managed to submit information to the internet.

Table 2 – Percentage of availability of budget documents by jurisdiction and size of local government

	40,000-100,000 inhabitants				> 100,000 inhabitants			
	NL (n=71)		NRW (n=71)		NL (n=25)		NRW (n=30)	
	2006	2007	2006	2007	2006	2007	2006	2007
No document	51%	38%	79%	63%	24%	16%	90%	60%
Most recent document	49%	62%	21%	23%	76%	84%	10%	37%
Older document	n.a.	n.a.	n.a.	14%	n.a.	n.a.	n.a.	3%

The six local governments¹² that participate in the NKF-pilot project do not all provide budget documents on the internet. Two of them provide 2007 documents, two provide 2006 documents and the last two do not provide any budgeting documents at all. In the 2006 study, only one of these six local governments provided budget information on the internet. A final remark with respect to the availability of documents regards the separation of NKF-style documents in NRW and traditional – cameral style documents in NRW. Of the local NRW governments (n=38) that submitted budget documents by March 2007, 19 had developed NKF-style budgets for some of their services for either fiscal 2007 (8 cases) or an older fiscal year, which means that 15 other local governments than those in the pilot project have already submitted (partial) NKF-style budgets on the internet.

Unlike in the Dutch case, NRW local governments have provided documents of a previous fiscal year on the internet. Based on the text in the budget decrees, I have found that specifically the smaller local governments seem to have trouble in passing budget decrees in time. Of the 37 budget decrees available, 14 were passed after the fiscal year had started and all but one were from the smaller local governments. Twelve other local governments (7 small) submitted draft budget decrees on internet which gives an inconclusive result with respect to timeliness. Apparently small NRW local governments seem to have some trouble in passing their budgets in time.

A first conclusion on the data is that there is an upward trend in presenting budget information of local governments both in the Netherlands as in NRW on the internet. NRW seems to be catching up in 2007 especially in the larger local governments. As this study did not include a questionnaire on reasons why local governments have submitted their budget documents on the internet, it is hard to find an explanation. On the one hand, perhaps the possibility of having sufficient resources and skills in larger communities may be an explanation for submitting information on the internet. On the other hand, the size of the documents in NRW is huge; the largest one has more than 1,500 pages which hardly contain anything more than numbers. In The Netherlands, three of the four largest cities present documents of some 300 pages¹³ with substantial numbers of pages text, performance indicators, objectives and the like. Large documents consisting of numbers only may not be the attractive documents a local government likes to submit on the internet¹⁴.

In the following subsection, I will give an impression of the data available by using a disclosure index. This gives an opportunity to assess whether the broader perspective of NPM with respect to management control is reflected in the budgetary documents as they exist by early 2007.

¹² The *Gemeinde Hiddenhausen* is part of the NKF-pilot local governments, but is not included in the main research as it has only some 21,000 inhabitants.

¹³ The last of the big four cities in The Netherlands submits documents of some 600 pages, still substantially smaller than NRW documents.

¹⁴ The city of Mainz (capital of Hessen) notes that it does not submit present cameral budget documents on internet for this reason (Mainz, 2007).

4.2. Impression of information available

One of the intentions of the change towards the present accounting regulations in the Netherlands was that the politicians and citizens must be able to understand and assess the financial position of local governments (Ministerie van Binnenlandse Zaken en Koninkrijkszaken, 2007). By using a disclosure index, an indication can be given on the quality of the information available in the budget documents in both jurisdictions. In Section 3.1 I have discussed the contents of the disclosure indices. In the Dutch case, the disclosure index can be used to give an impression of the contents of budgetary documents. In the NRW case, the disclosure index is restricted to a score based on the availability of documents that must be available according to law, because in most cases, the budget document itself is hardly anything more than numbers. The value of the disclosure index presented in the tables below is the percentage score related to the maximum score possible on the respective indices (see Annex 2).

I will start with the results of NRW. Table 3 shows the overall score for the NRW local governments for which budgetary documents were available. Of the 101 local governments in NRW, 38 had documents that could be assessed.

Table 3 – Disclosure index for NRW by size of local government

Range	40,000-100,000 inhabitants (n=71)	> 100,000 inhabitants (n=30)	Total
1-25	4	0	4
26-50	16	3	19
51-75	4	8	12
75-100	2	1	3
Total	26	12	38

The results indicate that the smaller local governments tend to have lower scores on the disclosure index; nearly 80% of them have a score below 50, whereas the larger local governments have in 75% of the cases a score above 50. The main explanation for this difference is found in the fact that budget documents of the smaller local governments do not regard the most recent fiscal year. On the other hand, details reveal that smaller local governments that do present non-financial information provide more information than the large local governments do. One should not overestimate the availability of non financial information; only 8 of 101 local governments have provided basic forms of performance indicators.

The local governments that do provide NKF budgets generate higher disclosure indices than those who do not, when the individual score for the availability of NKF budgets is disregarded. This might be an indication that the initiative of NKF does generate a different attitude towards budgeting and accountability. Two cities are mentioned here as examples for best practices in providing information. Bonn and Aachen have developed a summary of the budget plans 2007 that goes beyond a summary of financial data and in which they try to explain to the citizen what the financial position of the town is.

The conclusion of this subsection on NRW local government budgets is that in nearly 40% of the cases a statement on availability of information can be given. In 2/3 of those cases, the score is in the lower half of the range implying that not all information is provided. Essentially however, it appears that information itself has not substantially changed as a result of the transition from cameral to accruals budgeting in NRW.

In the second part of this section, I will address the results for The Netherlands. Where in NRW in some 35% of the cases documents can be studied; in The Netherlands this figure is some 65%. The reader must be aware that a direct comparison between budget documents of Dutch and NRW local governments is not possible and that the disclosure indices used are not identical. The Netherlands has a longer history of using accruals budgeting and accounting as well as efforts to improve performance information in those budgets. This allows including a performance based index as an indicator for quality of disclosure in Dutch budgetary documents. However, I will start presenting a disclosure index on information provision, based on the same idea as used in the NRW case. Table 4 shows the results for Dutch local government.

Table 4 – Disclosure index for Dutch local governments by size

Ranges	40,000-100,000 inhabitants (n=71)	> 100,000 inhabitants (n=25)	Total
1-25	1	1	2
26-50	35	12	47
51-75	8	7	15
76-100	0	0	0
Total	44	20	64

Some 20% of the smaller Dutch local governments that do provide information on the internet have disclosure scores above 50. The large Dutch local governments have in 35% of the cases a score above 50. Not one of the local governments achieves to realize the top level range of the disclosure index. The main factors that affect this result are consistency over time: 70% of all Dutch local governments above 40,000 inhabitants have changed the name or contents of their programs, which makes comparison more difficult. This change may be the result of the elections that were held in 2006 but that can only be tested by assessing the 2008 budgets at the end of 2007.

Performance information can be used to assess the objectives and results of local governments. Table 5 shows a disclosure index on availability of performance information in Dutch budgetary documents.

Table 5 – Disclosure index on performance information for Dutch local governments

Ranges	40,000-100,000 inhabitants (n=71)	> 100,000 inhabitants (n=25)	Total
0	10	0	10
1-25	6	3	9
26-50	12	6	18
51-75	11	7	18
76-100	5	4	9
Total	44	20	64

In only 40% of the cases scores on performance in the upper half of the range are found and only 14% of local governments manage to qualify for the top quarter range. Unlike the general disclosure index in Table 4, there are some local governments that do disclose (nearly) all performance indicators that were selected for this study. The difference between small and large Dutch local governments is strongly influenced by those local governments that do not provide the selected performance indicators in their budgetary documents. Another point to be made is the lack of information on investment programs. Dutch LGAR2004 requires that an overview of investments must be included in the budget documents. In 45% of the budget documents found, a list of all investments was not available¹⁵ and in only 12% the information complied with regulations.

The conclusion of this subsection on availability of budget and performance information of Dutch local governments above 40,000 inhabitants is that there still are opportunities to improve the quality of budget documents. What is specifically surprising is that legal requirements are not fully met (investments) and that a large number of local governments have chosen to change the name and contents of aggregated programs, which results in less comparability over time.

