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Klaus Lüder (Ed.)

RECENT DEVELOPMENTS IN COMPARATIVE INTERNATIONAL GOVERNMENTAL ACCOUNTING RESEARCH

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Preface

The third biennial workshop in Comparative International Governmental Accounting Research was held in Speyer, Germany, on 1st and 2nd April 1996. It was, as the prior workshops in Bergen (1992) and Valencia (1994) devoted to presentations and indepth discussions of finalized, ongoing and planned research in governmental budgeting, accounting, financial reporting and auditing. Financial contributions of Arthur Anderson & Co, Stuttgart, BASF AG, Ludwigshafen/Rhein and SAP AG, Walldorf made the workshop possible.

Main objectives of the CIGAR workshops are

- to provide a forum for discussions of new, innovative, unfinished research;
- to interest young researchers in the field;
- to provide incentives and opportunities for international collaborative research and thus
- contribute to the theoretical foundations of international governmental accounting.

The focus this time clearly was on contextual analysis of governmental accounting systems with the exception of the papers of James L.Chan (its subject is budgeting), Ulrich Cordes (its subject is a content analysis and comparison of national accounting and governmental accounting) and at least partly the one of Norvald Monsen (it emphasizes the historical perspective).

Assessing the generalizable results, the workshop reached a consensus that we needed a better balance in future between quantitative and qualitative research, but that more descriptive studies and more data were needed before statistical studies would be possible; analyses of pronouncements of standard-setting bodies, especially international ones, seemed important; and significant work was needed on the processes of innovation, within-country standard-setting (even when there was no overt standard-setter), transition (in the emerging democracies and developing countries) and reform-implementation.

I myself and I am sure, all the delegates, acknowledge the willingness of the presenters to provide papers although this was not a requirement. The discussions were extremely interesting and beneficial and I would like to

thank all workshop participants for their contributions. Thanks are also due to the staff of the Postgraduate School of Administrative Sciences Speyer and the Research Institute for Public Administration, in particular to Siegrid Piork and Christine Ahlgrimm, for their assistance in planning and organizing the workshop and in preparing this volume.

Klaus Lüder

Contents

1. The 1995 European System of National Accounts (ESA), Governmental Accounting Reforms and the Government Sector´s Micro-Macro Link

Ulrich Cordes

1. Introduction

The analysis of the relationship between the microeconomic governmental accounting and the macroeconomic accounts for the government sector gains increasing scientific and practical relevance. The reasons are:

- the specific uses of national accounting figures as a basis for the Union`s political and fiscal decisions,
- the recent revisions of the „System of National Accounts (SNA)“ in 1993 – the worldwide guideline on national accounting and the „European System of National Accounts (ESA)“ in 1995 and
- the current governmental accounting reforms in the OECD-countries.

The fiscal convergence criteria of the European Monetary Union have been defined in terms of national accounts figures. Key figures for assessing and monitoring the Member States` financial position and performance like government deficit, government debt, government gross fixed capital formation and GDP/GNP are defined in ESA terms. This very important use of the national accounts figures requires comparable measurement approaches in all of the Member States, especially for the government sector. Not only a harmonized conceptual framework of national accounting but also guidelines for „practical harmonization“ are required which means the micro-databases and standardization of the data compilation have to be harmonized.

The topic of my paper is the government sector of the National Accounts and how it is linked to governmental accounting as its underlying micro database. My presentation consists of three parts: I will first give a short overview of the 1995 ESA and derive the data requirements for compiling the government sector´s Accounts. Then I will raise the question: Is the present governmental accounting system in Germany capable to meet the ESA data requirements? If not, what are the shortcomings of the micro database for the government sector? In the third part, I am going to develop an approach for a micro-macro link between a new governmental accounting system and the government sector of the new ESA and I am going to explain what the improvements are and which problems still remain to be solved.

2. The 1995 European System of National Accounts (ESA)

(1) In December 1995, the revised ESA was enforced by Council Regulation, replacing the second edition of 1978. The Council Regulation will be published these days. It consists of three parts:

- the text of the Regulation,
- appendix I: the description of the ESA framework (consisting of more than 500 pages) and
- appendix II: a program that gives detailed instructions which data of national accounts from which period should be delivered to the EU-Commission.

The 1995 ESA, its concepts, definitions, classifications and accounting rules will be compulsory for EU Member States; strictly speaking only for EU purposes, in fact for the national accounting systems of all the Member States either. It is not useful and possible in the long run to handle different national accounting systems one for national purposes and the other ones for EU and other international purposes. Originally, it was planned that in 1998 the national accounts data of the Member States for the years 1995 - 1997 should be submitted to the EU-Commission according to the new ESA. But this ambitious plan cannot be accomplished. As a consequence, the convergence criteria for the „decisive" year 1997 will be measured according to the rules of the old ESA. „Decisive" means: On the basis of the convergence data of 1997 the EU-Commission decides which Member States will join the European Monetary Union first. Now it is planned that from 1999 on, all of the Member States have to apply the new ESA. Apart from divergent political and economic opinions on the European Monetary Union, there are serious problems concerning the reliability and accuracy of the key data.

In the following, I will describe the 1995 ESA framework, referring to some unpublished drafts of the ESA.

(2) The 1995 ESA is „an internationally compatible accounting framework for a systematic and detailed description of a total economy [...], its components and its relations with other total economies"[1]. It is fully consistent with the System of National Accounts (SNA) of 1993, but it is focused more on the data needs in the European Union[2]. The ESA provides more precise defini-

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1 EUROSTAT (1996), p. 6.

2 EUROSTAT (1996), p. 6.

tions and clearer classifications than the SNA. It is more operational because it describes a concept by providing a definition and a listing of what is included and what is excluded. However, it does not provide specific guidances for data compilation and data aggregation. ESA is a conceptual framework. Therefore, „practical harmonization" in the sense I mentioned before cannot be achieved by the 1995 ESA. Comparability of the national accounts figures can only be obtained by standardized micro databases.

The ESA system records flows and stocks in a complete set of inter-connected flow and stock accounts. The accounting framework consists of[3]:

- current accounts,
- accumulation accounts and
- balance sheets.

Table 1: System of Accounts and Balancing Items

	Accounts	Balancing items
Current accounts	1. Production account	Value added
	2.1 Primary distribution of income accounts	Primary incomes
	2.2 Secondary distribution of income account	Disposable income
	2.3 Redistribution of income in kind account	Adjusted disposable income
	2.4 Use of income account	Saving

3 EUROSTAT (1996), p. 235.

Accumulation accounts	3.1 Capital account	Net lending/Net borrowing
	3.2 Financial account	Net lending/Net borrowing
	3.3 Other changes in assets accounts	Changes in net worth due to other changes in assets accounts
Balance sheets	4.1 Opening balance sheet	Net worth
	4.2 Changes in balance sheet	Changes in net worth, total
	4.3 Closing balance sheet	Net worth

Current accounts record the production of goods and services, the generation, distribution and redistribution of income and the use of income for purposes of consumption or saving. Saving as balancing item of all current transactions establishes the link with accumulation.

Accumulation accounts are also flow accounts. They cover changes in assets and liabilities and changes in net worth. The „capital account" records acquisitions and disposals of non-financial assets as a result of transactions with other units. The „financial account" records the changes in financial assets and liabilities through transactions with the balancing item net lending or net borrowing. The „other changes in assets accounts" consists of two subaccounts: The first, the „other changes in volume of assets account" covers changes in the amounts of the assets and liabilities as a result of factors other than transactions. The second, the „revaluation account", records those changes in the values of assets and liabilities that result from changes in their prices.

The *balance sheets* complete the set of accounts. They present the values of the stocks of assets and liabilities held by the sectors at the beginning of an accounting period (opening balance sheet) and at the end of an accounting period (closing balance sheet). Non-financial assets (produced and non-produced), financial assets and liabilities as well as the sector`s net worth as balancing item must be recognized in the balance sheet.

ESA, generally, records all „flows on an accrual basis; that is, when economic value is created, transformed or extinguished, or when claims and obligations arise, are transformed or are cancelled[4]„. Output, for example, should be recorded when produced, interest when it accrues and not in that period when it is actually paid.

Flows and stocks are valued at their exchange value, that is at their actual price. Therefore, market prices are the basic reference for valuation. In the absense of market prices values are derived from market prices for analogous goods. If these prices are not available, for instance in case of non-marketable services rendered by governments, values are based on production costs. As a last resort, goods and services may be valued at the discounted present value of expected future returns[5].

The bookkeeping technique of ESA is double entry with regard to a single sector and quadruple entry with regard to the two sectors involved. As far as netting is concerned, gross netting is recommended as a general rule.

The inclusion of balance sheets, the inclusion of other changes in assets accounts, the integration of flow and stock accounts and the introduction of the „net worth-concept“ are the major differences to the 1978 ESA. Now, the „bottom line“ is „changes in net worth“. Formerly, it was „net lending/net borrowing“. Given these differences, one can conclude: The 1995 ESA is shifted entirely to a full accrual basis.

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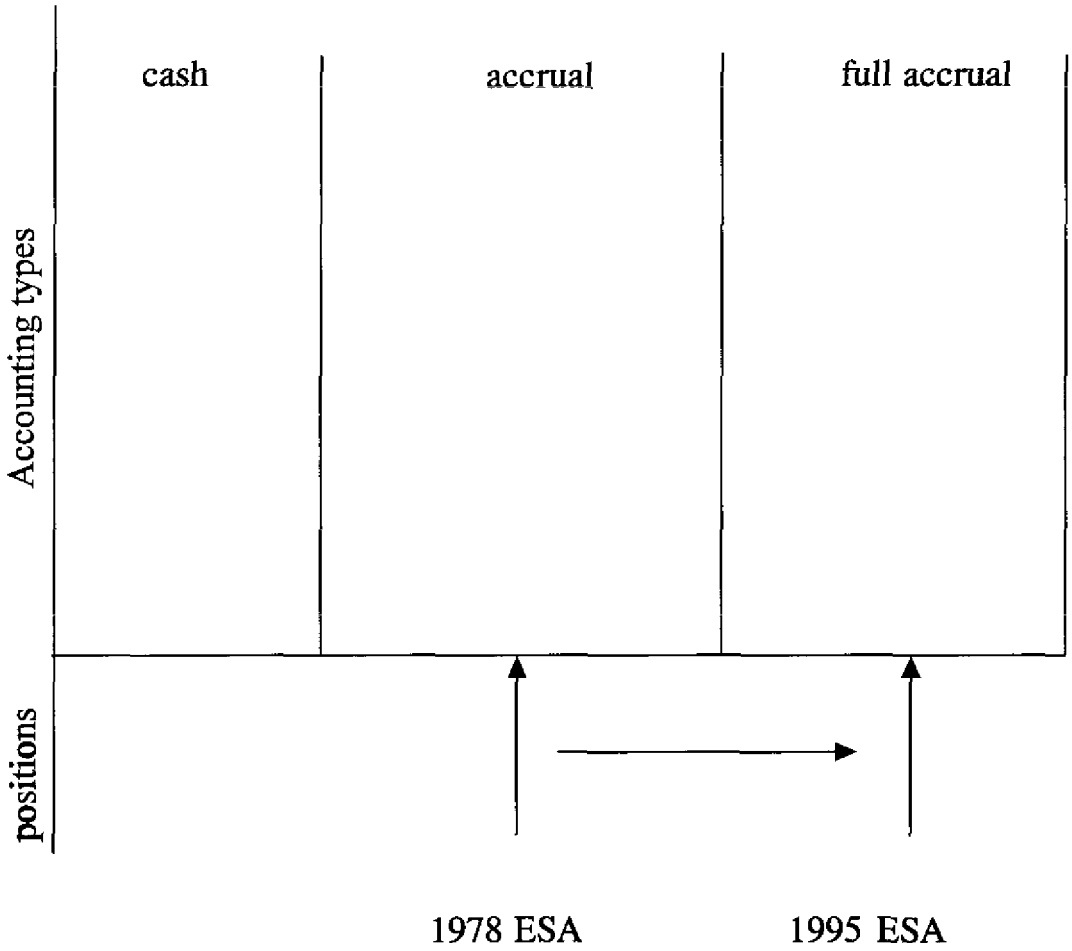
4 EUROSTAT (1996), p. 26.

5 EUROSTAT (1996), p. 25.

Table 2: Classification of ESA



As a consequence of this conceptual change, the demand for micro-data to compile the sectors national accounts increases. There is a need for information on stocks of assets and liabilities and there is a need for flow data to compile the other changes in asset accounts. All these flows should be recorded on a full accrual basis, including the ones at government sector.

(3) ESA assigns institutional units[6] to five institutional sectors on the basis of their principal activity and function[7]:

- non-financial corporations,

6 Institutional units are „elementary economic decision-making centres characterized by uniformity of behaviour and decision-making autonomy in the exercise of its principal function". In order to be said to have autonomy of decision a unit must be able to own goods and assets, to incur liabilities and to engage in economic activities and transactions with other units in their own right. EUROSTAT (1996), p. 35.

7 EUROSTAT (1996), p. 18.

- financial corporations,
- general government,
- households and
- non-profit institutions serving households.