General conclusions and further outlook

This paper aims at assessing availability of budget documents as part of efforts to improve public debates on the ambitions of local government. The second objective is to find out whether the documents available have such a quality that they provide the information that is needed for such a debate. My first conclusion is that with respect to openness and transparency a positive trend can be observed. In both jurisdictions, the number of budget documents available has risen in comparison to a year before. In NRW the relative improvement is larger than in The Netherlands where the absolute number of budget documents on fiscal 2006 tripled the number of the NRW local

¹⁵ In some cases, information on investments was spread throughout the budget document and included in each separate program.

governments. My second conclusion is that either being a member of the general public or being a member of a city council in NRW, I would hardly know what I am deciding on when budget documents are passed. Performance indicators hardly exist and most documents have the character of huge operational line item budgets for management. The disclosure index used for NRW was directed mainly at availability and completeness of documents, the NKF-project is still at its early stages and it is probably difficult as it is to make a change from cameral accounting towards accruals accounting. I agree with those who note that NRW local governments (e.g. Stock, 2006) have to be aware of the fact that the transition should not only be a technical effort to change from one accounting system into another. The Dutch case of BBI (Aardema, 2002) clearly showed that when there is no real support for a change, there is a real chance of failure. A question is whether NRW can be regarded as a representative sample for all German local governments over 40,000 inhabitants. It is difficult to find an answer to that question without further research. I did have a look at the websites of the 12 capitals of the other (non city state) *Länder*. I found budget documents of 6 of them which strongly resemble the documents I found in NRW. That might be an indication that the results in this research actually are an indication of actual budgetary disclosure in Germany.

The scores on the Dutch indices seem to be better at a first glance. Of course, more than 20 years of experience with accruals budgeting and accounting has its influence on the disclosure of information. However, as a Dutch citizen or member of a city council I would not be completely satisfied yet. The most recent change of the LGAR in 2004 intends to shift focus from the details of activities performed by local government to the objectives to be achieved and for a broader view on the financial position than can be achieved by presenting a statement of accounts and balance sheet. Such a change requires that the information presented in budgetary documents as well as in annual reports aims at setting standards and disclosing norms to be achieved. The disclosure index used was developed to find some data on these issues. Fiscal 2007 is the third year after the implementation of the change in LGAR. It appears that even when searching for rather obvious and simple performance indicators the scores found are disappointing. Not even half of Dutch local governments did present the information I was looking for. Research of local courts of audit confirms this conclusion. Their far more detailed study for their (single) local governments¹⁶ indicate that smartness, completeness and setting standards in all these budget documents can be improved.

A question that remains unanswered in this study is whether all local governments are able to comply with the high standards that are imposed upon them by higher authority. My general impression from the data is that in both The Netherlands and NRW, the smaller local governments – and note I am not discussing the nearly 400 smallest local governments (below 40,000 inhabitants) in each of the jurisdictions – do not publish their budget documents on internet. When they do, the disclosure index reveals that they are lagging behind the results of their larger fellow local

¹⁶I had reports available on Arnhem, Nijmegen, Apeldoorn, Haarlemmermeer (all 100,000+ inhabitants) and Alkmaar, Schiedam, Vlaardingen (all 75,000+ inhabitants).

governments. Do these local governments have sufficient resources to comply with standards, is there a lack of political attention for the issue, is it a matter of priorities or are perhaps other explanations possible? Answers to these questions can only be revealed by further research on the support for change both in the political domain as amongst civil servants.

References

- Aardema, H. (2002), *Doorwerking van BBI. Evaluatie van een veranderingsbeweging bij de Nederlandse gemeenten*, Leusden: Bestuur & Management Consultants.
- Adam, B. and Behm, C. (2006), The use of budget reforms to modernize governance in German local government. *Public Money and Management*, 26 (4), 217-220.
- Allers, M. A.; Hoeben, C.; Veer, J. Th. van der and Zeilstra, A. S. (2007). *Atlas van de lokale lasten 2007*, Groningen: Coelo.
- Berens, W.; Bücker, H. and Finken, T. (1998), Einführung der Kosten- und Leistungsrechnung in Landesbildungseinrichtungen Nordrhein-Westfalens, *Kostenrechnungspraxis: Zeitschrift für Betriebsrechnung, Kostenrechnung und Planung*, 42 (6), 373-380.
- Bij, J. van der (1993), *Doelmatigheid en de rijksbegroting. Een staatsrechtelijke en economische visie op de rijksbegroting*. Groningen: Wolters-Noordhoff.
- Blomgren Bingham. L.; Nabatchi, T. and O'Leary, R. (2005), The new governance: practices and process for stakeholder and citizen participation in the work of government, *Public Administration Review* 65 (5), 547-558.
- Bonnema, W.; Cuppen, M. H. M.; Evers, A. J. M.; Rikken, W. and Verhagen, A. J. W. M. (2001), *Gemeentefinanciën, 3^e druk*. Deventer: Kluwer
- Boviard, T. (2005), Public Governance: balancing stakeholder power in a network society, *International review of administrative sciences* 71 (2), 217-288.
- Bowerman, M.; Francis, G.; Ball, A. and Fry, J. (2002), The evolution of benchmarking in UK local authorities. *Benchmarking: an international journal*, 9 (5), 429-449.
- Boyne, G.; Gould-Williams, J.; Law, J. and Walker, R. (2002), Plans, performance information and accountability: the case of best value, *Public Administration* (80 (4), 691-710.
- Brorström, B. (1998), Accrual accounting, politics and politicians, *Financial Accountability and Management* 14 (4), 319-333.
- Chan, J. L. (2003), Government Accounting: An assessment of theory, purposes and standards, *Public Money and Management*, 23 (1), 13-20.
- Coy, D. and Dixon, K. (2004), The public accountability index: crafting a parametric disclosure index for annual reports, *The British Accounting Review*, 36 (1), 79-106.
- Divosa (2007), *Divosa Monitor 2007. Verschil maken*, Utrecht: Divosa.
- Goddard, M. and Mannion, R. (2004). The role of horizontal and vertical approaches to performance measurement and improvement in the UK public sector, *Public Performance and Management Review*, 28 (1), 75-95.
- Günther, T. and Schill, O. (2000), Der Haushaltsplan als Ergebnis der Kostenplanung. Intergration von kommunaler Haushaltsplanung und Planung in der Kosten- und Erlösrechnung, *Kostenrechnungspraxis: Zeitschrift für Betriebsrechnung, Kostenrechnung und Planung*, 44 (3), 185-195.
- Helden, G. J. van and Bogt, H. J. ter (2002), The application of businesslike planning and control in local government: a field study of eight Dutch municipalities, *Local Government Studies*, 27 (1), 61-86.