The general government sector consisting of four sub-sectors (central, state and local government, social security funds) includes „all institutional units which are other non-market producers whose output is intended for individual and collective consumption, and mainly financed by compulsory payments [...], and/or all institutional units principally engaged in the redistribution of national income and wealth“[8].

The institutional units included in a sector are the following[9]:

- general government entities which administer and finance a group of activities, principally providing non-market goods and services,
- non-profit institutions recognized as independent legal entities which are controlled and mainly financed by general government and
- social security funds.

Government-owned and government-controlled institutions – public corporations and quasi-corporations – that are engaged in the production of market goods and services are not included in the ESA government sector[10]. The ESA government definition is narrower than corresponding government reporting entity definitions of North American standard setting bodies. The national accounting government definition is focused on the kind of production (market versus non-market production). Whereas the SNA does not contain very precise definitions on the distinction between market and non-market production, the ESA defines: Market producer cover with their sales at least 50 % of the production costs, non-market producers do not[11]. The microeconomic reporting entity definitions refer much more to the aspect of control and ownership.

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8 EUROSTAT (1996), p. 49.

9 EUROSTAT (1996), p. 50.

10 EUROSTAT (1996), p. 50.

11 EUROSTAT (1996), p. 16.

3. Traditional Governmental Accounting in Germany and the Data Needs of National Accounting

In this part, I will describe the micro databases and the data compilation process of the German government sector of national accounts. Does the present governmental accounting system in Germany meet the data needs of the existing national accounting system (referring to the old ESA)? In addition, does it meet the additional data needs of the forthcoming national accounting system which will be consistent with the new ESA framework?

The main data source of the German government sector of national accounts is governmental accounting and its subsequent statistical reporting system „government finance statistics". Around 80 % of the data used for compiling the national accounts come from these administrative data sources. Some accounting positions need additional micro data from other economic and social statistics. Table 3 gives an overview of the data compilation process in Germany[12]:

12 Lüder, K./Jones, R. (1995), p. 10.

Table 3: Data Compilation Process in Germany

Data	Basis of Accounting	
	CASH	ACCRUAL
SOURCE	GOVERNMENTAL ACCOUNTING	
MODIFICATION	– Reclassification – Aggregation	– Reclassification – Elimination – Addition – Accrual Adjustments
OUTPUT	FINANCE STATISTICS	NATIONAL ACCOUNTS - GOVERNMENT SECTOR

The starting point in this data compilation process is governmental accounting. Regulated by law, governmental accounting in Germany is characterized by a high degree of harmonization between state and local government. The purpose is to give detailed information on budgeted and actual payments to meet the budgetary control needs. The accounting system is focused on receipts (cash-inflows) and disbursements (cash-outflows). Using the single-entry - called cameralistic - bookkeeping technique it records all cash transactions. Non-cash transactions are not recorded[13]. Thus, the measurement focus is „cash surplus" or „cash-deficit". A systematic asset and liability accounting neither exists on state level nor on local level. The accounts of assets and liabilities are incomplete. Only the stocks of monetary assets and liabilities are recorded. In addition, these accounts are kept separately, not linked to the flow accounts.

13 Lüder, K. (1993), p. 226.

The cash-inflows and -outflows from governmental accounting are classified and aggregated in the government finance statistics. This is possible without rearranging and transforming data in a significant way. Therefore, government finance statistics is a purely cash-based reporting system entirely based on the data of governmental accounting. The macroeconomic function of government finance statistics is to classify the data of public households according to macroeconomic categories and to provide the data on an adequate level of aggregation for the government sector of national accounts.

The national accounts figures are statistically derived from government finance statistics` figures by means of macroeconomically motivated adjustments, that is additions, eliminations, rearrangements and accrual adjustments (see table 3). The finance statistics data have to be modified in order to comply with the national accounts. This means that the national accounts figures are not governmental accounting figures which are simply added up. Modifications of the underlying data are necessary because accounting conventions and valuation methods needed and used at the micro level are sometimes not appropriate at the macro level[14]. Additions by estimates and imputations are necessary to record transactions which are not recognized in governmental accounting (incomplete micro-macro links). In the German data compilation process adjustments are needed due to conceptual differences between national accounts on the one hand and governmental accounting and finance statistics on the other hand. The reasons are as follows:

1. Slightly different definition of the government sector,
2. Differences in time of recording,
3. Differences in scope of the recorded flows and stocks and
4. Differences in interpretation of the recorded flows and stocks.

(1) Differences in the definition of „government": The definition of „government" in finance statistics is slightly broader than in national accounts. Government-financed and -controlled quasi-corporations that supply goods and services on a market basis such as municipal theatres, museums, swimming pools etc. are included in finance statistics and excluded in the government sector of national accounts. In compiling the national accounts figures on the basis of finance statistics, the data of these units have to be eliminated.

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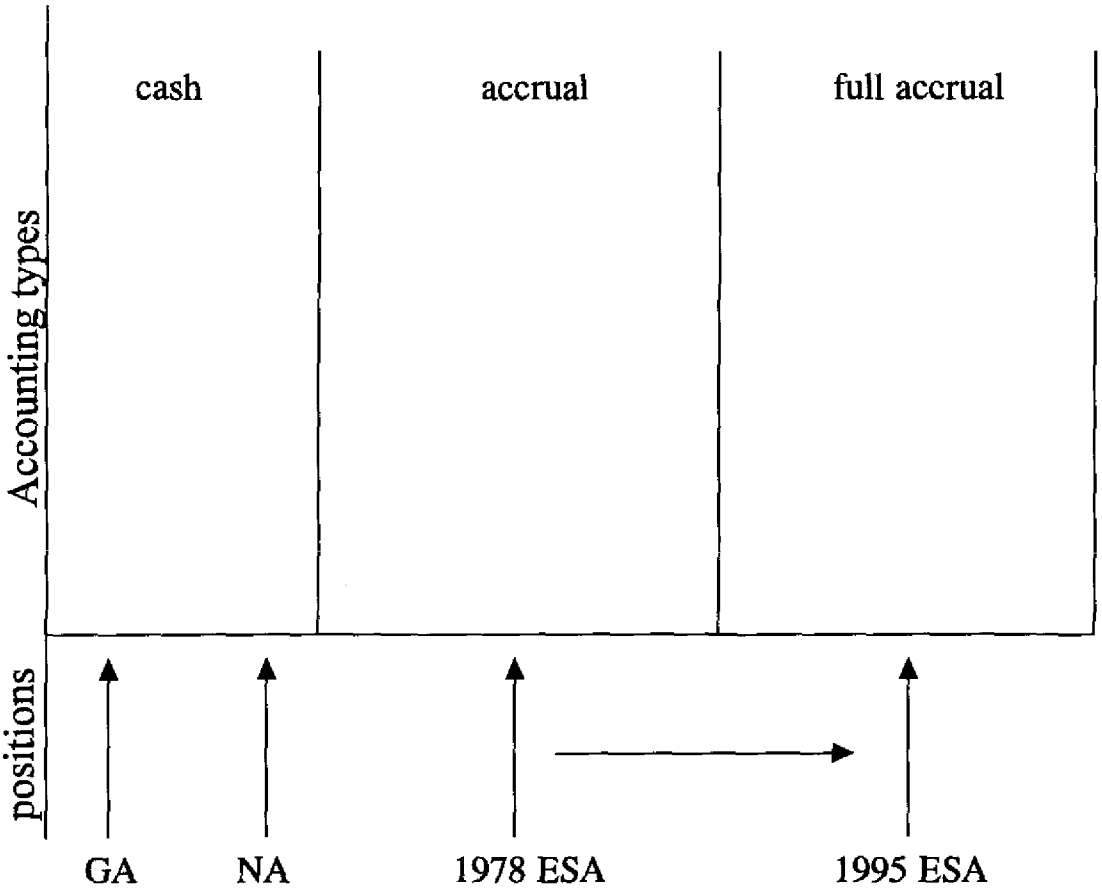
14 United Nations et al. (1993), p. 12.

(2) Different „time of recording principles" in national and governmental accounting: In national accounting transactions are to be recorded on a full accrual basis. In practice, this is not achievable since governmental accounting as well as finance statistics in Germany are purely cash-based. Only theoretically, it is conceivable to convert all cash data into accrual data. In some cases, the 1995 ESA allows exceptions from this general principle and calls for flexibility as regards time of recording[15]: „It is sometimes difficult to carry out an exact transformation of these flows from cash basis to accrual basis. In these cases it might therefore be necessary to use approximations". But unfortunately, ESA does not give an advice on how to determine these „approximations". In German national accounting practice, accrual adjustments are only applied to the taxes on employees` compensation payments and actual social insurance contributions. These isolated „accruals adjustments" of government receipts and disbursements might give a wrong and casual perception of economic transactions for a given point of time.

Due to the cash based micro data source and the accrual adjustments the government sector of the national accounts can be characterized as „modified cash basis of accounting" (see table 4).

15 EUROSTAT (1996), p. 26.

Table 4: Classification of the German Government Sector of National Accounts



GA = Governmental Accounting

NA = National Accounting

This practice is in contrast to one of the other sectors. It has also consequences for the interpretation of national accounts figures and balancing items which are measured in the government sector`s set of accounts. Net lending/net borrowing, for example, cannot be classified as „accrual deficit". Given this accounting practice, it is rather a „cash deficit".

(3) Differences in the scope of the recorded flows and stocks: The macroeconomic data for the government sector can only incompletely be derived from the micro data of the governmental accounting. Non-cash transactions such as depreciation of exhaustible capital assets and imputed contributions for unfunded governmental pension liabilities are not recorded in governmental accounting. But they are needed at the macro level. Due to this „micro-

macro gap" the accountants of the Federal Statistical Office have to impute and estimate these transactions. And only consumption of fixed capital, which is the most important imputation for the government sector, is systematically estimated. ESA provides some indications how to estimate the non-cash data, for example in recommending linear depreciation. In addition, fixed capital stock should be estimated by using the „Perpetual-Inventory-Method[16].

However, even if sophisticated statistical methods are applied, it holds that micro-based national accounts data are more reliable than estimated data. There is one important innovation in the new ESA that will make the micro foundation of the national accounts figures even weaker: The 1995 ESA requires the calculation of capital consumption even for infrastructure assets such as roads, tunnels, bridges, dikes etc[17].

Another important weakness of the micro-macro link is the incomplete recognition of assets and liabilities in governmental accounting. Given the data on assets and liabilities in the present governmental accounting system in Germany, the forthcoming balance sheet for the government sector in national accounts cannot be fully compiled. No non-financial assets are recorded at the micro level. Due to this, independent estimates have to be made and specific statistical methods such as the aforementioned „Perpetual Inventory Method (PIM)" have to be applied. Fixed capital stock, for example, will be built up indirectly from data on gross fixed capital formation in the past combined with estimates of the rates at which the efficiency of fixed assets declines over their service lives. This is done by using survival functions based on observations and technical studies[18]. Stock information derived from accumulated flow data over a long period of time bears the risk to contain a high percentage of „errors and omissons". Without periodic microeconomic inventories these estimated data remain uncontrolled.

With regard to this wide micro-macro gap, the production of balance sheets is not on top of the agenda of the German Federal Statistical Office for the next three years. But it is planned to compile the balance sheets for all sectors as of the year 2000. And for that reason, efforts have to be made to develop complete and reliable accounts of assets and liabilities at the micro level.

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16 EUROSTAT (1996), p. 10.

17 EUROSTAT (1996), P. 17.

18 United Nations et al. (1993), p. 148.

(4) Differences in the interpretation of recorded flows: Differences in interpretation can lead to reclassification of data or to reroutings of transactions. For example, 10 % of cash outlays for traffic infrastructure construction recognized as capital investment expenditures in governmental accounting are reassigned in national accounting to „intermediate consumption". The accountants of the Federal Statistical Office in Germany assume that some of the recorded capital investment expenditures are in fact current expenditures for maintenance.

Other shortcomings cannot be described in detail, as for example, the different quality of data compilation according to the number of involved government agencies. The more institutional units are involved in this procedure the less accurate is the data compilation process.

In summary, „government" has a special status in national accounting. There are two reasons for that: First, from a conceptual point of view, the valuation of government output according to production costs („cost-convention") differs from the general principle used in the private sectors. Secondly, from a statistical or „practical" point of view, there is inconsistency between governmental and national accounting. The present governmental accounting does not provide all flow data that are needed to compile the government sector`s accounts of the existing national accounting system. Moreover, it does not provide all stock data that are needed to compile the forthcoming national accounts which will be fully consistent with the new ESA.

4. Governmental Accounting Reforms - A Better Micro-Macro Link between Government and National Accounts

(1) Over the last years a discussion in Germany started, especially on the local level of government, to replace the cameralistic governmental accounting system with a new financial accounting system that is similar to the business accounting. A new governmental accounting system - developed by Speyer project team (Lüder, Behm, Cordes) - is now tested in a pilot project in Baden-Württemberg. It is full accrual based using the double-entry bookkeeping technique. The accounting framework comprises:

- an operating statement,
- a statement of assets and liabilities and
- a statement of cash-flows.

The *operating statement* is a statement of revenues (income) and expenses. It records the resources consumed and the resources recovered in the period in which they occur, regardless of the time when cash has been received or paid. The measurement focus is on „changes in net worth, total".

The *statement of assets and liabilities* is systematically linked to the operating statement by using the double-entry bookkeeping technique. It records all assets and liabilities: Non-financial as well as financial assets and accrued liabilities as well as monetary liabilities. The difference between assets and liabilities, the „net worth", is the balancing item.

The third component, the *statement of cash-flows*, covers all receipts and disbursements of an institutional unit. All cash transactions resulting from operating, investing or financing activities are recorded. The balancing item is „changes in cash position".

Now the question is whether these microeconomic statements are fully consistent with the ESA framework and thus meet the ESA requirements.

Analysis of the micro-macro link shows: The new governmental accounting system provides a better micro database for the government sector of national accounts than the present one. The reasons are as follows:

- all transactions affecting the government`s net worth are recorded,
- assets and liabilities used to compile national accounts balance sheets are recorded
- time of recording principles in governmental and national accounting are identical

First, the new governmental accounting covers all transactions that change the government`s net worth. That corresponds fully to the coverage of ESA. The bottom line of the operating statement in governmental accounting „changes in net worth" is identical to the bottom line of the accumulation accounts in national accounts. Both concepts are focused on the government`s net worth. Thus, non-cash transactions affecting the „net worth" are recorded. Depreciation and imputed contributions for unfunded governmental pension liabilities form the micro database for the national accounts figures in the government sector: consumption of fixed capital and imputed social contributions.

Secondly, all governmental assets and liabilities are recorded. As a result, it is possible to provide micro data on stocks for the forthcoming government sector`s balance sheet. The data can be transferred without any modification, that is 1:1 to the macroeconomic accounts if definition, recognition, classification and valuation in the accounts of assets and liabilities correspond to the

ESA principles. The ESA definition and recognition of assets correspond to the rules of the new governmental accounting system as well as to the rules of microeconomic business accounting. Economic assets are „entities functioning as a store of value over which ownership rights are enforced by institutional units, [...], and from which economic benefits may be derived by their owners“[19]. But the classification of assets and liabilities differs in some points. ESA distinguishes three categories of assets: non-financial produced assets (fixed assets, inventories, valuables), non-financial non-produced assets (tangible and intangible) and financial assets. The new governmental accounting system distinguishes unrealizable assets from realizable assets. Assets that are devoted to use by the government or the general public and therefore are not convertible into financial assets are called „unrealizable assets“. Assets that are convertible into financial assets are called „realizable assets“. Under this first division the classifications schemes correspond in general. In cases of differences the types of assets and liabilities in governmental accounting have to be assigned to the types in national accounting. This assignment, for example by means of bridge tables, is possible because the classification schemes in governmental accounting are more detailed.

Thirdly, the time of recording corresponds to ESA`s principle, as well. Casual adjustments and approximations to convert data from cash to accrual are not necessary any more.

As a consequence of the conceptual improvement in governmental accounting, more reliable and accurate national accounts figures can be compiled. For example, the balancing item of the German government sector`s national accounts „net lending/net borrowing“ could be assigned to the group of „accrual deficits“. Consistency between the very important figures „government deficit“ and „government debt“ will be achieved by the given concept of integrated flow and stock accounts both at the micro and at the macro level. But this applies to the expected development in the long run. At the moment and in the near future this consistency in measuring the fiscal convergence criteria of the European Monetary Union is lacking. The government deficit corresponds to the balancing item of the capital account „net lending/net borrowing“. A direct link to the existing old ESA is possible. As to the term government debt a direct link could not be established because the old ESA consists only of flow accounts. Therefore, it is not possible to measure both the government deficit and government debt on the basis of national accounting as requested by the EU-Commission. In Germany, for example,

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19 EUROSTAT (1996), p. 205.

the data of government debt are provided by the government debt statistics produced by the „Deutsche Bundesbank". This statistic is linked to the „government finance statistics" but it is not linked to the national accounts. The data of this government debt statistics have to be adjusted to meet the ESA concept roughly.

Nevertheless, a fully compatible micro-macro link between governmental accounting and the macroeconomic accounts for the general government sector cannot be achieved even if the governmental accounting system is full accrual based. The main reason for this limited fit is:

- valuation differences: In national accounting all flows and stocks should be valued according to their exchange value, that is their current market price. In governmental accounting the method of valuation differs between realizable assets and unrealizable assets. Unrealizable assets are to be measured on the basis of historical acquisition cost or construction cost. Realizable assets should be valued at market prices. This distinction may be useful from a microeconomic point of view. It is definitely not useful from a macroeconomic point of view. For measuring capital consumption all exhaustible fixed assets must be valued on the basis of actual prices. If unrealizable fixed assets are valued in governmental accounting on the basis of historical costs they must be adjusted from historic costs to current prices. This can be done by utilizing appropriate price indices for fixed assets.

The main conclusion is: The new governmental accounting does not provide a micro database that is fully compatible with the ESA framework. Different purposes in micro- and macroeconomic accounting may lead to different concepts and accounting rules. But it provides a broader data source which covers all financial transactions of the government needed. Thus, less modifications and additions in the data compilation process are necessary. As a result of the latest revisions of SNA and ESA national accounting practice will shift sooner or later to a full accrual basis. Taking into consideration the important uses of national accounts figures, governmental accounting has to follow this movement. It has to replace the cash-based system with an accrual based one. If not, the present micro-macro gap increases.

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2. Cross-Country Studies

2.1 Local Governmental Accounting in Finland and Norway and Some Ideas of Using a Linguistic Approach in Comparing Accounting Systems

Norvald Monsen

Abstract

The paper presents a comparative study of the development of local governmental accounting in Finland and Norway, highlighting the cameral influence on this development. Thereafter, a suggestion for extending the empirical base to all the Nordic countries (Denmark, Finland, Iceland, Norway and Sweden) is suggested. Since the purpose of preparing accounting reports is to communicate accounting information, the paper argues for using a linguistic approach in further research comparing accounting systems in different countries. In particular, the linguistic studies referred to as Language for Special Purposes (LSP) («Fachsprache») seems to be of particular interest to apply in further accounting research.

Introduction

Cameral accounting thinking is an accounting thought which historically has influenced accounting thinking in the public sector in many countries around the world. However, in recent years, local governmental accounting has entered into a process of transformation, and it seems as more and more countries have started to experiment with business accounting thinking in the governmental sector. For example, New Zealand now uses the same accounting rules for business and local governmental organizations. In the latter part of the of the 1980s, local governments in Sweden started to apply business accounting rules, and Finland has decided that the local governments from January 1, 1997, shall follow the accounting act which today applies to business organizations (see e.g. Monsen and Näsi, forthcoming). Experiments with business accounting rules in the local governmental sector also currently take place in Germany.

It seems as this transformation process from cameral towards business accounting thinking is going on in the local governmental sectors in many countries, without a thorough debate about the historical evolution of accounting thinking in this sector. In particular, a discussion of the cameral method – its purpose, historical development, terminology, specific rules and tech-

niques – seem to be lacking in the current debate arguing for the introduction of business accounting thinking in the local governmental sector. Hence, this paper will reintroduce carmeral accounting thinking in the current debate about the development of local governmental accounting.

More specifically, the paper will first give a brief overview of cameral accounting thinking. Thereafter, a comparison of the development of local governmental accounting in two countries Finland and Norway – will be given. A comparison of these two countries is of particular interest, because historically they have both been strongly influenced by the cameralist method, but seem now to be going in two different directions: Finland towards business accounting thinking and Norway towards an increased focus on cameral accounting thinking in the local governmental sector.

Based upon the brief overview of cameral accounting thinking and the comparison of Finland and Norway, the purpose of the paper is to suggest a research plan for extending the comparative analysis to incorporate all the Nordic countries, i.e. Denmark, Finland, Iceland, Norway and Sweden. In particular, the plan will present an approach for how to study the cameral accounting influence on the development of local governmental accounting in the Nordic countries.

Cameral Accounting Thinking[1]

What is cameralism? What does cameral accounting thinking mean? One can find this word in the Middle-European public sector accounting literature as well as in the Nordic countries' literature. In Anglo-Saxon literature this word is usually not found. As to the roots of the word „cameralism", „cameral or cameralistic accounting" (the German words are „Kameralistik", „Kameralstil" or „das kameralistische Rechnungswesen") we can find more than one source in history. Walb (1926, p. 210) refers to the history of Austrian accounting and control systems and the term χαμαρα, which means a roofed wagon, in which the war cash of fighters was carried. This expression was

1 This section is based upon Monsen and Näsi (forthcoming).

also used to mean a vault, or even more generally something which was roofed over. Walb also refers to the Latin word „camara“ or „camera“, which in the 9th century meant a land area where landlords retained their treasures, and the German expression „Kammer“, which in this connection meant the chamber or room where the council responsible for administration of revenues used to assemble. Walb (1926, p. 210) concludes that the expressions „cameralism“ and „cameral accounting“ through the ages have been closely tied to the presentation of money and revenues as well as their administration.

Wysocki (1965, p. 11) states that the concept of „cameralism“ originates from the Latin word „camera“ (a royal accounting room or chamber) and has two different meanings. In its wider meaning „cameralism“ refers to a state economic science of the 18th century („eine staatswissenschaftliche Wirtschaftslehre „Kameralwissenschaft ....) and in its narrower meaning cameralism refers to accounting methods applied in public sector organizations.

Referring to earlier literature, Filios (1983, pp. 443-444) writes that „Cameralism was the German and Austrian form of Mercantilism“, and that the „cameralistic science primarily concerns the organizing, directing and managing of royal and/or public lands, privileges, taxes and other contribution-payments by the King's subjects, and the administration of public finances.“ The Cameralistic method is „in several countries ... the implicit basis of the applied forms of bookkeeping for public sector management. These applications include ... Municipalities, Local governments ... ; namely, every economic unit, the administration; of which is based upon previously approved budgeted revenues and expenditures“ (Filios, 1983, p. 444).

As to the origin of the cameralistic method, Filios refers to the year 1539 and the king of Sweden, Gustav Vasa, who founded a Chamber („Kungliga räknekammaren“) for the central administration of the state economy. His successor, Gustav Adolf (1611-1632) divided „Kammaren“ into two departments: the Treasury Department, which dealt with the formation of the state budgets (budgeted revenues and expenditures) and the National Accounts Department, which dealt with the reorganizing of the existing accounting system. The main purpose of the accounting system was to obtain better control of public expenditure in the whole kingdom, through the application of double-

entry bookkeeping. The well developed Swedish governmental accounting system of „Kammaren“ was then transplanted to Austria, Germany and Italy on the initiative of Maria Theresia (1717-1780), the Queen of the Austro-Hungarian empire. It was, however, not in double-entry but in single-entry form and it constituted the start of what was for the first time called cameralistic accounting (Filios, 1983, p. 444; see also Grandell, 1944, pp. 35-49).

Walb (1926, p. 208-225) and Wysocki (1965, pp. 13-16) divide the development of cameralistic accounting into the following four phases: 1) Simple cameral accounting („Einfacher Karmeralstil“) ca. 1500-1750, 2) Introduction of „should“ or obligation accounting („Einführung der Sollverrechnung“) ca. 1750-1810, 3) Further development of cameral accounting books („Weitere Durchgliederung des kameralistischen Sachbuches“) from ca. 1810, and 4) Development of cameral accounting to business cameral accounting („Ausbau des kameralistischen Rechnungstiles zur Betriebskameralistik“) from ca. 1910.

According to Walb (1926, p. 209) cameralism or cameralistic accounting has the same trends and aims of developments as business accounting: provide a basis for control, material for statistics, and result calculation. But there are features which separate cameralistic accounting from business accounting. Even though it is almost impossible to give a detailed list of the features of cameralistic accounting, it is possible to bring forward some important characteristics.

One of the features is the central role of cash control and money management. Filios (1990, pp. 444-445) states that „the basic characteristic of the cameralistic method, is the separation of money management from the management of other tangible assets, i.e. the asset management.“ The importance of cash in cameralistic accounting is expressed by Walb as follows: „In public administration, where the actual payments are a central issue, cash payments and cash receipts still play an important role ... The cash book as a primary accounting book and the cash account still form the basics of cameralistic accounting.“ (Walb, 1926, p. 230; my translation)

Another characteristic is based on the central role of the budget in public sector economy. The important task of accounting is to control the execution of the budget approved by decisionmakers (budgetary control). Wysocki

(1965) states that the foundation of economic action in public administration is the budget plan. Decisions made by legislators on the goals and amount of expenditures as well as on the different revenues by which the expenditures are covered, are expressed in the budget plan. Wysocki concludes: „The function of accounting in the public administration is thus primarily to provide numerical information about the correspondence or difference between the planned and actual economy. The accounts are organized in the way that they show how the execution of the budget relates to the budget plan." (Wysocki, 1965, pp. 18-19; my translation)

The third feature of cameralstic accounting – non-existence of the comprehensive balance sheet -follows from the two previous features. The focus of accounting is the budgeted expenditures and revenues and corresponding cash payments instead of profit measurement and asset calculation. According to Wysocki (1965, p. 20), cameralistic accounting is not meant to calculate the result (profit or loss) of the public administration. On the other hand, the result of the public administration is not only the difference between the revenues and expenditures of the accounting period; the change in the amount of assets and liabilities caused by the implementation of the budget plan should also be taken into consideration. How this should be done is not clear in theory or practice. Assets and liabilities are not always included in the systematic bookkeeping, but presented statistically in an appendix to the bookkeeping.