- Kruijf, J. A. M. de (2006), Public sector accountability towards citizens. An inquiry to the use of internet to distribute annual reports, in A. Prinz & A.E. Steenge & J. Schmidt (Eds.), *Innovation: Technical, economic and institutional aspects*. (65-103). Berlin: Lit Verlag.
- Lüder, K. (2001), Research in comparative governmental accounting over the last decade – Achievements and problems, Working paper presented at the VIIIth CIGAR Conference, Valencia.
- Lüder, K. (2003), Vom Ende der Kameralistik. Speyerer Vorträge. Speyer: Deutsche Hochschule für Verwaltungswissenschaften. Retrieved on March 13, 2007 from www.hfv-speyer.de/lueder/kameralistik.pdf.
- Mainz (2007), *Doppelhaushalt 2007/2008*. Retrieved on December 29, 2007 from <http://www.mainz.de/WGAPublisher/online/html/default/hmas-6gafdx.de.html>.
- Ministerie van Binnenlandse Zaken en Koninkrijksrelaties (2007), Financiële Functie. Retrieved on April 12, 2007 from http://www.minbzk.nl/onderwerpen/openbaar-bestuur/financien_provincies/financiele-functie.
- Monsen, N. (2001), Cameral accounting and cash flow reporting: some implications for use of the direct or indirect method, *The European Accounting review*, 10 (4) 705-724.
- Musso, J. A. and Weare, C. (2005), Implementing electronic notification in Los Angeles: Citizen participation politics by other means, *International Journal of Public Administration*, 28 (7), 599-620.
- Parliament (2007), *Kamervragen van het lid Jansen aan de minister van Financiën*. Handelingen 2006-2007, p. 5597. Den Haag: SDU.
- Pollitt, C. and Bouckaert, G. (2004), *Public Management Reform. A comparative analysis*, 2nd ed. Oxford: Oxford University Press.
- Reichard, C. (2003), Local public management reforms in Germany, *Public Administration*, 81 (2) 345-363
- Rekenkamercommissie Alkmaar (2005), Evaluatie van de programmabegroting 2005-2008 van de gemeente Alkmaar. Retrieved on April 13, 2007 from <http://www.alkmaar.nl/download/bestuur/rekenkmr/compleetrapport.pdf>.
- Rekenkamercommissie Haarlemmermeer (2005), Programmabegroting 2005-2008 getoetst. Retrieved on April 13, 2007 from <http://www.haarlemmermeer.nl/dsc?c=getobject&s=obj&!sessionid=1!RV1DyOvofBaqyo3h50uVxDYXp1K78Hd!ziQW2AD1F!o9vhsUlyp3M0aGBFhXOq&objectid=18084&!dsname=hmmintere&isapidir=/gvisapi/>.
- Rekenkamer Nijmegen (2004), *Gezamenlijk onderzoek rekenkamers Apeldoorn, Arnhem en Nijmegen naar de programmabegrotingen 2004*. Retrieved on March 27, 2007 from http://www.2.nijmegen.nl/gemeente/gemeenteraad/Rekenkamer/Grote_Onderzoeken/Overig/_rp_center1_elementId/1_186292.
- Rekenkamercommissie Schiedam - Vlaardingen (2005), *Quick scan programmabegroting*. Retrieved on March 27, 2007 from <http://www.vlaardingen.nl/Internet/Documenten/Rapport%20Quick%20Scan%20programmabegroting.pdf>.
- Rekenkamercommissie Utrechtse Heuvelrug (2007), *Onderzoek Programmabegroting 2007*. retrieved on December 28, 2007 from <http://www.necker.nl/dsc?c=getobject&s=obj&!sessionid=1ze8Ge5dbo5!z8ZWno7p!8nlb9oWMdxXGAuyBPekM35YuUCWRV1zyOvofxaqyo3h&objectid=6803&!dsname=LRekenkamer&isapidir=/gvisapi/>.
- Ridder, H. G.; Bruns, H. J. and Spier, F. (2005), Analysis of public management change processes: the case of local government accounting reforms in Germany, *Public Administration*, 83 (2), 443-471.
- Schillemans, T. (2005), *Horizontale verantwoordiging bij ZBO's en agentschappen. Een inventarisatie en analyse by 74 monopolisten*, Den Haag: RMO.
- Schweizer, L. and Bornhauser, U. (2005), E-government, *Die Betriebswirtschaft*, 65 (3), 319-323.
- Simons Committee (1960), *Rapport van de commissie tot voorbereiding van een herziening van de comptabiliteitswet*. Den Haag: Staatsdrukkerij en uitgeverijbedrijf.
- Stadt Stuttgart (2007), *Haushaltsplan 2008-2009*.
- Steria Mummert (2006), *Befragung zum Neuen Kommunalen Finanzmanagement. Auswertung der Ergebnisse*. Steria Mummert Consulting AG, retrieved on April 2, 2007 from <http://www.neues-kommunales-finanzmanagement.de/dokumente/NKF-Auswertung.pdf>.

- Stock, H.H. (2006), Bundeskongress Doppik, *Diskus*, retrieved on April 2, 2007 from <http://www.fhoev.nrw.de/uploads/media/diskus-06-2006.pdf>.
- Verhoef, L. (2007), Lokale rekenkamers of accountants: wie rijdt er een scheve schaats?, *Overheidsmanagement* 20 (2), 28-29.
- Vollaard, B. (2003), *Performance contracts for police forces*. CPB-document 31. Den Haag: CPB.
- Vollmer, F. G. (1990), *Hoeveel informatie geeft de gemeenterekening. Toepassing van een disclosure index op de verslaggeving door gemeenten*. Maastricht: Rijksuniversiteit Limburg.
- Young, J. J. (2006), Making up users, *Accounting, Organizations and Society*, 31, 579-600.

Annexes

Annex 1: Keywords for internet search

	Annual reports	Budget documents
German	<p><i>General</i> Rechenschaftsbericht Gesamtlagebericht Beteiligungsbericht</p> <p><i>Traditional budgeting</i> Haushaltsrechnung Rechnungsbericht Vermögensrechnung Verwaltungsbericht</p> <p><i>NKF-related:</i> Eröffnungsbilanz Jahresbericht Geschäftsbericht Jahresrechnung Kostenrechnung Leistungsrechnung Jahresbilanz Gesamtbilanz Jahresabschluss Gesamtabschluss Ergebnisrechnung Finanzrechnung</p>	<p><i>General</i> Haushaltsatzung</p> <p><i>Traditional budgeting</i> Stadthaushalt Verwaltungshaushalt Haushaltsplan</p> <p><i>NKF-related:</i> Produkthaushalt Neuses Steuerungsmodell (NSM) NKF Ergebnishaushalt Finanzhaushalt Ergebnisplan Finanzplan</p>
Dutch	<p>Jaarverslag Jaarrekening Programmarekening Burgerjaarverslag</p>	<p>Begroting Programmabegroting Jaarplan</p>

Annex 2: Disclosure indices

NRW disclosure index

Code	Description	Possible scores
NRW_Vmh	Availability of Vermögenshaushalt investment budget	0: no 5: old 10: most recent
NRW_Vwh	Availability of Verwaltungshaushalt operating budget	0: no 5: old 10: most recent
NRW_Satz	Availability of Satzung budget decree	0: no 5: old 10: most recent
NRW_Beteil	Availability of Beteiligungsbericht affiliated and associated entities	0: no 5: old 10: most recent
NRW_NKF_B	Availability of NKF budgets	0: no 5: partially 10: full
NRW_NKF_I	Availability of NKF-explanation (i.e. an explanation on how and why of the reform)	0: no 5: yes
NRW_NF_Info	Availability of Non-financial information in docs any information regarding output or outcome is accepted, explanations regarding change of budget only are not accepted	0: no 5: yes
NRW_Summ	Availability of Summary other than level of cashflows A summary on the budget plan that explains to some extend the ambitions of the local government	0: no 5: only figures 10: including text

Due to the fact that previous budget documents gave the impression that most NRW budget documents only contained financial information, I chose to accept any form of non-financial information to qualify as a form of performance indicator. An easily accessible summary of the budget will contribute to the participation of citizens in discussions on the intended plans of local government and can be used as a starting point to study the budget document in more detail. Therefore the existence of a summary is included in this index. Similarly, the reform leads to totally different financial information than people are used to. Giving an explanation or referring to the general NKF-website (<http://www.neues-kommunales-finanzmanagement.de/>) can contribute to understanding of the documents available and hence in participation in budgeting discussions.

NL disclosure index

In The Netherlands, budgeting has been based on accruals budgeting for quite some time. In the Dutch case, I have used two indices. One based on completeness of documents, based on the legal requirements. The other is based on a selection of performance indicators and used to give an impression of performance information available. The weight attributed to the different items in the disclosure index developed here are the (arbitrary) choices of the researcher, to make a comparison between the different municipalities possible¹⁷. The selection of performance indicators in the Dutch budgeting documents is also a choice made by the researcher. I chose to look for specific performance indicators in different policy domains that either are related to income provision, level of taxation or service level and which can be presented SMART. Although the choice can be discussed, the indicators selected are related to fees generally discussed (e.g. Parliament, 2007) or collected by a peer group in the domain of social security (Divosa, 2007: 32-35).

The scores in the Dutch disclosure index are related to the document they are presented in. Information in the 2007 budget is valued higher than information of a 2006 or even older budget. In assessing performance information explicit ambitions are valued, not a mere extrapolation of realization. Disclosing both the most recent realization and ambitions generates the highest possible score.

Code	Description	Possible scores
COMPLETENESS		
NL_Com_Prog	Availability of program budget costs of programs disclosed?	0: no 1: old doc 2: 2007 doc
NL_Com_Fin	Availability of full financial budget full overview of budget available?	0: no 2: old doc 4: 2007 doc
Consistency	Programs 2005 are the same as those in 2007	0: no 5: yes
Availability_JV	Is an annual report available	0: no 2: old doc 5: 2007 doc
Availability_Bud	Is a budget document available?	0: no 2: old doc 5: 2007 doc
Li_invest	Listing of investments is a full list of investments available to be realised in the fiscal year available and is it split up in investments with economic returns and those with only non-financial returns?	0: no 5: not split up 10: split up ec and social
Summ	Availability of summary A summary on the budget plan that explains to some extent the ambitions of the local government	0: no 5: only figures 10: incl. programs

¹⁷ Local courts of audit usually express their opinions in qualitative rather than in quantitative terms as they generally need not to compare with other municipalities.

Code	Description	Possible scores
PRESCRIBED SECTIONS RELATED TO FACTORS THAT MAY AFFECT THE FINANCIAL POSITION IN THE LONG RUN		
NL_Com_Tax	Document on local taxes prescribed section on level of local taxes; no assessment of contents	0: no 1: old doc 2: 2007 doc
NL_Com_Weer	Document on equity section on Financial resilience; no assessment of contents here; see below	0: no 1: old doc 2: 2007 doc
NL_Com_Cap	Document on maintenance of investments section on level of maintenance of local governments assets such as roads, buildings, and the like; no assessment of contents	0: no 1: old doc 2: 2007 doc
NL_Com_Liq	Document on Debt en Liquidity section on treasury management	0: no 1: old doc 2: 2007 doc
NL_Com_OP	Document on operations section on developments in the organisation that may affect operations	0: no 1: old doc 2: 2007 doc
NL_Com_AP	Document on associated parties information on affiliated and associated parties and risks related to them	0: no 1: old doc 2: 2007 doc
NL_Com_Gro	Document on Land development purchase, development and sale of land on behalf of developing building sites or infrastructure	0: no 1: old doc 2: 2007 doc

Performance indicators		
PI_WWB	Disclosure of # clients WWB in budg2007 Number of clients for last resort income benefits	0: no 1: real. 2005 2: norm 2007 3: both real and norm
PI_Reint	Disclosure of # clients to be reintegrated Ambition to help unemployed to find a new job in terms of number of individual programs to be realised	0: no 1: real. 2005 2: norm 2007 3: both real and norm
PI_Waste	Disclosure of vol. of waste processed Indicator of either separating recyclable waste or targets to reduce waste in general were accepted	0: no 1: real. 2005 2: norm 2007 3: both real and norm
PI_build	Disclosure # building licences Level of applications for licences to be processed	0: no 1: real. 2005 2: norm 2007 3: both real and norm

Belén González

Antonio López

Roberto García

HOW DO SUPREME AUDIT INSTITUTIONS MEASURE THE IMPACT OF THEIR WORK?

Introduction

Supreme Audit Institutions (SAIs) carry out a vitally important role in democratic systems. The principles laid down in the Lima Declaration state that public sector auditing should involve monitoring all aspects of state services as well as informing government and the general public via objective reports (International Organization of Supreme Audit Institutions [INTOSAI], 1998).

SAI activity was traditionally limited to carrying out legal and financial checks. This was later extended to embody aspects related to public management (García, 2005: 7). Most of the initiatives put forward by New Public Management involved some kind of change to public auditing as the emphasis moved towards measuring outputs and incomes (Pollitt *et al.*, 1999: 195). New Public Management also influenced the way in which SAIs themselves performed as it introduced modifications to work procedures and required them to apply to their activities principles based on economy, efficiency and effectiveness (Pollitt, 2003: 163).

SAIs, therefore, are responsible for public sector monitoring, which provides information that highlights both good government as well as inefficient administrative structures. In the context of New Public Management it is also necessary to value the results of their activity and to measure the impact created by their performance. SAIs regard it as vitally important that the value and impact of their work be acknowledged by others (Lonsdale, 2000: 84).

Some of the most common tools used to measure SAI impact are: changes introduced by governments as a result of recommendations made in SAI audit reports; savings, in monetary terms, brought about by the application of measures proposed by SAIs; notice taken of SAIs by Parliament, the main recipient of reports; and finally, internal measures such as the publication of impact indicators or news items concerning SAI work (Pollitt *et al.*, 1999: 179-183).

The aim of this article is to analyse the instruments being used by SAIs to assess both the impact of their work and the extent to which impact is adopted. The repercussions of their work are assessed by looking at the annual reports of eleven

EU SAIs: *Algemene Rekenkamer* (Netherlands), *Bundesrechnungshof* (Germany), *Cour des Comptes* (France), *Najwyższa Izba Kontroli* (Poland), *National Audit Office* (Malta), *National Audit Office* (United Kingdom), *Rakunsko Sodišče* (Slovenia), *Riksrevisionen* (Sweden), *Tribunal de Contas* (Portugal), *Tribunal de Cuentas* (Spain) and *European Court of Auditors*.

The article looks into impact measurement by the SAIs and makes a comparative analysis of the procedures used to determine the impact of their activity on the basis of the various audit models they have adopted.

The following section includes a review of published literature on the impact of SAIs work. Section 2 concerns the methodology used in the study, while Section 3 deals with information about impact taken from the annual reports of the chosen SAIs. The paper finishes with a discussion and summing up.

1. Theory and literature review

Although documented evidence in literature about the impact of SAI work is scarce, the work of Pollitt and Summa (1997) and Pollitt *et al.* (1999) has been most valuable for this study. These two works are the result of a performance audit project in five Western European SAIs.

The project examined a large number of performance audits as well as other relevant documents put out by the SAIs – annual reports, handbooks and brochures. To get some kind of historical perspective, an analysis was made of documentation published over two, separate three-year periods, the first being during the 1980s and the second covering the period 1993-1995.

Project results were published under the title *Performance or Compliance? Performance audit and public management in five countries* (Pollitt *et al.*, 1999). In this publication, Lonsdale (1999, chapter 10) analysed the impact of performance audits and pointed out that, over the period they had studied, SAIs had increased work impact by means of various instruments.

Two years prior to the above publication, Pollitt and Summa (1997) had analysed how SAIs justify themselves as prominent institutions acting within the wider arena of democratic politics and administration and how they reflect their own activities. To do so, these authors compared the annual reports and a series of other documents published by the 5 SAIs being studied. They reached the conclusion that the SAIs had carried out different strategies in holding themselves to account in the material they had published. These strategies were related to the size of the publications and to the terms used to define themselves. The analysis also showed how the focus shifted according to SAI links to constitutional positions, their administrative cultures as well as a clear influence of New Public Management.

To complete the literature review, mention should be made of the work carried out by Schelker and Eichenberger (2003) and Torgler (2005). The former have researched repercussions on the tax rate of a stronger audit, while the latter has analysed the influence of higher audit court responsibility on the tax morale.

2. Data collection and methodology

This aim of this work is similar to the studies carried out by Pollitt and Summa (1997) and Lonsdale (1999 and 2000) in the sense that it sets out to analyse what tools SAIs are using to measure the impact of their work. To this purpose the annual reports for the year 2005 of 10 EU SAIs have been examined – *Algemene Rekenkamer, Bundesrechnungshof, Cour des Comptes, Malta National Audit Office, Najwyższa Izba Kontroli, Rakunsko Sodišce, Riksrevisionen, Tribunal de Cuentas de España, Tribunal de Contas de Portugal, and the UK Audit Office*. The annual report of the *European Court of Auditors* has also been included even though it does external audits of the European Union (European Court of Auditors [ECA], 2004: 7) and is not an SAI in the strictest sense. However its status and activities are so similar to those of national SAIs that it warrants inclusion in the study (Pollitt and Summa, 1997: 314).

Availability of annual reports on SAIs websites was the major factor when it came to choosing which institutions would be used in the study – the 2005 annual reports of Slovenia and Sweden were not available, so the reports of 2004 were used. Also relevant was the fact that they all belong to INTOSAI and to EUROSAI (European Organisation of Supreme Audit Institutions) and the fact that the 11 SAIs represent all the different models of government audit (National Audit Office [NAO], 2005a: 4). Also, the group of SAIs represents 66.14% of the population of the 27 member-States of the European Union.