In summary, the term „cameralistics" is, according to Oettle (1990), used to denote several concepts: 1) a formal bookkeeping method, characterised by a particular account structure and consequently by entries which differ considerably from the commercial double-entry method, 2) a material budgeting and bookkeeping system, used by public organizations, the budgets of which are appropriated by parliaments and not by the management, and 3) a particular type of administrative practice, often contrasted with commercial methods and regarded as inflexible and inefficient.

Finland and Norway[2]

Institutional Environments

Finland and Norway belong to the group of countries generally referred to as the Nordic countries. The Nordic countries are neighbouring countries that have a high degree of common history. For a period of time, one or more of the Nordic countries were united. The Nordic countries together established the Nordic council in 1952 – a forum where politicians from each of the Nordic countries meet. The purpose of this Nordic co-operation was to harmonize legislation in the member countries, to lower tariffs, and to promote the free exchange of labour (see e.g. Christiansen and Elling, 1993; Monsen and Wallace, 1995). Even though this Nordic co-operation has diminished somewhat in later years due to the approximation towards the European Union, there still exist close ties among the Nordic countries.

Today Finland is a republic headed by a president, elected for six years by the inhabitants. The public sector in Finland consists of the state and local governments. The local governments in Finland refer to self-governmental municipalities, which both alone and in co-operation with other municipalities provide basic services for their inhabitants, such as education, health care, social welfare, etc. Thus, the local governments consist of municipalities and municipal joint authorities, the latter ones are created by two or more municipalities in order to take care of activities and run municipal institutions which are too big for one municipality to carry out alone, such as large hospitals, vocational schools, etc. Currently there are 445 local governments (urban and rural municipalities) and 270 municipal joint authorities in Finland. The urban, rural and municipal joint authorities in Finland are highly independent of the state, even though the state as the legislator and financial supporter of local governmental activities has a certain influence on and control of them.

Norway is a kingdom, headed by a male king who inherited the kingdom from his father. The public sector consists of the state and local governments. Similar to the situation in Finland, the local governments in Norway provide

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2 This section is based upon Monsen and Näsi (forthcoming).

basic services to their inhabitants, such as education, health care, social welfare, etc. In addition, a number of local governments have established companies to carry out specific services, for example the supply of electricity. The local governments in Norway consist of organizations at two levels: counties and municipalities. There are currently 18 counties and 448 municipalities (urban and rural municipalities) in Norway, and one county represents a certain number of municipalities. Hence, the counties can be regarded as constituting a level between the municipalities and the state. In contrast to Finland, we find that the local governments in Norway are highly dependent on the state.

Local Governmental Accounting in Finland

The first local governmental acts in Finland were enacted in 1865 and 1873, applicable to rural and urban municipalities, respectively. The 1865 act was mainly a translation of the corresponding Swedish act issued in 1862 (Kalima, 1988, p. 39). A typical feature until 1873, was the use of several separate cash accounts. After 1873, however, the separate cashes were merged and the change to a «one cash system» took place during the last decades of the 19th century. Due to the depression of the 1930s, many local governments needed financial aid from the state. As a result, the state tightened its control of the local governments, in spite of the self-governing principle of local governments, which was granted in the Finnish constitution in 1919. In fact, a separate law was enacted in 1933 for the purpose of state control over the local governments economies'. However, this temporary legislation, which was renewed in 1941, has later been rescinded.

Regulations concerning annual budgeting and accounting in the Local Governmental Acts have at all times been very scarce. According to the legislation the more precise regulations concerning the local governmental budget, payments and financial assets, accounting and other financial management issues are given in the Economic Rule, approved by the local governmental council. The existence of the Economic Rule is thus a lawful requirement, but its detailed contents are left to the local governments themselves.

Since their establishment in the 1910s and 1920s, local governmental organizations, which today are merged into one organization (The Association of Finnish Municipalities) have published recommendations for the contents of the Economic Rule. The recommendations have standardized annual budgeting, accounting and other financial management practices in the local governments. The local governmental act has only formed a broad framework (basic requirements) for these recommendations. In 1967 the local governmental associations established a particular reform committee of local governmental accounting. This committee issued budget and accounting recommendations for all Finnish local governments. After 25 years, however, the committee work was discontinued.

The issue whether business accounting thinking is suitable, or maybe better, than cameral accounting thinking in the local governmental sector, has been discussed in Finland since the 1920s. Today this discussion has materialized in a trend towards business accounting thinking, because the recently enacted local governmental legislation (1995) in accounting issues refers to the legislation applied in the business sector. That is, the Accounting Act, which was reformed in 1992, will from 1997 also become applicable to the local governments. Thus, in the future the local governmental accounting system will be based upon two different accounting thoughts: cameralism and business accounting. In accordance with cameral accounting thinking, budgetary control will be in focus. In addition, however, net income and comprehensive balance sheet information in accordance with business accounting thinking will also become important in the local governmental sector. Moreover, the local governmental accounting system should provide information about the financial and operational performance in terms of productivity, efficiency and effectiveness measures.

Local Governmental Accounting in Norway

The first Local Governmental Act in Norway was issued in 1837. At this time Norway was in a union with Sweden. Each country had its own Parliament, but shared the same king, namely the king of Sweden. The new Act declared that the local governments were independent organizations, i.e., independent

of the Swedish king and the officers of the Crown. As Bergevärn *et al.* (1 995) argue, by the issue of the 1837 Act, Norwegian local governments not only became independent of the Norwegian State, they also became independent of the Swedish.

The first local governmental accounting norms in Norway were issued in 1851 by the state, influenced by cameral accounting thinking. In the 1910s and 1920s, the local governments were making big investments in electrical energy plants, financed by loans. Due to the depression following World War I, unemployment rose, resulting in a drop of the local governments' income tax revenues. Hence, many local governments experienced difficulty in repaying their loans, resulting in the states's intervention, guaranteeing that the loans would be repaid.

Bergevärn *et al.* (1995) report that this intervention of the State dramatically changed the relationship between the State and the local governments. The local governments now came to be seen as agents of the state. During World War II when Norway was occupied by German forces, the state control of the local governments was increased even more, partly by the issue of more detailed accounting rules based upon the cameralist method. During the 1970s and 1980s representatives of many local governments criticized the accounting norms, which were considered to be useful for the state only and not for the local governments themselves. Some actors even asked for a budget and an accounting system suitable for management control in the local governments. Initiated by an action research project in one local government, an increasing number of local governments started to design their own annual reports, as a supplement to the reports required by the accounting norms. This experimentation was partly influenced by the development of local governmental accounting in Sweden and partly by the development of business accounting in Norway. Later, in 1990 the state replaced the accounting norms with new norms. Mellemvik and Monsen (1994) argue that the 1990 norms can be regarded as the state's response to this local accounting experimentation and critique of the accounting norms. In this way, the state again took control of the local governmental accounting evolution in Norway, reinforcing use of the cameralist method.

A Comparison of Finland and Norway

In Finland and Norway democracy plays a strong role. The inhabitants elect politicians both at central and local levels to represent their interests. In turn, the politicians employ officers to transform these interests, as manifested through political decisions, into actions. In order for such a democratic system to work, however, there must be some kind of feedback mechanism from lower to higher levels. In other words, the lower levels are accountable to the higher levels for their spending of the financial resources made available by the latter levels.

A feedback mechanism developed exactly for contributing to the democratic control of public money is available to governmental organizations: the cameral accounting system. It has been pointed out earlier, that the annual budget approved by decision makers forms a core element of cameral accounting thinking. Moreover, the cameral system refers both to public sector annual (appropriation) budgeting and the bookkeeping system which follows the execution of the budget. The system is based on the fact that the politicians have the budget power, and one of the main tasks of the cameral accounting system is budgetary control, i.e., to control that the use of budget appropriations conforms in every detail to the decisions made by the politicians.

Both Finnish and Norwegian local governmental accounting norms have been based on cameral accounting thinking. However, we find some differences between the two countries' application of the cameralist method. In Finland, it is true that local governmental accounting is regulated by legislative requirements. However, these requirements have been very general and scarce, resulting in a need for additional guidance. As a result, local governmental organizations have played a remarkable role as standard-setting bodies issuing accounting recommendations. The fact that an important role has been played by the local governmental organizations can be explained by the ideology of self-government without too strict legislative rules issued by the state. Local governmental accounting in Norway, however, is regulated by legislative requirements. Because the state has issued very detailed accounting requirements with the force of law, there has not been any demand for supple-

mentary accounting recommendations. Neither has there been any possibility to issue such recommendations, due to the very detailed accounting requirements. Hence, unlike the situation in Finland, local governmental organizations in Norway have not played a role as standard-setting bodies. This situation is explained by the ideology of state controlled local governments in Norway: the state views the local governments as its agents. In particular, the state requires accurate accountability from the local governments based upon cameral accounting thinking.

Further Research

As pointed out above, there has always been very close ties between the five Nordic countries. And at least 3 of them (Finland, Norway and Sweden) and probably also the two remaining countries (Denmark and Iceland) have been influenced by cameral accounting thinking in the local governmental sector. Furthermore, in the latter part of the 1980s Sweden introduced business accounting thinking in this sector and Finland is about to go in the same direction. On the other hand, Norway has recently strengthened its focus on cameral accounting thinking in the local governmental sector.

Given this development, it is of interest to carry out an extended comparative analysis of the development of local governmental accounting in the five Nordic countries. In particular, the cameral influence on the development in these countries should be studied, and the objective of this section is to suggest a research approach to use in such a comparative study.

Unclear accounting terminology in Norway

Mellemvik and Monsen (1996) have presented a study of four different accounting worlds in Norway: 1) the business accounting world («bedriftsregnskapsverden»), 2) the local governmental accounting world («kommuneregnskapsverden»), 2) the state world («statsregnskapsverden») and 4) the national accounts world («nasjonalregnskapsverden»). They show that the development in these four different accounting worlds have varied consid-

erably over time, even though the state has played an important role in all of them.

Table 1 gives an overview of the different Norwegian terms that are used in the four accounting worlds. Furthermore, to facilitate matters for the reader, Table 2 compares two and two of the accounting worlds. For example, it appears from Table 2 that only in 14 out of 18 possible instances do similar terms contain similar contents (see Mellemvik and Monsen, 1996, for further details). The picture appearing in Table 2 shows that there are considerable differences between the various accounting worlds in Norway. Moreover, the historical developments in these accounting worlds have hardly influenced each other. This means that a better understanding for example of the local governmental accounting world in Norway, will require a study of the historical development of this particular world. Hence, a comparison with local governmental accounting evolution in other countries will be of greater interest than further comparisons with the other accounting worlds in Norway. Moreover, Tables 1 and 2 also indicate that it will be of interest. to focus on the development and understanding of the accounting teminology in the local governmental sector. This means that the use of a linguistic approach seems to be of interest when attempting to compare the evolution of local governmental accounting systems in various countries.

Table 1. Overview of four accounting worlds in Norway

	BEDRIFTSREGN-SKAPSVERDEN	KOMMUNESREGN-SKAPSVERDEN	STATSREGN-SKAPSVERDEN	NASJONALSREGN-SKAPSVERDENEN
NAVN PÅ REGNSKAPET	Årsoppgjøret	Årsregnskap	Statsregnskapet	Nasjonalregnskapet
SENTRALE RAPPORTER	Resultatregnskap Balanse Finansieringsanalyse Årsberetning	Bevilgningsregnskap Driftsregnskap Kapitalregnskap Bev.regn.på postnivå Balanse Kapitalkonto Årsberetning	Bevilgningsregnskap Kapitalregnskap Konto for for-skyvning i balansen Kasserapport Oppgave over mellomværende	Realregnskap Inntekts- og kapitalregnskap Utenriksregnskap Driftsregnskap Kapitalregnskap
SENTRALE BEGREPER	Inntekt Kostnad Resultater Omløpsmidler Anleggsmidler Kortsiktig gjeld Langsiktig gjeld Egenkapital	Inntekt Utgift Finansierings-transaksjoner Driftsresultater Finansieringsbehov Finansiering Likviditetsreserve Kontoklasser Arter Omløpsmidler Anleggsmidler Kortsiktig gjeld Langsiktig gjeld Egenkapital	Inntekt Utgift Økning/red. i kapital Eiendeler Pengebeholdninger Utestående Forpliktelser Gjeld Avslutningskonto Program Avdeling Post	Bruttonasjonal-produkt Privat konsum Offentlig konsum Bruttoinvestering Eksport Import Lønnskostnader Indirekte skatter Subsidier Kapitalslit Driftsresultat Faktorinntekt mm
SENTRALE PRINSIPPER	God regnskaps-skikk Orden Pålitelighet Klarhet Fullstendighet Kontinuitet Kongruens Laveste verdi Forsiktighet Vesentlighet Fortsatt drift	God kommunal regnskapsskikk Reelt Fullstendighet Oversiktlig Pålitelig Anordning Brutto	Fullstendighet Ett år Kontant Brutto	Fullstendighet Orden Konsolidering Statistisk beregning Harmonisering

Source: Mellemvik and Monsen, 1996, Table 1.

Table 2. Similarites and differences among the four accounting worlds in Norway

		Rapporter	Begreper	Prinsipper
Regnskaps-verdener	**Likheter og forskjeller**			
BR -- KR	LB og LI	Ja	Ja	Nei
	LB og FI	Nei	Ja	Ja
	FB og LI	Ja	Nei	Nei
	FB og FI	Ja	Ja	Ja
BR -- SR	LB og LI	Nei	Nei	Nei
	LB og FI	Nei	Ja	Ja
	FB og LI	Ja	Nei	Nei
	FB og FI	Ja	Ja	Ja
BR -- NR	LB og LI	Nei	Ja	Nei
	LB og FI	Nei	Ja	Ja
	FB og LI	Nei	Nei	Nei
	FB og FI	Ja	Ja	Ja
KR -- SR	LB og LI	Nei	Nei	Ja
	LB og FI	Ja	Ja	Nei
	FB og LI	Ja	Nei	Nei
	FB og FI	Ja	Ja	Ja
KR -- NR	LB og LI	Nei	Nei	Nei
	LB og FI	Ja	Ja	Ja
	FB og LI	Nei	Nei	Nei
	FB og FI	Ja	Ja	Ja
SR -- NR	LB og LI	Nei	Nei	Nei
	LB og FI	Ja	Nei	Ja
	FB og LI	Nei	Nei	Nei
	FB og FI	Ja	Ja	Ja

BR = bedriftsregnskapet (the business accounting world)

KR = kommuneregnskapet (the local governmental accounting world)

SR = statsregnskapet (the state accounting world)

NR = nasjonalregnskapet (the national accounting world)

LB = lik betegnelse (similar term); FB = forskjellig betegnelse (different term)

LI = likt innhold (similar content); FI = forskjellig innhold (different content)

Ja = Yes; Nei = no

Rapporter (Reports); Begreper (Concepts); Prinsipper (Principles)

Source: Mellemvik and Monsen, 1996, Table 2.

Further arguments in favour of using a Linguistic Approach in Comparing Accounting Systems

Accounting is a phenomenon, intended to provide useful information for control and decision making processes (see e.g., Mellemvik *et al.,* 1988). This means that the communication phase becomes important; it is not sufficient to prepare financial statements according to a set of rules, if nobody understands the message that the preparers of the financial statements attempts to send. A clear accounting terminology is thus of vital importance in the accounting process. As early as 1926, Ernst Walb pointed out the demand for developing a clear accounting terminology:

> «Des weiteren wurde Wert gelegt auf begriffliche Klarheit. .... Es kann nicht geleugnet werden, daß die Betriebswirtschaftslehre, vornehmlich zu den Praktikern spricht, in der Bildung wissenschaftlicher Begriffe gehemmt ist. Da aber ihre Fortbildung auch eine Frage der Begriffsbildung ist, kann ihr der Übergang zur streng wissenschaftlichen Begriffsbildung nicht erspart bleiben.)» (Walb, 1926: 7)

This argumentation for focusing on the accounting terminology, indicates that it would be of interest to try to use a linguistic approach when comparing accounting systems. In other words, can we improve our understanding of the development of accounting systems internationally, when drawing upon linguistic research? Can we improve the accounting terminology, by using research experiences from the linguistic field?

A language can be considered as a medium of communication within a language community, and there are two important dimensions here: content, i.e., what is to be communicated, and expression, i.e., how should this be expressed. Furthermore, it is common to separate between to categories of language studies: 1) Language for General Purposes (LGP) and 2) Language for Special Purposes (LSP) («Fachsprache»). The first category focuses on general language studies, while the second category focuses on special language studies, for example languages for accounting purposes, for medical purposes and for technical purposes. Since it is this second category which is of most relevance to this paper, the following discussion will be limited to languages for special purposes.

A dentition of LSP («Fachsprache») is given by Hoffmann (1984:53) (see also Picht, 1995):

> «Fachsprache – das ist die Gesamtheit aller sprachlichen Mittel, die in einem fachlich Kommunikationsbereich verwendet werden, um die Verständigung zwischen den in diesem Bereich tätigen Menschen zu gewährleisten.»

It appears from this definition, that the language instruments («sprachliche Mittel») are the focus of LSP, and that these instruments should serve a special language communication function («Fachkommunikation»). In other words, the communication of a special language, for example the accounting language, is based upon various language instruments.

Figure 1.

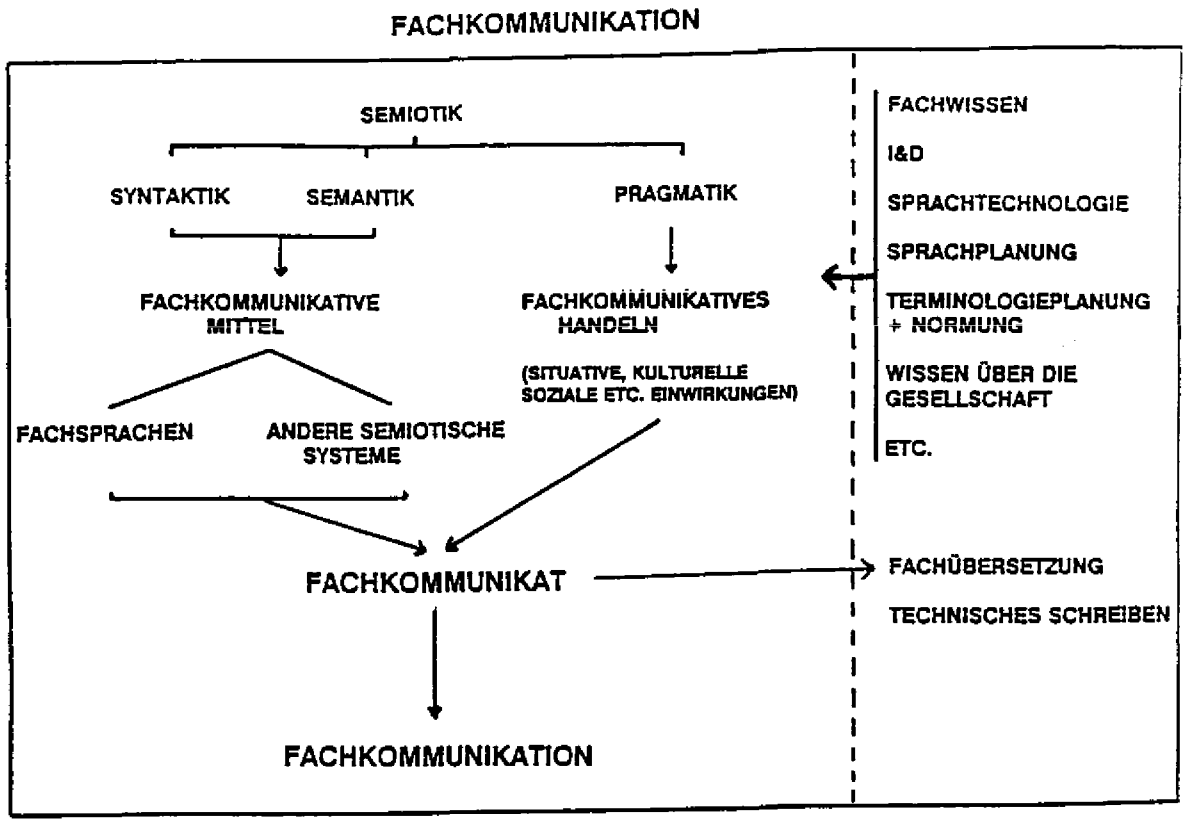

Figure 1, which is suggested by Picht (1995), presents a model for use when studying languages for special purposes («Fachkommunikation). It appears from the figure, that LSP communication depends on various language instruments («fachkommunikative Mittel»), such as syntactic and semantic elements, as well as special language actions («fachkommunikatives Handeln»). In the latter category, specific influences, such as cultural and social influences, play important roles. In summary, Picht (1995: 19-20) suggests the following definition of LSP («Fachkommunikation»):

> «Fachkommunikation umfaßt auf der einen Seite alle fachkommunikativen Mittel, die sprachliche oder andere semiotische Zeichen sein können, und auf der anderen fachkommunikatives Handeln; alle drei Elemente prägen das die Fachkommunikation konstituierende Fachkommunikat. Ferner wird die Fachkommunikation, die aus einem oder mehreren Fachkommunikaten bestehen kann, vom Fachwissen, I&D, Sprachtechnologie, Wissen über gesellschaftliche und kulturelle Sachverhalte, Fachsprachen- und Terminologieplanung, Normung etc. geprägt, bzw. determiniert.»

As can be seen from the Figure and this definition, knowledge of the special subject in question («Fachwissen»), plays an important role. In particular, this means the obvious proposition that accounting knowledge is important when researching accounting. But it also means that knowledge of language instruments («fachkommunikate Mittel») as well as special language actions («fachkommunikatives Handeln») are important when the purpose is to communicate accounting information.

A suggested research project

The fundamental rationale of Comparative International Governmental Accounting Research (CIGAR) is the exchange of theories and practice from everywhere for our mutual benefit. Governmental accounting covers national, state and local governments, and financial accounting, management accounting and auditing. Further, as has been pointed out earlier, cameral accounting thinking has played an important role in influencing local governmental accounting in many countries. As a case at hand, a comparison of the develop-

ments in Finland and Norway was presented, pointing out the cameral accounting influence.

Drawing upon this, a suggestion for further comparative international accounting research is here suggested, using a LSP approach. In particular, it is suggested to extend the empirical base from Finland and Norway to all the five Nordic countries, i.e. Denmark, Finland, Iceland, Norway and Sweden. In particular, the (German) cameral accounting influence on the evolution of local governmental accounting is to be researched. In Table 2 it appears that we face an unclear accounting terminology in Norway, and it was pointed out that the development in the local governmental sector was not influenced by the developments in the other three sectors in Norway, i.e., the business, state and national sectors. On the other hand, it is influenced by the development of the cameral accounting thought as it has taken place particularly in Germany. Furthermore, Walb (1926) pointed out that the generation of a clear terminology is important for the further development of accounting as a scientific discipline. But before doing this, a better understanding of the historical development of the present terminology is important, something which suggests that is of particular interest to use a LSP approach when studying the cameral accounting influence on the Nordic countries.

Since the Nordic countries have been strongly influenced by the development of the cameral accounting thought within the German speaking countries, especially Germany, a study of the German language influence on the Nordic countries would require the use of German as the research language. Or in other words, the German terminological influence on the Nordic countries will be extremely difficult to study – if possible at all – in another language than German, for example English. Therefore it is here suggested that the German influence on the Nordic countries, using a LSP approach, should be carried out in German. However, in order to be able to communicate the knowledge generated to Non-German speaking readers, an English summary should also be presented. But the detailed study of the German influence on the Nordic countries should be presented in German.

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2.2 A Cross Country Study of Local Governmental Accounting Systems

José Manuel Vela Bargues

1. Introduction

Recent evolution of governmental accounting in the international context has been characterized, specially in the last ten years, by the introduction of significant reforms in the governmental accounting systems of a great number of countries. As a consequence of this fact, and if we consider the number of persons involved, „Comparative International Governmental Research" (CIGAR) has significantly grown, becoming a clear dynamic area of research in the field of International Accounting.

In its early steps, CIGAR started with the publication of several country studies refered to different countries (Chan & Jones, 1988), with a clear descriptive orientation (Bowsher, 1987), (Lüder, 1988), (Jaruga, 1988), (Jones & Pendlebury 1988). This orientation was very useful to know how governmental accounting systems were diverging at that time, and also to appreciate how different they were. But a comparative analysis was still difficult to achieve, considering above all that those studies still lacked of a uniform framework and structure.

This uniform framework useful for comparative studies was built few years later by Professor Lüder, as a consequence of several country studies (Lüder et al. 1989) that allowed the design of the contingency model (Lüder, 1992) and its further revision (Lüder, 1994a).

Since its publication, the contingency model of governmental accounting innovations has inspired a significant research effort oriented in two main directions:

a) The analysis of governmental accounting systems in concrete countries or sectors as in (Chan, 1994), (Mäder & Schedler, 1994), (Pallot 1995), (Godfrey et al. 1995), (Mussari, 1995) and (Bergamashi 1995).

b) The critical analysis of the model itself (Chan 1992), (Lüder 1994) or (Jaruga, Nowak and Dixon, 1995).

If at the end of the eighties, comparative research was difficult to achieve due to the lack of a consistent framework to establish comparisons and of country

studies with a comparative purpose, our opinion is that today, this comparative analysis is possible.

Comparative international studies using the contingency model can be considered from a methodological point of view as a clear example of the studies that in the international accounting discipline adopt an approach considered as „analytical", (Nobes 1991). But the fact is that those studies also acquire an important probabilistic predictive dimension that has to be stressed, specially considering the nature of the model itself.

Governmental Accounting research using the Contingency Model would also admit a considerable descriptive dimension that characterises other studies following a „descriptive approach". But the fact is that, considering the structure of the model and the relationship between its variables, such a descriptive approach would require to define more specifically the dependent variable, and to explain the elements or variables that define an „accounting system" and its „informative dimension". The model has not yet fully developed those variables.