Annual reports published by SAIs should report on activities carried out by these institutions (INTOSAI, 1998). Therefore, if they are estimating the impact of said activity, the annual report may be regarded as an appropriate document for this kind of information, or at least for a summary of it. In fact, Pollitt and Summa (1997) used annual reports together with other self-explanatory material to analyse how SAIs publicly explain their management system and Lonsdale (1999), by looking at annual reports, analysed the impact of performance audits undertaken by SAIs.

Empirical use of annual reports produced by external control institutions has not been particularly widespread. Nevertheless, the above-mentioned studies together with the work of Groenendijk (2004) – which looks at the European Court of Auditors' annual reports from 1996 to 2001 in order to analyse the way the European Court of Auditors assesses European member-States' performance in managing EU finances – justify the use of these documents as an experimental analysis tool.

3. Annual report analysis

According to a recent NAO study (2005a: 4-5), there are four different SAIs models operating in the EU: a court which has a judicial function (France, Portugal and Spain); a collegiate structure with no judicial function (European Court of Auditors, Germany and the Netherlands); an audit office headed by an auditor general or a president and independent from the government (Malta, Poland, Sweden and the United Kingdom); and finally a different model, headed by a president, in which SAIs carry out local, regional and central audits (Slovenia).

The analysis of the 2005 annual reports was undertaken bearing in mind the above classifications, which affect SAIs status and mandate (Pollitt and Summa, 1997: 314).

The study of each report was done in two stages: first, its contents were synthesized so as to highlight the kind of information given by SAIs; then, information provided by SAIs about the repercussions of their work was sifted out in order to highlight how impact had been measured.

3.1. Cour des Comptes, Tribunal de Cuentas de España and Tribunal de Contas de Portugal

The *Rapport au Président de la République 2005* (France) is a hefty tome of 766 pages divided into three parts concerning follow-up of Cour des Comptes (CDC) recommendations from previous years, observations and information about financial activity throughout 2005, as well as the annual public report of the CDC containing budgetary and financial material (Cour des Comptes [CDC], 2006).

The CDC publishes this report every year. It includes comments of the auditee and also an abbreviated version of the annual report barely 50 pages long.

The *rapport public annuel* contains a couple of new features in comparison with those of previous years. The report's layout has been changed so as to bring into the report itself information related to CDC financial activity. This used to be published as a separate document.

The second novelty is related to the impact of CDC work – the report includes follow-up of SAIs recommendations from previous years. Until 2005 the annual report only included information and comments about financial activity without referring to the effect of recommendations from prior reports. Nowadays all reports have a section devoted to the extent to which CDC recommendations have been acted upon.

The CDC follow-up section covers four chapters which include such areas as public finance, public policy, management and the putting into practice by the state of certain functions. The CDC, over 278 pages, describes how far recommendations have been taken into account and what changes the government has introduced in order to apply them. At the same time, the person in charge of the audited entity describes what process was used to comply with CDC recommendations, and occasionally points out problems which arose when attempting compliance.

Reading the report it is clear that the CDC carries out a thorough follow-up of its recommendations and that it is capable of reaching solid conclusions regarding recommendation compliance in all areas on the part of its auditees.

The *Memoria de Actuaciones del Tribunal de Cuentas de España correspondiente al ejercicio 2005* (Spain) adopts a completely different approach. It is a report made up of 98 pages divided into 5 parts. The first two deal with the main changes which have taken place in the regulation and organisation of economic/financial activity in the public sector over the year in question, as well as the functions assigned to the Tribunal de Cuentas (TCE), human resources, available material and logistical arrangements in place for carrying out state audits (Tribunal de Cuentas de España [TCE], 2006).

In part three TCE auditing performance is given a brief overview, while in part four the most relevant information related to jurisdictional activity is summarised. The fifth and final part includes a short reference to other areas of interest related to TCE activity during the financial year covered by the report.

The TCE annual report provides no information at all concerning the impact of its work, largely because it does no follow-up work on recommendations made in previous audits.

Despite the fact that the all-party senate/congress committee on relations with the TCE unanimously approves about 90 to 95% of proposals put forward, the recommendations are not then followed up by either the government, the committee or the SAI itself (Sánchez, 2006: 41).

The Tribunal de Contas de Portugal (TCP) has produced its 2005 annual report, *Relatório de Actividades e Contas* more in line with the French report than the Spanish one. The 95-page document consists of: an introduction; five sections related to the TCP mission and scope of performance, relations with parliament and the legislative assemblies of Portugal's autonomous regions and the government, internal control bodies, activities carried out and available resources, and an appendix which includes the annual TCP accounts and the audit report (Tribunal de Contas [TCP], 2006).

The analysis made of the report shows that the TCP uses two instruments to measure the impact of its work – recommendation follow-up and its relationship with the media, both of which are included in the lengthiest part of the report devoted to TCP activity.

As far as the first of these impact measurements is concerned, the report dedicates a specific section to the recommendations put forward by the SAI in previous years, or the same year, and put in place in 2005. This section of the report classifies recommendations introduced according to various categories (reliability and appropriate account presentation; legality and regularity; economy, efficiency and effectiveness; internal control systems; information and accounting systems; and organisation and management systems). Recommendations are also divided into areas (general state and autonomous regional accounting, administrative public sector and commercial public sector). The report points out that, during 2005, a total of 69 recommendations were put into place in the 3 defined areas.

As for the second measurement, the report specifies that 6,518 news items appeared in the media during 2005 – 3,509 in the press, 1,047 on radio and television and 1,962 on the internet. Most of the news came from official TCP documents (audit reports, annual report, etc.), press releases, and various other documents. Moreover, the outgoing and incoming TCP presidents were interviewed 10 times over the year.

The French, Spanish and Portuguese SAIs, which are based on the judicial or Napoleonic model, take very different approaches to the impact of their activity in their annual reports. The Spanish SAI makes no effort to justify impact because it does not even bother to measure it by using some of the instruments available to do so. The TCP and CDC are similar in the sense that they both measure impact by following up previous audit recommendations as well as providing specific data about the areas in which changes have been introduced. The TCP is the only one of the three to use internal impact measurement by establishing indicators which sum up the reporting of their work in the media.

3.2. Algemene Rekenkamer, Bundesrechnungshof and European Court of Auditors

The 2005 annual report of the Dutch SAI, *Algemene Rekenkamer* (AR), is an 85-page document consisting of 5 parts which deal with organization, audits of government operations, audits of government performance, participation in projects which contribute to improving public administration both within the Netherlands and abroad, and its own operational management (Algemene Rekenkamer [AR], 2005).

The report begins with a description of AR's mission and concludes with an appendix containing a list of all reports sent to the government, together with questions arising from them and their parliamentary record numbers.

The 2005 report is the result of the implementation of the 2004-2009 AR Strategic Plan, which emphasizes monitoring the effectiveness of its work and its influence in the results of this work (AR, 2003: 27).

AR realises that monitoring the effectiveness of its work is only possible if there is a suitable impact assessment system. This was actually introduced on 1 April 2004 and has two fundamental features: 1. impact assessment is not to be limited to one single assessment procedure; 2. assessment results are to be made available externally (AR, 2004: 2). Also, impact is to be measured through recommendations and undertakings included in the reports.

AR has produced an impact assessment manual which covers general principles and the process to be followed when carrying out assessment. The end of this process involves a report whose structure is also laid out in the manual.

In line with the strategic plan, the 2005 annual report introduces a section in part one which is devoted to impact assessment and attempts to answer questions such as "*What happens to our recommendations and the promises made by ministers after our reports have been published? Does our advice help?*" (AR, 2005: 8).

The annual report expressly points out that in the first impact assessment report published in 2005, it is noteworthy that most ministers and organizations were quick to act upon the recommendations made and that the few which failed to act did so because they disagreed with the recommendations. The annual reports also mentions that the impact of seven audits was assessed by checking up on 51 of the 72 recommendations made. These were classified into two groups: the first dealt with improving government operations and government performance while the second dealt with recommendations which had been fully or partially followed up, or not followed up at all.

In the rest of the report, AR summarises the main audits which took place in 2005 and, in every one of them, puts forward recommendations plus comments by those responsible for the body or area audited on whether or not said recommendations should be accepted. This in itself cannot be regarded as impact assessment, but it does show that recommendations are the hub of such assessment.