During the last years, some comparative studies of local governmental accounting in selected european countries have been developed using a methodology basically descriptive (Mellemvik & Monsen, 1995) for Denmark, Norway and Sweden, (Demeestère, 1995) for France, Italy and Spain & (Vela et al. 1995) for Germany, United Kingdom, France and Spain.

The purpose of this paper is to establish several comparisons regarding the local governmental accounting systems in these last four countries. According to its comparative purpose, the paper is divided in two parts. The first one adopts an analytical approach using the contingency model to explain some differences on the politico-administrative environments of local governments in these countries. The second part of the paper, mainly descriptive, tries to establish some comparisons regarding the nature of the innovation processes in France, Germany, United Kingdom and Spain at local level. Further considerations on the „informative" dimension of the four accounting systems are also presented.

2. Local Governmental Accounting in Germany, France, United Kingdom and Spain: comparative analysis based on the influence of the politico-administrative enviromnent

As we said in the introduction of the paper, the contingency model appears today as a significant tool for comparative studies in the field of governmental accounting. The model has rigorously identified the main variables that can be used to explain how and why governmental accounting systems differ, and at the same time, it is flexible enough to be used in countries with a rather different politico-administrative environment. Obviously, the model has a probabilistic nature that does not permit to establish definitive and inmutable casual relationships between its variables. This is perhaps why the methodological approach of the model has been defined by Lüder as „informed speculation" (Lüder, 1994a, p. 3). But the fact is that if we compare the methodology that characterizes the model and its structure with other intents of explaining the effect of environmental conditions on the accounting systems in the field of business accounting (Choi & Mueller, 1992, pp. 40-43), it is not difficult to appreciate, besides a clear paralelism, how the Contingency Model has even reached a more systematic characterization of the environment, considering above all that environmental factors in those studies are not so rigorously differentiated according to its influence (stimuli, independent variables, implementation bareers) (see exhibit 1).

Exhibit 1.
The influence of environmental factors on accounting systems
(Lüder vs. Choi & Mueller)

Choi & Mueller	Lüder (Contingency Model)	
(Factors)	Indep. variables	Implement. bareers
Legal System	--	Legal System
Political System	Political System	
Nature of business ownership	--	--
Size and complexity of business firms	--	Size of jurisdiction
Social Climate	Societal Culture	--
Level of sophistication of business management and financial community	Capital Markets	
Degree of legislative business interference	Political Competition	--
Presence of specific accounting legislation	Standards setting organization	--
Speed of business innovations	--	--
Stage of economic development	Political and societal cultures	--
Growth pattern of an economy	Fiscal Stress (stimuli)	--
Status of professional education and organization	Organizational Characteristics regarding accounting	Staff Qualification

Previous studies concerning governmental accounting in France (Lüder et al. 1989), Germany (Lüder, 1995), United Kingdom (Lüder et al. 1989) and Spain (Vela, 1995) evidence a clear fact: Spain seems to be the only of the four countries that presents a favorable environment for the introduction of reforms (see exhibit 2).

Exhibit 2.
Favorableness of environmental conditions to governmental accounting innovations in Germany, France, U.K. and Spain

Country	Stimuli	Social Variables	Political Variables	Administr. Variables	Implem. Barr.	Overall Assessment
Germany	(-)	(-)	(-)	(-)	(-)	Unfavorable
France	(-)	(-)	(-)	(-)	(-)	Unvavorable
U.K.	(+)	(-)	(-)	(-)	(+)	Unfavorable
Spain	(+)	(-)	(+)	(+)	(+)	Favorable

Adapted from (Lüder, 1994).

But strictly considering the local level, we think that after some years, comparative analysis of those countries needs further clarification, specially considering the following points:

a) The United Kingdom is the country where local financial autonomy seems to be more important, considering above all that local authorities have the power to levy a tax (currently a property tax), which in the absence of a specific limit imposed by government on a specific local authority is unlimited (Jones, 1995, p. 36). It is also the country where Local Government Expenditure represents a more significant portion of the Gross Domestic Product (12,8 % in 1987).

b) The administrative situation in Germany, Spain and France is quite different to the one in the United Kingdom, specially in the case of the two first countries where the legal system and accounting regulation are very homo-

geneous at local and central level. This fact is very important if we consider that in the United Kingdom, the influence of accounting profession (Lapsley, 1994, p. 99) at local level has favorised reforms that at central government level have not been fully developed, as for example accrual accounting, accounts classifications or capital accounting. This professional influence, specially through the three different „Codes of Practice on Local Authority Accounting" published since 1986, is absent in the other three countries and perhaps explains much of the differences between the local and central government accounting systems in Britain. And the fact is that those differences are not so important, or even absent, in the other countries.

On another hand, it has to be considered that in the U.K., the diversity of practices was very important at local level in the beginning of the eighties (Jones & Pendlebury, 1982). This circumstance was not present in the other countries, where the accounting standards set exclusively by law defined a rather unflexible, but uniform accounting system. This fact explains perhaps why in the United Kingdom, the Codes of Practice or other initiaves as the CIPFA's acounts classifications (Lapsley, 1994, p. 98) have emphasized the uniformity of financial reports.

c) According to previous studies, the politico-administrative environment in Germany, France and the United Kingdom is certainly unfavorable to the introduction of reforms. But from our point of view, at local level, this environment can be considered in the three countries as more favorable than at central level, considering specially that the administrative decentralization process in France initiated in the beginning of the eighties (Mariel & Moraud, 1994, p. 15), the influence of accounting profession in the UK, or fiscal stress in Germany (Lüder, 1995, p. 11) are acting as positive stimuli or as favorable administrative variables. On the contrary, Spain presents a local politico-administrative enviroment less favorable than at central level, specially considering the influence of administrative variables as staff qualification.

d) Spain is the only country that has developed governmental accounting reforms at central government level first, in order to extend them progressively to the lower levels of Administration, following a clear top-down ap-

proach. This is not the case of the United Kingdom, where the local level seems to have a more informative accounting system. Also in Germany, the „New Management Model" has to be considered at local level and the same situation can be appreciated in France in what concerns the M-14 Instruction reform.

e) Germany is the only country where social structural variables seem to have at this moment a positive inpact at local level, specially in the case of commercial interest and the existence of organized pressure groups (Lüder, 1995, p. 15). But the fact is that in the other countries, the influence of those variables is very weak or even, as in Spain, absent. This circumstance is not strange, if we consider that in most of the european countries where the contingency model has been applied, it is certainly the normal situation, with the exception of Poland (Jaruga, Nowack & Dixon, 1995), Switzerland (Mäder & Schedler, p. 351) and Germany (Lüder, 1995, p. 17). On the contrary, those variables have a significant influence in the USA (Lüder, 1994a, p. 4) and in other Anglo-saxon countries as New Zealand (Pallot, 1995). And the fact is that in the less developed countries where the model has been applied (Godfrey et al, 1995), their influence seems to be also important.

f) The favorableness of environmental conditions to governmental accounting innovations at local level in the countries studied requires to introduce further considerations that can perhaps modify the overall assessments initially provided by previous studies. This modifications are easily understandable if we consider that:
   - at local level, some variables and stimuli have a different impact on the accounting system than at central level.
   - the environmental conditions change over the time, specially considering that new stimuli appear.

The first circumstance can be easily appreciated in the United Kingdom, where the standards setting organization at local level is characterized by the coexistence of legal and professional regulation. From our point of view, administrative structural variables in this country have in that sense a positive influence at local level that cannot be appreciated at central government level.

The second circumstance is specially relevant in the case of France or Germany. In France, recent fiscal stress in some cities as Angoulême or Briançon (Adans & Moraud, 1994, p. 39) has become a stimulus that few years ago was not so important. At the same time, the decentralization process has also favorised the reform of local governmental accounting systems whose improvements also seem to be related with a new managerial dominant doctrine that some years ago was not so strong (Laurent & Puyo, 1994, p. 26). In the case of Germany, the traditional unfavorable environment seems, at local level at least, be changing with the positive influence of clear stimuli and social structural variables (Lüder, 1995, p. 15).

According to those considerations, the two more favorable environments at local level are present in Spain and the United Kingdom. In both countries, stimuli and weak implementation bareers coexist, even if in Spain administrative and political structural variables seem to be more favorable. Germany and France are characterized by a less favorable environment, with growing stimuli but important implementation bareers, as the size of jurisdiction in France (more than 36.000 local authorities) or the legal system in Germany. Anyway in Germany the influence of social variables seems to become important. In those two countries, the coexistence of stimuli with implementation bareers evidences that improvements on the accounting systems are possible, but probably will require more time than for example in Spain, where the lack of significant implementation bareers has favorised a reform that has been achieved, even if limited to financial accounting, in a relatively short period of time following a top-down approach not adopted in the other countries.

A possible redefinition of the politico-administrative environment of local governmental accounting systems in the four countries studied is presented on exhibit 3.

Exhibit 3.
Favorableness of environmental conditions to local governmental accounting innovations in Germany, France, U.K. and Spain

Country	Stimuli	Social Variables	Political Variables	Administr. Variables	Implem. Barr.	Overall Assessment
Germany	(+)	(+)	(-)	(-)	(-)	Unfavorable
France	(+)	(-)	(-)	(-)	(-)	Unfavorable
U.K.	(+)	(-)	(-)	(+)	(+)	Favorable
Spain	(+)	(-)	(+)	(+)	(+)	Favorable

3. Local Govermnental Accounting in Germany, France, United Kingdom and Spain: comparative analysis based on the description of the innovation processes and the accounting system

3.1 Towards a characterization of innovation processes in local governmental accounting

In spite of the differences affecting the politico-administrative environment in the four contries studied, one fact is clear. France, the United Kingdom and Spain have developed since the end of the eighties a clear innovation process that has affected their local governmental accounting system. Also Germany seems to be following at present a similar direction. But considering those countries, with the exception of Spain, the present evolution of governmental accounting is characterized by innovation processes that still maintain a rather traditional accounting system on the central government level and that progressively are shifting their accounting system at local level to managerialist accounting. The question if those reforms will influence or diffuse changes to upper levels of government is certainly difficult to answer, specially considering that in other countries as Canada or the USA, this diffusion is not yet clear. And with respect to Europe, the examples of Switzerland and more recently Belgium seem also rather negative.

According to Lüder's analysis (Lüder, 1995, p. 17), it is possible to distinguish three patterns of managerialism driven accounting reforms in the countries with unfavorable enviromental conditions:

- Reform of management accounting and financial accounting on the local or local and regional levels of government. It is certainly the case of France and Germany.
- Reform of management accounting on all levels of government without conceptual changes of financial accounting.
- Reform of management accounting on certain levels of government only, again without conceptual changes of financial accounting.

The innovation processes in the four countries follow a different pattern that affects its own configuration, and that from our point of view allows a classification based on the distinction of two types of innovation processes not mutually exclusive:

a) A global innovation process

b) A selective innovation process

The global innovation process affects the local governmental sector as a whole, while the reforms introduced are applied or imposed to all local authorities. A good example of such an innovation process is the Spanish one, clearly enforced by the top-down approach that has inspired all governmental accounting reforms in this country. This innovation process is usually developed by a change in the legislation and usually affects financial accounting without modifying or introducing management accounting systems. Also France has followed with the M-14 Instruction and the previous decentralization laws a similar direction. But as we will see later, the French innovation process has also been selective in some cases.

The selective innovation process is not directed to Local Government as a whole, and is inspired by a managerial orientation implemented through the development of pilot projects. A clear example is Germany, where a number of pilot projects with different cities have been iniciated (Lüder, 1994b, pp. 77-78) either by the cities themselves or by independent bodies such as the Bertelsman Foundation. This innovation process does not require a deep

change in accounting and budgetary legislation, even if it is possible to predict that the results of the pilot project can favorise such a change. This is certainly the situation of the state of Baden-Württemberg that „has launched a pilot project with a middle-sized city on double entry, full accrual accounting and budgeting which is aimed at gaining experience with such a type of budgeting and accounting in local government“ (Lüder, 1995, p. 14).

Even if France has followed a global innovation process, a selective orientation has also been present in the reforms, specially considering that the M-14 Instruction, that will be in force in 1997, has been experimented previously since 1994 in twenty cities (Laurent & Puyo, 1994, p. 25). But anyway, this selective experimentation has taken place as the consequence of a change in the law, and not, as in Germany, with no significant changes on it.

Selective innovation processes, as in Germany, also allow the introduction of new management accounting systems that in Spain for example have not yet been developed in spite of the important reforms developed since the beginning of the nineties. But from our point of view, selective innovation processes, and specially the German one, are specially interesting from a contingental perspective because they enforce a singular relationship between the dependent variable and the independent variables of the contingency model.

This relationship can be defined as a feed back effect of the accounting system on the politico-administrative environment, as considered for example in (Jaruga, Nowack & Dixon, 1995, p. 3). The fact is that the German local governmental accounting innovation process evidences a clear example of such a relationship, considering that the project developed in the state of Baden-Württemberg, whose results are due in early 1997, „ought to serve as a basis for pertinent adaptations of the Municipal Budgetary Acts“ (Lüder, 1995, p. 14).

Feed back effects could perhaps in a future explain further reforms in Germany that due to implementation bareers as the legal system, are still difficult to implement. But it is important to note that such an effect is difficult to be considered in the case of Spain or even France, where traditionally the reforms have been the result of changes introduced by laws issued at the level of Central Government.