The report describes various tools used by AR to measure impact. In the first place they have set up an impact assessment system which monitors recommendation follow-up; secondly, they use internal measures by including, at the end of their report, data concerning monthly hits scored on their website over the last year and the number of reports which are requested most on the web, among which is the report on impact assessment in 2005; finally, the number of parliamentary questions tabled on each audit report

may be regarded as a performance impact assessment tool since it measures the extent to which Members of Parliament take notice of their work.

The *Bemerkungen 2005* (Germany) is the annual report on federal financial management published by the Bundesrechnungshof (BDR). It consists of 226 pages, divided into three parts, which include the main results of audits as well as recommendations to the federal government and the German House of Parliament (Bundesrechnungshof [BDR], 2005a).

It is clear throughout the report that BDR makes recommendations based on its auditing experience and its role assessing audited bodies, parliament and the government. It can be deduced that they use two kinds of impact measurement; on the one hand the report describes recommendations which have been accepted and those which have been adopted; on the other hand, it quantifies, in some cases, savings made or to be made by applying the proposed measures, and also possible ways of increasing income.

The effect of BDR recommendations is completed two years later with the publication of an audit impact report, which mentions the extent to which parliament has supported the recommendations and what action has been taken to implement them (BDR, 2005b: 12).

The Bundesrechnungshof also uses the budget to measure the impact of its work. The BDR takes part in budget negotiations between the Federal Ministry of Finance and other ministries, and “provides testimony to parliament in the course of preparatory talks with the rapporteurs of the appropriations committee during that committee’s deliberations”. (BDR, 2005b: 14).

Differences between the executive branch’s original budget and the one finally approved by parliament are considered to be an achievement on the part of the BDR as it has exerted some influence in drawing it up by recommending measures which involve budget savings or an increase in income (Hauser, 2005: 5).

The annual report reflects BDR participation in the budget cycle yet fails to provide data on savings made to the government thanks to BDR involvement in designing the 2005 budget. Throughout the report it is pointed out that the Ministry of Finance has agreed to the inclusion in the 2006 budget of some of the measures proposed by BDR and that several of the recommendations related to budget design arising from previous years have been borne in mind in the 2005 budget.

The Annual Report Concerning the Financial Year 2005 of the European Court of Auditors (ECA) is a 262-page document of twelve chapters, each one of which includes a set of numbered paragraphs and two annexes. The report, moreover, is the first full-year analysis of the 25 member state European Union (European Court of Auditors [ECA], 2006).

ECA observations in the report are accompanied by replies from the bodies concerned, and a report summary, together with a press release, can be consulted on the ECA website.

The chapters concerning income and major spending areas (common agricultural policy, structural and foreign actions, internal policy, pre-adhesion strategies, administrative costs and financial instruments and banking) include the results of progress follow-up in the application of recommendations from earlier audits put forward by both the ECA and the budgetary authorities.

There is no explicit measurement of work impact in the report. Nevertheless, it is useful to point out two aspects of this. Firstly, it is clear on reading the report that the ECA does do follow-up work on the main observations made in reports over the last few years and this work is summarized from time to time in charts which contain ECA observations, as well as a summary of, and comments about, actions carried out by the institution concerned and the institution's reply.

Bearing in mind Lonsdale (1999: 180), the count-up of ECA observations accepted by the committee may be regarded as an instrument used at the outset to measure impact. In the report the committee accepts ECA recommendations nine times and puts them into practice eight times.

The second aspect worthy of consideration is that from ECA's point of view impact is explicitly included in the annual report, given that it uses audit, and other, reports published on its website and in the Official Journal of the European Union as an instrument to measure the effects of its work (ECA, 2004: 29). Annex 2 of *The Annual Report Concerning the Financial Year 2005* has a list containing all reports approved by the tribunal since 2001. Over the period 2001-2005, ECA's activity results comprise 6 annual reports and statements of assurance, 61 special reports, 106 special annual reports and 50 opinions.

Of the SAIs belonging to the collegiate model, the AR and the BDR have both developed an explicit procedure to assess the impact of their activity. AR has designed a system to measure impact by following up recommendations and complementing this by using internal measures linked to its website and the repercussion of its work in parliament. BDR also does a follow-up, albeit less detailed, of its recommendations by describing those which have been accepted and those which have been put into practice. It completes its measurement of the effectiveness of its audit work by referring to savings or income increases produced by applying its recommendations, and to the influence it has in the budgetary process, although this last aspect is not quantified in the annual report.

The ECA, like the AR and BDR, follows up the main observations made in its latest annual reports but, as is the case with the CDC, it is necessary to read all of its 262 pages in order to identify which recommendations have been merely accepted and which have actually been put into practice.

3.3. Malta National Audit Office, Najwyższa Izba Kontroli, Riksrevisionen and National Audit Office

The *Report by the Auditor General for 2005*, published by the Malta National Audit Office (MNAO), summarizes the conclusions coming out of financial and compliance audits. The report is 131 pages long and is structured according to different ministries. For each ministry it contains information about reports on audits carried out in their various departments. Each of these reports has a similar layout and includes recommendations and management comments on the recommendations (Malta National Audit Office [MNAO], 2005a).

On reading the report it can be seen the MNAO uses opinions and observations made by managers about their recommendations as an impact-measuring instrument

– the report contains information about managerial reaction and actions already undertaken or to be undertaken so as to correct any irregularities which have been detected. As has already been pointed out, a starting point for impact measurement in any SAI is the count-up of the number of recommendations accepted by audited bodies, in this case sections and departments of the ministries examined.

The MNAO intends to measure the impact of performance audits by doing follow-up audits once a reasonable period of time has elapsed to allow the recommendations to be introduced (MNAO, 2005b: 16).

The *Najwyższa Izba Kontroli* (NIK) from Poland publishes an annual report which gives a general perspective on its activities, assessments and recommendations coming from its work during the year (Najwyższa Izba Kontroli [NIK], 2005).

The 2005 report is a brief, 58-page document whose contents, layout and shape show how NIK carries out its work. It begins with an introduction, in which the NIK mission and point of view are defined and then provides a series of indicators which measure achievements and success in 2005. The report goes on to report on structure and organization, on every one of its regional branches, on priorities and materials for audit in 2005 and then includes diverse information related to staff, international cooperation, publications, budget spending and a brief history of the institution.

The report makes it clear that NIK uses different impact measuring instruments. Firstly, it introduced, in 2005, a methodology which allows the financial results of its audits to be classified and quantified into financial profits and financial irregularities. Application of this methodology has highlighted the fact that these audit profits and irregularities amount to 1,059 billion and 18,332 billion Polish zloty respectively.

Secondly, NIK uses internal measurements such as impact indicators, among which are included the number of seminars they organize and those “significant representatives of science and public life” (NIK, 2005: 5) who attend them. Also included are the number of *lege ferenda* proposals and the number of pronouncements on audit results submitted to the Polish parliament.

Another internal impact measurement used is the media coverage given to their activity. The annual report contains the number of press conferences, press articles and television programmes devoted to NIK when they refer to how information is conveyed to the public administration, public institutions, public officials and the general public.

The *Report 2004* published by the Swedish Riksrevisionen (RRV) is a 44-page report whose aim is to highlight the most significant results of financial and performance audits carried out in 2003, as well as a series of special audits arising out of ordinary audits. The report closes with an appendix that includes a list of performance audits and a set of Advisory Board reports submitted to the Swedish parliament) up to June 2004 (Riksrevisionen [RRV], 2004).

A reading of the report makes it clear that its aim is achieved, since it does include the most important observations detected during financial and performance audits. It does not, however, provide significant information on the impact of its work. In fact the only specific reference it makes is to a follow-up audit on the clients of the Prison and Probation Service, and to the application of recommendations made by the Armed Forces, which came out of a special audit which took place after irregularities were detected during an ordinary one.

The *National Audit Office* (NAO) annual report for 2005 comprises 80 pages, the first half of which shows the results of its activity. The second half gives information about its participation in projects and international bodies, its staff and resources, its annual accounts and the impact of its work (NAO, 2005b).