With respect to the innovation process in the United Kingdom, its characterization is more difficult. In some way, the innovation process in British local authorities accounting has also been global. The reforms have been partially developed by laws as the Local Government Housing Act (1989), the Housing (Scotland) Act 1987 or other regulations as the Accounts and Audit Regulations or the Scottish Office Circulars. Even the Codes of Practice, not legally compulsory and a good example of professional auto-regulation, have been globally issued. But the fact is that in an environment where the heterogeneity of practices has been traditionally important and a full uniformity of financial reports seems difficult to achieve, the innovation process, global in its general orientation, might probably become in some way selective in its results.

Global innovation processes as the French or the Spanish one present an important problem of implementation, considering above all that the size of jurisdictions requires to introduce selective criteria on its application and to differentiate municipalities according to its population. This is why for example in France, the most important changes that the M-14 Instruction has introduced affect the cities of more than 3.500 inhabitants. Also in Spain, the 1990 Local Accounting Instruction was applied through a simplified version in the cities of less than 5.000 inhabitants. This Instruction has been yet applied for the fiscal years of 1992, 1993, 1994 and 1995. But the reform of Spanish municipal accounting is not fully completed. In fact, in a near future, local authorities will have to adapt their accounting system to comply with the new general Chart of Accounts for Governmental Accounting entities that has been approved in 1994 and that is in force since the first of January 1995 at Central Government Level (Montesinos, 1995).

This future adaptation will certainly not require the introduction of significant changes. In fact, the reporting objectives will remain the same as well as the general orientations that inspire the accounting system.

The main consequence of the future reform will be perhaps the rationalisation of the financial reporting system of small municipalities, considering the problems that most of them have suffered in adapting their accounts to the 1990 Instruction. A future project is at this moment been considered concerned with the simplification of the accounting and reporting requirements

for those municipalities. According to that project and to the population of municipalities, five possible models of reporting system (see exhibit 4) could be distinguished in the future, presenting as main differences the requirements concerning:

a) Basis of Accounting

b) Chart of Accounts applicable

c) Statements required on the annual report (financial reporting)

d) Book-keeping system.

Exhibit 4.

Alternative Models of Reporting System for Municipalities (Project)

	Basis of Accounting	Chart of Accounts	Financial Reporting	Book-Keeping System
Model I Municipalities with less than 1.000 inhabs.	Cash Basis	Not Compulsory	– Budget Execution Statement – Cash Statement	No Compulsory System
Modell II Municipalities with 1.001 – 3.000 inhabs.	Cash Basis	Not Compulsory	– Budget Execution Statement – Long Term Debitors & Creditors – Cash Statement	No Compulsory System
Modell III Municipalities with 3.001 – 5.000 inhabs.	Modified Accrual Basis	Simplified Chart	– Budget Execution Statement – Balance Sheet – Profit & Loss Account – Cash Statement – Financial Result	Compulsory Double Entry System of book-keeping
Model IV Municipalities with 5.001 – 20.000 inhabs.	Modified Accrual Basis	Simplified Chart	– Budget Execution Statement – Balance Sheet – Profit & Loss Account – Simplified Notes to Financial Statements (Memorandum)	Compulsory Double Entry System of book-keeping
Model V Municipalities with more than 20.000 inhabs.	Full Accrual Basis	Full Chart	– Budget Execution Statement – Balance Sheet – Profit & Loss Account – Notes to Financial Statements (Memorandum)	Compulsory Double Entry System of book-keeping

Adapted from (Vela, 1995)

The presumable future introduction of the above models will take place in a four year period. In the first year, model 5 should be introduced for cities with more than 500.000 inhabitants, simultaneously with model one for cities with less than 1.000 inhabs. In the second year, model 5 should be considered as compulsory for the rest of the cities as well as model 2. Models 3 and 2 would be respectively be introduced in the third and fourth year.

3.2 Comparative analysis based on the description of the accounting system

Comparative analysis based on the description of accounting systems is not easy, specially considering that the boundaries of the concept of accounting system admit alternative interpretations (Chan, 1992, pp. 4-5). But in some sense, an accounting system can be defined as a set of principles, standards and practices that determine the acounting information that is provided in a certain place at a certain time (Nobes, 1991).

Following Lüder's methodology (Lüder, 1989, p. 5), an accounting system can be characterized by:

- The accounting entities for governmental type-activities
- The measurement concept of accounting for governmental type-activities.
- The reporting entity
- The consolidation approaches
- The Summary Financial Statements provided.

The descriptive analysis of a great part of those elements in the local governments of the four countries considered in this study is fairly developed by previous studies as (Lüder et al. 1989), (Lüder 1993), (Lüder, 1994b), (Lüder, 1995), (Büdaus, 1991) (Jones 1994), (Glynn, 1993), (Lapsley, 1994), (Demeestère, 1994), (Mariel & Moraud, 1994) (Scheid, 1994), (Montesinos, 1995), (Vela, 1994), (Vela 1995). This is why we are not going to present such a descriptive analysis here, considering also that it exceeds the scope of our paper. But we would like at least to bring some considerations about three elements of a local governmental accounting system that from our point of view can be helpful to assess its informative dimension. Certainly, the appre-

ciations about this informative dimension will be always subjective and consequently criticable. But at least, we think they can contribute to a debate that is obviously one of the aims of Comparative International Governmental Research and also of this Workshop.

Those three elements are:

a) Measurement Focus, Basis of Accounting and the relationship between budgetary and financial accounting information.

b) Financial Reporting

c) The development of consolidation standards.

3.2.1 Measurement Focus, Basis of Accounting and the relationship between budgetary and financial accounting information

The characterization of the measurement focus and basis of accounting of a particular governmental accounting system is not an easy question, considering above all that the great number of existing accounting entities (core sector, municipal corporations, satelites) requires the introduction of a significant level of detail. On another hand, and if we limit our analysis to governmental type activity entites, alternative measurement concepts and bases of accounting can be defined as intermediate solutions between Net Monetary Debt and Equity Concepts (Lüder, 1989, p. 23), flow of financial ressources and flow of economic ressources and cash or accrual basis (IFAC, 1993, chap. 2).

In a broader sense, and using the terminology adopted in study the 2 of the International Federation of Accountants (IFAC, 1993), it can be said that local governments adopt:

A Modified Cash Basis in Germany (IFAC, 1993, p. 7).

A Modified Accrual basis in the United Kingdom (CIPFA, 1991).

A Modified Accrual Basis in France (after the M-14 reform).

A Modified (near to full) accrual basis in Spain (Vela, 1995).

The definition of measurement focus and basis of accounting is of course important to characterize an accounting system. It defines „what“ is recognised

and „when". But from our point of view, and specially at local level in countries as Spain or France, this analysis can be completed by answering another simple question related with the relationship between budgetary and financial accounting information in the system: „where are events or transactions recognised?".

This question may seem at a first sight simple. But the analysis of the systems in the four countries covered by this study has evidenced that three alternative solutions are possible:

a) The accounting system is limited to the recording of budgetary transactions. On that sense, financial accounting is mainly budgetary and presumably only the transactions that affect the budget are recorded. This is certainly the case of Germany.

b) The budgetary system is linked with the accounting system and influenced by accounting rules. This is the case of the M-14 reform in France, that has introduced accruals in the budget and even the recognition, also in the budget, of a charge for depreciation in the case of certain assets (Mariel & Moraud, 1994). Spain also presents a solution that links budget and accounting, but in a unique system that allows the development of both processes with different rules and basis of accounting (modified cash in the budget and accrual basis in financial accounting). Consequently, depreciation is only recognised in financial accounting, and not in the budget.

c) Budget and Financial Accounting are two different and independent processes. This is the case of the United Kingdom, that in the last years has developed a significant reform of its local patrimonial accounting with new standards for depreciation and the adoption of current values for a great number of assets (except infrastructures) (CIPFA, 1990). This reform is expected to be applied since the year 1994/1995 and will have a clear impact on the accounts presented by British local authorities (Hepworth, 1994, p. 140).

3.2.2 Financial Reporting

The Accounting systems in France, Spain and the United Kingdom, besides their differences, are converging in one clear direction: the presentation of rather complete and detailed balance sheets linked to an operative statement. The British system is perhaps more complex, specially considering that the use of Fund Accounting requires usually the presentation of additional statements per Fund (for example, the superannuation fund accounts. Anyway, consolidated (aggregated) information (balance sheet and operative statement) is presented (Scheid, 1994, p. 57).

Of the four countries covered by the study, Germany presents the less developed system of financial reporting. With some exceptions as the Land Baden-Württemberg, a modified cash basis offers in fact few possibilities.

From our point of view, British local governments offer perhaps a more informative reporting system, considering that the Government Regulations and the Code of Practice issued in 1993 require an important level of additional information to be provided, and that a clear culture of reporting on services efficiency can be appreciated (Scheid, 1994, p. 60).

But the fact is that the improvements in France and Spain have also been important. In this last country, the immiment adaptation of local government accounting to the 1994 New Chart of Accounts will certainly reinforce the informative dimension of a system that is at this moment quite fair. This is why in Spain, the major problem now is no more concerned with the quality of the information provided. It is rather its limited use by accounting information users, its publicity and its timeliness that appear as main aspects to be improved. The fact is that political debates still remain oriented to the budgetary figures that the reporting system provides, and also, that the financial statements of a great number of municipalities are not audited on a regular basis. From a contingental perspective, the weak influence of social variables in Spanish local governmental accounting environment has a lot to do with those circumstances.

3.2.3 Consolidation

The recent administrative decentralization processes in France and Spain can be used to explain many aspects of the accounting reforms recently developed in both countries.

Those processes, that can be considered as acting at the level of the independent variables and stimuli in the contingency model, have indeed complex effects that from our point of view, can be considered at the micro and macro levels.

In the macro level, decentralization has an impact in the quality and amount of the competencies and services of provided by municipalities. Consequently, their financing system is reformed as well as accounting. In Spain for example, the accounting reforms followed a new law that modified the municipal financing system (Law 39/1988) (Vela, 1994, p. 106).

But their effects are perhaps more important in the micro level, where municipalities tend to decentralize their organization and to create peripherial entities, satellites and municipal corporations whose accounting systems usually differ. In recent years, this has been the case of France (Adans & Moraud, p. 41), Spain (Vela, 1995b, p. 18) and also Germany (Lüder, 1995, p. 12). Such micro-decentralization has two clear effects:

a) A need to reform the reporting system of municipalities (usually in the core sector, as in Germany for example)

b) A need to consolidate financial statements of the different entities for a fair presentation of the global financial condition of the municipality.

The setting of accounting standards regarding consolidation of municipal reports appears today as a significant element of what we should consider an „informative accounting system". And the fact is that this municipal consolidation, with some exceptions as perhaps of Sweden (Mellemvik & Monsen, 1995, pp. 193-198), lacks today in the vast majority of European Countries of adequate standards to be generally practiced.

In Spain, those standards have not been yet issued and municipal consolidation is seldom practiced (financial statements consolidation is in fact not

compulsory by law). In France, as a consequence of the financial stress of some cities with a growing peripherial sector, and after the law of 6th february 1992 (Administration Territoriale de la République - ATR -), the situation seems rather favorable. In fact some cities as orléans have made considerable improvements (Adans & Moraud, 1994, p. 45), even if this consolidation is again, as in Spain, not compulsory.

Anyway, consolidation appers clearly,as a further step in the reforms that many european countries are introducing - and should introduce - in their local governmental accounting systems. The circumstances that can enforce its development are rather favorable in France, also in Germany, but perhaps not so clear in Spain.

4. Conclusions

This paper has brought some comparative considerations regarding the municipal accounting systems in France, Germany, United Kingdom and Spain. The analysis of the situation in the four countries evidences significant differences at the level of the politico-administrative environment (more favorable in Spain and the United Kingdom) and also, at the level of accounting systems.

All the countries have developed or are at this moment developing innovation processes that can be differentiated according to a global or selective approach. Anyway, and with the exception of Spain that has followed a top-down approach on its governmental accounting reform, governmental accounting systems seem to converge in those four countries in one clear direction: traditional accounting remains at central government level while managerial accounting is progeressively developed at local level. The contingency model can certainly be used to explain this fact and also feed back effects between variables that in the case of Germany seem rather possible at local level. But the question if local reforms can be diffused to upper levels of Public Administration seems rather difficult to answer. Anyway, we think that such a diffusion seems unprobable in Federal countries as Germany or in countries that have developed significant decentralization processes (as France or Spain).

According to the differences observed, we think that a global harmonization of local governmental accounting systems in Europe is today a clear utopia that will only be possible if Central Governmental Accounting systems begin to converge. This is a process that has not yet been initiated and that represents perhaps the main stimuli that many central governments would find to introduce reforms that only at local level seem to have been assumed. But the fact is that in the near future, governmental accounting systems will continue diverging and offering excellent research opportunities for CIGAR.

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2.3 Comparative Analysis of Governmental Accounting Principles and Practices in OECD Countries: An Empirical Approach

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1. Introduction

OECD countries develop two main different systems for governmental accounting regulation: public accounting standards setting systems and professional accounting standards setting systems. Public accounting standards setting systems are typically adopted by continental European countries while professional accounting standards setting systems operate in Anglo-saxon countries. This difference in the regulation processes of accounting is important to consider when explaining the lack of uniformity among the accounting systems of the countries covered by this study.