The report groups together the different financial and value-for-money audits done by NAO into four major categories: defence spending, quality of services, private finance and partnerships, and sustainable development. In each of these sections the NAO lists the recommendations made to different bodies, the monetary savings which will arise, or have already arisen, from the implementation of the recommendations, and the recommendations which have already been accepted. Specifically, 93% of the recommendations made in value-for-money audits presented to parliament and considered by the Committee of Public Accounts were accepted by the government.

Another section of the report is called *Statement of Financial Impacts* and has been drawn up in accordance with the NAO's internal manual. This allows financial impact to be recorded when the SAI establishes, and the department in question agrees, that a recommendation has reduced the resources required to comply with objectives, has improved efficiency or effectiveness, or has increased income. The internal manual sets out protocol to calculate, agree and record financial impacts. If any impact involves amounts over 10 million pounds sterling, the Assistant Auditor General must approve it.

The Statement of Financial Impact is made up of two parts which distinguish between financial impact arising from financial audits and that coming from value-for-money audits. It only includes contributions above five million pounds. In 2004, the NAO achieved an overall impact of 515 million pounds, savings which in fact exceeded their objective of saving eight pounds for every pound spent while carrying out their work.

The NAO also points out that, on occasions, impact cannot be quantified because it involves, for instance, the saving of lives or improvement in the quality of life of cancer patients due to the availability of more information about their illness and better treatment and support services.

Lastly, the report contains other measurements related to the impact of the NAO's international activity, such as the prestigious Jörg Kandutsch Award for its contribution and achievements in the auditing field, or the 8.8 million pounds recovered by the Ghana Audit Service after wrong payments were identified by the NAO.

SAIs belonging to the Anglo-Saxon model also vary greatly from one to the other. The NIK and NAO annual reports highlight the interest both have in measuring work impact. NIK does so by using diverse measurement techniques, some internal, like the drawing up of indicators or their appearance in various branches of the media; and others focussed on financial benefits generated by their activity. The NAO also quantifies the financial impact produced when the audited body adopts its recommendations. The end result is delivered in the Statement of Financial Impacts, which includes the financial savings made through putting into practice recommendations arising from financial or value-for-money audits. Not only does the NAO measure the repercussions of its audit activity, it is also capable of quantifying the impact of its international activity and, at times, of assessing impact in qualitative terms.

The MNAO adopts a somewhat more distant posture in the sense that it assesses impact on the basis of management reaction and opinion and then indicates

recommendations which have been, or will be, acted upon. The RRV report does not contain any information on impact measurement.

3.4 Rakunsko Sodišce

The *Slovenian Annual Report 2004*, put together by its SAI, Rakunsko Sodišce (RS), comprises 57 pages divided into 12 sections, most of which deal with audit results.

The remaining sections in the report deal briefly with such aspects as quality control, RS cooperation with the National Assembly and various international bodies, RS training and employment, as well as a series of recommendations to users of public funds (Rakunsko Sodišce [RS], 2005a).

The RS report makes very few recommendations to audited bodies, and only once does it mention recommendations from a previous year which were adopted the following year. This paucity of information is explained in the section on recommendations, where it is pointed out that most recommendations are made to the auditee while the audit is taking place, and only a few are published in the reports or prepared separately.

Recommendation follow-up only takes place if major irregularities in the use of public funds are detected and not put right during the audit. When this occurs, the auditee is required to put forward a series of measures which will eradicate the defects and the RS, in turn, must verify the veracity of such measures.

The RS annual report emphasizes the results, rather than the impact, of its work. Thus it devotes most of the report to describing them. It uses various tools, among which one finds result indicators (such as the number of audits implemented), published reports, types of opinion, types of audit, or the time taken to carry out different kinds of work.

Discussion and summing up

The study highlights the fact that the SAIs, in their annual reports, use different tools to explain the impact of their work.

First of all, recommendation follow-up was the most commonly-used instrument. Report analysis, however, shows that, although eight SAIs do such follow-up, not all of them describe the changes brought about in the same amount of detail.

It is necessary to distinguish between those that only include recommendations accepted by management but not yet adopted (MNAO, ECA), those that identify recommendations which have been put into practice (CDC, TCP, AR), and those that quantify the financial savings that recommendation application has meant to the government (BDR, NIK, NAO).

Secondly, one measure of the worth of the work done by SAIs is the extent to which the media takes notice of them. By using a series of indicators that basically sum up the number of times they appear in the media, the Portuguese and Polish SAIs assess work impact.

More recently, state-of-the-art information and communication technology has joined the traditional media as a valid reporting tool used by SAIs to get their message

across to the general public. In the EU, apart from Greece, all SAIs have a website which provides non-financial information about their role and financial information about audit and annual reports (González, 2005: 20). In this study, two SAIs (AR and TCP) include in their annual reports impact indicators concerning the increase in hits scored per month on their websites, the number of most-requested reports on the Internet, or the number of news items reported on the Internet.

Thirdly, and apart from the previous two impact measurements mentioned above, all the SAIs assess impact very differently. At the beginning of its report the NIK describes the impact of its work by using a set of indicators. The AR quantifies the number of questions asked in parliament, while the BDR participates in the budget cycle and regards as impact measurements any savings or income increases arising from budget modifications suggested by the SAI. The NAO assesses the impact of its international activities and, along the lines of the United States Government Accountability Office, now uses qualitative impact measurements.

In the fourth place, three SAIs (TCE, RRV and RS) make no reference at all to impact in their annual reports. The TCE and RS fail to assess impact and the RRV does not generally include this type of information in its annual reports.

The fifth point to be made is that a comparative analysis of the SAIs shows that impact assessment measures included in the reports are influenced by the way each SAI understands its mission.

The NAO and the NIK describe their missions as “to help the nation spend wisely” (NAO, 2005b: 7) and “to promote economic efficiency and effectiveness in the public service to the benefit of the Republic of Poland” (NIK, 2005: 4). Both institutions apply this philosophy to themselves and save the taxpayer eight and five pounds respectively for every pound they spend to carry out their work.

This concept of mission has repercussions in impact measurements used. The NAO produces a statement of financial impacts in which it quantifies the application of recommendations it has put forward in its financial and value-for-money audits and calculates impacts in qualitative terms of both its recommendations and international activities. The NIK, on the other hand, approaches impact by means of instruments such as its appearance in the written and spoken press and the calculation of financial benefits generated by its work. Both SAIs, at the beginning of their reports, describe a series of indicators which include those concerned with performance impact.

For the AR, its mission is “to audit and improve the regularity, efficiency, effectiveness and integrity with which the state and its associated bodies operate” (AR, 2005: 1). In order to comply with this aim it considers that it should work along the lines of certain criteria: independence, efficiency and effectiveness (AR, 2005: 1). It believes that these criteria are applicable only when a suitable impact assessment system is in place.

One of the objectives of the BDR is to contribute towards federal government reform by publishing recommendations (BDR, 2005a: 3). It is not, therefore, surprising that throughout the report recommendations which have been both accepted and adopted are referred to, as well as the occasional calculation of the savings or income involved.

In the same way, the TCP’s mission is described as “consecutive audits” (TCP, 2006: 11), which are based on various activities, including recommendation follow-up.

This is done thoroughly by classifying according to area and type and by identifying the number of recommendations put into practice over the corresponding time period.

The relationship between mission and the use of impact measurement may be what justifies the absence of the latter in the RS and TCE reports; the RS mission is to report appropriately and objectively on the results of audits it carries out (RS, 2005b: 3), while the TCE is required to ensure a permanent and ex-post audit function of the economic and financial activity of the public sector conforms to the principles of legality, efficiency and economy (TCE, 2005: 8-9).

The sixth conclusion reached from the study is that, if one bears in mind the audit model followed by all of these SAIs, it is not possible to assert that any one model is more decisive than the others when it comes to creating impact assessment instruments. The NAO and the NIK, which use the Anglo Saxon model, the AR and the BDR (collegiate model) and the TCP and CDC (Napoleonic model) have all developed specific impact assessment procedures. However, the Maltese NAO (Anglo Saxon) and the Belgian ECA (collegiate) only include in their reports recommendations which have been accepted, but not adopted, by management.

Nevertheless, it may be said that certain auditing models do influence the kind of tools used to measure impact. NIK and the NAO (Anglo Saxon) quantify savings involved for the government when recommendations are applied in the same way that the CDC and TCP (Napoleonic) identify recommendations which have been put into practice.

Finally, to sum up, the study makes it clear that most of the SAIs looked at use different instruments to assess work impact. The most common measurement is recommendation follow-up, although the extent to which it is used varies greatly. This aspect of the study is really what allows the SAIs to be classified, independently of the auditing model they follow. They can be divided into four groups. The TCE, RRV and RS make no reference at all to impact measurement in their reports. At the other end of the scale the NAO, NIK, AR and BDR describe impact assessment systems which are quite advanced. Somewhere in the middle are the ECA and MNAO, closer to the TCE and RS in the sense that their only measurement is that of recommendations accepted by management. Closer to the NAO, NIK, AR and BDR are the CDC and TCP, which carry out a thorough recommendation follow-up but do not actually quantify in money terms.

References

- Algemene Rekenkamer (2003), *Performance and operation of Public Administration. Strategy 2004-2009*. Retrieved December 15, 2006, from http://www.rekenkamer.nl/9282000/d/strategie_eng.pdf.
- Algemene Rekenkamer (2004), *Impact Assessment Manual*. Retrieved December 15, 2006, from <http://www.rekenkamer.nl/9282000/d/h8snmvvx.pdf>.
- Algemene Rekenkamer (2005), *Annual Report 2005*. Retrieved December 15, 2006, from http://www.rekenkamer.nl/9282000/d/p386_annual%20report%202005.pdf.
- Bundesrechnungshof (2005a), *Bemerkungen 2005 zur Haushalts- und Wirtschaftsführung des Bundes*, Bonn, Bundesrechnungshof. Retrieved December 15, 2006, from <http://www.bundesrechnungshof.de/veroeffentlichungen/bemerkungen-jahresberichte/bemerkungen-2005.pdf>.

- Bundesrechnungshof (2005b), *The Bundesrechnungshof and its Regional Audit Offices*, Bonn, Bundesrechnungshof. Retrieved December 15, 2006, from http://www.bundesrechnungshof.de/publications/booklets-guidance/brh_broschuere_en.pdf.
- Cour des Comptes (2006), *Rapport au Président de la République 2005*. Retrieved December 15, 2006, from <http://www.ccomptes.fr/Cour-des-comptes/publications/rapports/rp2005/RPA-integral.pdf>.
- European Court of Auditors (2004), *Improving the financial management of the European Union*. Retrieved December 15, 2006, from http://eca.europa.eu/presentation/pdf/2004_1181_en.pdf.
- European Court of Auditors (2006), *Annual Report concerning the financial year 2005*, Official Journal of the European Union. Retrieved December 15, 2006, from http://eca.europa.eu/audit_reports/annual_reports/docs/2005/ra05_en.pdf.
- García, M. (2005), Public control: a general view, in M. Crespo (ed.), *Public Expenditure Control in Europe. Coordinating Audit Functions in the European Union* (3-29), United Kingdom: Edward Elgar.
- González, B. (2005), El reto de la comunicación en las Entidades Fiscalizadoras Superiores, Proceedings of 13th AECA Conference, University of Oviedo at Spain, in Asociación Española de Contabilidad y Administración de Empresas (ed.), *Armonización y gobierno de la diversidad*, Madrid: AECA.
- Groenendijk, N. S. (2004), Assessing Member States' Management of EU Finance: An Empirical Analysis of the Annual Reports of the European Court of Auditors, 1996-2001, *Public Administration*, Vol. 82, N. 3, 701-725.
- Hauser, N. (2005, November 17), *Methodology to evaluate the impact of SAI's audit in the saving and good use of public resources*. Speech given at the fourth EUROSAI-OLACEFS Conference. Retrieved November 15, 2006, from http://www.contraloria.gob.pe/eo4/eng/doc_tec/Ponencia_Tema_II_EFS_Alemania.pdf.
- International Organization of Supreme Audit Institutions (1998), *The Lima Declaration of Guidelines on Auditing Precepts*. Retrieved December 15, 2006 from http://www.intosai.org/en/portal/documents/intosai/general/lima_declaration/.
- Lonsdale, J. (1999), Impacts, in Pollitt, C.; Girre, X.; Lonsdale, J.; Mul, R.; Summa, H. and Waerness, M. (eds.), *Performance or Compliance? Performance Audit and Public Management in Five Countries* (171-193), England: Oxford University Press.
- Lonsdale, J. (2000), Developments in value-for-money audit methods: impacts and implications, *International Review of Administrative Sciences*, Vol. 66, N. 1, 73-89.
- Malta National Audit Office (2005a), *Report by the Auditor General*. Retrieved January 15, 2007, from <http://www.nao.gov.mt/>.
- Malta National Audit Office (2005b), *Work and Activities of the National Audit Office*. Retrieved January 15, 2007, from <http://www.nao.gov.mt/reports/AR%202004/Work&Act2005.pdf>.
- Najwyższa Izba Kontroli (2005), *Annual Report 2005*. Retrieved January 15, 2007, from http://bip.nik.gov.pl/pl/bip/sprawozdanie_dzialalnosc/2006130/px_2006130_folder.pdf.
- National Audit Office (2005a), *State Audit in the European Union*. Retrieved October 19, 2006, from http://www.nao.org.uk/publications/state_audit/State_Audit_Book.pdf.
- National Audit Office (2005b), *Annual Report 2005*. Retrieved November 15, 2006, from http://www.nao.org.uk/publications/annual05/nao_annual_report05.pdf.
- Pollitt, C. and Summa, H. (1997), Reflexive Watchdogs? How Supreme Audit Institutions Account For Themselves, *Public Administration*, Vol. 75, pp. 313-336.
- Pollitt, C.; Girre, X.; Lonsdale, J.; Mul, R.; Summa, H. and Waerness, M. (1999), *Performance or Compliance? Performance Audit and Public Management in Five Countries*, England: Oxford University Press.
- Pollitt, C. (2003), Performance Audit in Western Europe: Trends and Choices, *Critical Perspectives on Accounting*, Vol. 14, N. 1-2, 157-170.
- Racunsko Sodisce (2005a), *Annual Report 2004*. Retrieved January 15, 2007, from [http://www.rs-rs.si/rast/rsreng.nsf/V/K7A418D2E82EB17A8C1257A2001E358A/\\$file/Annual_Report.pdf](http://www.rs-rs.si/rast/rsreng.nsf/V/K7A418D2E82EB17A8C1257A2001E358A/$file/Annual_Report.pdf).

- Racunsko Sodisce (2005b), *The Court of Audit of the Republic of Slovenia*. Retrieved January 15, 2007, from [http://www.rs-rs.si/rast/rsreng.nsf/V/KA16BE3AF95E019BBC12571960033EEA9/\\$file/Brosura_velika.pdf](http://www.rs-rs.si/rast/rsreng.nsf/V/KA16BE3AF95E019BBC12571960033EEA9/$file/Brosura_velika.pdf).
- Riksrevisionen (2004), *Report 2004*. Retrieved December 15, 2006, from <http://www.riksrevisionen.se/templates/OpenDocument.aspx?documentid=4595>.
- Sánchez, L. C. (2006), El impacto de la actividad fiscalizadora de las entidades públicas de control en el buen uso de los recursos públicos, *Revista Española de Control Externo*, Vol. 22, 33-56.
- Schelker, M. and Eichenberger, R. (2003), Starke Rechnungsprüfungskommissionen: Wichtiger als direkte Demokratie und Föderalismus? Ein erster Blick auf die Daten, *Swiss Journal of Economics and Statistics*, Vol. 139, 351-373.
- Torgler, B. (2005), A Knight Without a Sword? The Effects of Audit Courts on Tax Morale, *Journal of Institutional and Theoretical Economics*, Vol. 161, N. 4, 735-760.
- Tribunal de Contas (2006), *Relatório de Atividades e Contas 2005*. Retrieved 15 December, 2006, from https://www.tcontas.pt/pt/actos/rel_anual/2005/ra2005.pdf.
- Tribunal de Cuentas (2006), *Memoria de actuaciones del Tribunal de Cuentas correspondiente al ejercicio 2005*. Retrieved 15 December, 2006, from <http://www.tcu.es/default.htm>.