In business accounting, an important comparative research has been developed in the field of accounting systems, concerned with the empirical analysis of the accounting practices that characterize themselves (Belkaoui A. R., 1994, 39-123; Most, K. S. [ed.], 1992; Nobes C. & Parker R., 1995). But the situation concerning governmental accounting is rather different, specially considering the lack of comparative empirical research that has only been developed by a limited set of studies (Lüder K., 1989, 1994a, 1994b; Lüder et al. 1990; Pina & Torres, 1995; Vela, 1995, and Montesinos, Pina & Vela, 1995).

This paper aims to present, from an empirical perspective, a comparative analysis of governmental accounting practices in OECD countries that are adopted at central, regional and local levels. According to that purpose, our analysis is developed according to the results offered by a questionnaire that was sent to academics, practitioners and members of the accounting profession in different countries, structured in different items concerning accounting practices and general accounting principles adopted.

According to the questionnaires that have been answered, another purpose of our paper is to find some possible classification criteria of the different accounting systems according to the similitudes and differences between the accounting practices they develop, in order to appreciate their degree of development, their informative dimension as well as the main problems concerning

the development of a possible harmonization to enforce the comparability of the information provided.

The information to develop our study has been basically obtained from academics, audit bodies (regional and central), standard setting bodies and professional auditors. Anyway, the information concerning all the countries in every administrative level (central, regional or local) is not always available. This is why some items are not reported in the study when it occurs. The appendix attached to our paper reflects a detail, by country, of the level of information available for every country.

Our work has been developed using the following statistical techniques:

a) Frequency tables that indicate the number of times that a concrete response is answered, segmenting by countries and administration levels (state, regional or local). The statistical software used has been the BMDP-4F. Frequency tables are specially usefull when the opinion is expressed through a scale, indicating the level of agreement with a concrete matter. In those cases, the information obtained is not quantitative, but qualitative. What is needed then is a method that allows the regroupment of answers according to the number of times they are repeated. The results are expressed in percentages refered to the total of responses and each segmentation criteria.

b) Identification of afinity groups among the administration levels of the countries analysed, according to the answers to a question or group of questions. It has been done using a „Cluster Analysis" and the BMDP-2M software.

This Cluster Analysis regroups the cases of a concrete sample according to the similitudes among them, according to the behaviour of one or more variables. With the Cluster Analysis, it is possible to determine whose countries have similarities in the accounting practices adopted.

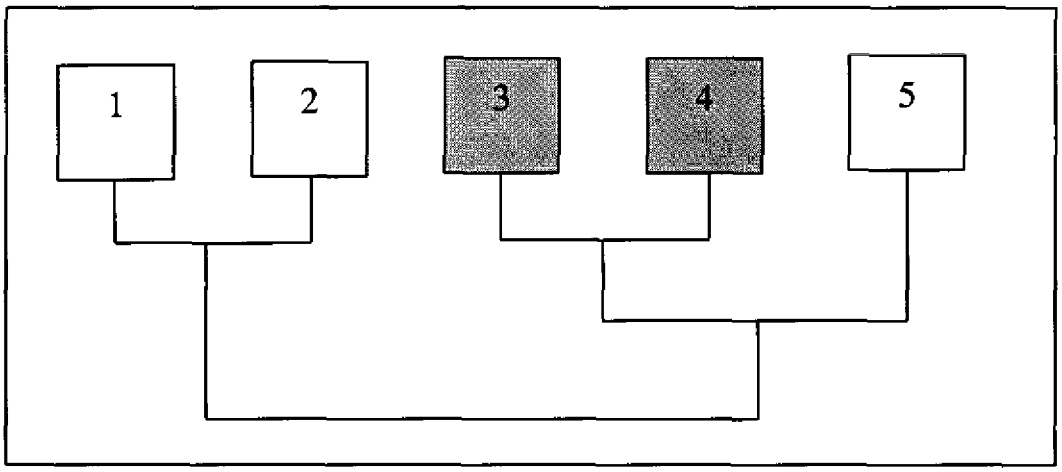
To do this, the distance between each pair of cases is calculated according to a concrete measure (euclidian distance). After that, the cases are classified according to the distance among them. The lower is the distance between two cases, the more similar they are. Once the distances have been calculated, groups are formed according to a descending criteria. The method used is the method of minimum distances. The process starts considering each case as a

separated group, and the two groups whose Euclidian distance is lower are regrouped. The process continues regrouping, in every stage, two cases, or one case with a group or two groups, according to the minimum distance criteria.

The distance from a group to the remaining cases is the lower distance among the elements of a group and each case. In the same way, the distance between two groups is the lower distance between each element of a group and the elements of the other. If for example we have two groups, A=(a1, a2, ..., am) and B=(b1, b2 ,..., bm), the distance between them is the lowest of the distances between each element of A and each element of B.

Whith this procedure, a tree diagram is built, showing how the groups are formed at every stage. Suposing that we have the situation shown in exhibit one, each case will be initially considered as a group. In the first stage, cases I and 2 are regrouped, and then, cases 3 and 4 as well. Afterwards, group 5 is added and cases 1-2 and 3-4-5 are again regrouped.

Exhibit 1.
Configuration of groups using cluster analysis



Frequency tables have been used for a global analysis of the answers obtained, whose results are presented in parts two, three and four of this paper. Part five establishes some classifications according to the cluster analysis of the answers obtained by country.

2. Accounting Principles and Standards in OECD Governmental Accounting Systems

This part of the paper presents a descriptive analysis of the accounting principles and main standards that can be used to define the governmental accounting system of the countries covered by this study.

The results obtained evidence an important degree of diversity of principles and practices among the different countries, even among different regional governments of a single country. This last circumstance shows that a regional comparative analysis ought to be developed by region independently of the country considered. This is why the regional analysis is not developed, as in the case of central or local levels, by countries.

2.1 Accounting Principles

It has to be stressed that in a 78% of the countries studied, official pronouncements of accounting principles used for financial reporting purposes have been issued. As more significant examples where those pronouncements of accounting principles have not yet been issued, according to the answers obtained, we find the cases of Germany, Japan and the Netherlands (at central, regional and local level simultaneously), and of Norway and Sweden at local level. In Portugal, accounting principles considered in this study are not applied. This is why we will omit from now on the mention to this country when refering the exceptions or cases related with the non-application of such principles.

- An Accounting Entity principle is used by 82 % of the cases, defined in budgetary terms. Some states in the United States or Germany are an exception.
- More than a 75 % of public entities covered by this study apply a going concern principle, a uniformity principle, a recording principle (accounting events are recorded chronologically) and conservatism (prudence).

But significant exceptions concerning the application of those four principles have been found:

a) Going concern is a principle not applied at central government level in Austria, Denmark and Ireland, and at regional and local levels, in Austria, the Netherlands, Australia, some states in Germany and the USA and in some Swiss cantons.

b) At regional level, some exceptions regarding the uniformity principle appear in the answers of Austria, some states in Germany and some Swiss cantons.

c) No recording principle is applied in Greece (central government) nor in regions of Austria and the USA.

d) Conservatism is not applied in the Greek and Finnish central governments, in German states and Swiss cantons, and in the Finnish local governments.

- A 70% of the entities that have answered the questionnaire apply a materiality principle, with some exceptions at central government level as Austria and Greece. Other exceptions can be found in the case of some Swiss cantons, German regions, Dutch provinces and some municipalities in Belgium and Norway.
- With respect to the historical cost principle, also a 70% of the entities manifests to apply it, with some exceptions regarding Belgian and Norwegian municipalities. This principle is not applied at the level of the Greek central government and also, at regional level, in some entities of Austria, Sweden and some USA states.
- With a lower frequency concerning its application (around a 60 %), we find the principles of accruals and matching revenues and expenditures.

Accrual accounting is adopted by a 62% of the entities considered, while a 25% admits not applying it (13% gives no opinion). The principle is not applied at the level of central government in Japan and Denmark, and at regional and local levels in Germany, Austria, Japan, Sweden, Norway, Belgium, the Netherlands and some Swiss Cantons.

The matching concept is adopted by less than a 60% of accounting entities, and exceptions are in that case more important, as for example, at regional level, in Austria, Japan, Belgium, Switzerland, Canada and the USA.

The no compensation principle is only applied by a 42% of the entities that have answered the questionnaire. Anyway, the application of this principle seems a predominant practice at local level, except in Japan, Norway and Belgium. But at regional level, only France, the Netherlands, Belgium and New Zealand seem to consider this principle, while at central government level, the exceptions are more significant (Austria, Japan, Finland, Portugal, Canada and Denmark).

Finally, the true and fair view concept is only recognised as a relevant objective of financial reporting by a 62% of governmental entities. The more reticent countries in the consideration of that objective are, according to the answers obtained, Portugal and Japan in the three administrative levels, Ireland and Finland at central level, Belgium at local level and Austria and some american states at regional level.

A summary of the results obtained at central and local government levels is presented on exhibits 2 and 3 (not including percentages).

Exhibit 2.
Accounting Principles

PRINCIPLE / COUNTRY	AUSTRIA	CANADA	JAPAN	IRELAND	FRANCE	FINLAND	GREECE	GERMANY	PORTUGAL	NETHERL.	DENMARK	BELGIUM	N.ZEALAND	SPAIN
Accounting Entity	X	X	X	X	X	X	X			X	X	X	X	X
Going Concern		X	X		X	X	X			X			X	X
Uniformity	X	X	X	X	X	X	X			X	X		X	X
Materiality		X	X	X	X	X				X	X		X	X
Recording	X	X	X	X	X	X				X	X		X	X
Conservatism	X	X	X	X	X					X	X		X	X
Accruals	X	X		X	X	X	X			X			X	X
Historical Cost	X	X	X	X	X	X				X	X		X	X
Matching Concept		X		X	X	X	X			X	X		X	X
No compensation				X	X		X			X		X	X	X
True and Fair View	X	X			X		X			X	X		X	X

Exhibit 3.

Accounting Principles (local level)

PRINCIPLE/COUNTRY	USA	JAPAN	GREECE	NORWAY	SWED.	FRANCE	FINLAND	GERMANY	AUSTRALIA	PORTUGAL	U.K.	NETHERL.	BELGIUM	N ZEALAND	SPAIN
Accounting Entity	X	X	X		X	X	X	X	X		X	X	X	X	X
Going Concern	X	X	X	X	X	X	X		X		X	X	X	X	X
Uniformity	X	X	X	X	X	X	X	X	X		X	X	X	X	X
Materiality	X	X		X	X	X	X	X	X		X	X	X	X	X
Recording	X	X	X	X	X	X	X	X	X		X	X	X	X	X
Conservatism	X	X	X	X	X	X		X	X		X	X	X	X	X
Accruals			X		X	X		X	X		X	X	X	X	X
Historical Cost	X	X	X		X	X		X	X		X	X		X	X
Matching Concept			X		X	X		X	X		X	X		X	X
No compensation					X	X					X	X	X	X	X
True and Fair View	X		X	X	X	X		X	X		X	X	X	X	X

2.2 Accounting practices regarding specific transactions

Fixed Assets

81% of the entities considered present information on fixed assets classified by wide categories (as land, buildings ...). Germany and Ireland at central level, Canada (at central and regional level) and Belgium (regional level) are an exception.

Valuation practices for fixed assets seem rather different to those than are generally adopted by business entities, specially in the following cases:

a) In most cases (55%) fixed assets are reported according to its acquisition cost, specially at local and central level. But some significant exceptions can be found at central level in the case of Canada, New Zealand, Germany, Ireland and Greece, while the situation at local and regional level is very heterogeneous.

b) Even if the assets are usually valuated at acquisition cost, the accumulated depreciation associated to them is usually not reported. But this situation is not uniform, specially considering that at local level, 55% of the entities adopt this practice that is also present at central level in Austria, Japan, Portugal, the Netherlands and New Zealand.

c) Practices concerning the inclusion in the cost of the assets, during their construction period, of the interests of the loans used to finance them are not uniform, even if at local level, 66% of the entities include those interests as a part of the cost of the assets. Austria, Japan, Portugal, The Netherlands, Spain and New Zealand also adopt this practice at central level.

d) The consideration of depreciation provisions (allowances) is not an extended practice (only in New Zealand at central level).

e) Intangible Assets are only depreciated in the period they generate profits in a 41 % of the cases considered, even if at local level, this is a more extended practice (66%).

Leasing

Accounting Practices concerning leasing contracts are also not uniform. Leasing assets are usually considered as an asset purchase at regional and local levels.

In a 60% of the situations considered, information on the expenditures associated to long term leasing contracts is reported. This practice is also more extended at local level (72%).

Also in a 60% of the cases, future commitments associated to long term leasing contracts are reported. This practice is again more usually adopted at local level (72%).

The accounting methods used for leasing contracts is not usually reported (only in 52% of the situations - 66% for the local level -).

Depreciation

The calculation and reporting of depreciation is not compulsory for a 55% of the entities considered. It is compulsory at central level in Austria, Portugal, The Netherlands, Belgium, Spain, Japan and New Zealand. In those countries, depreciation is usually also compulsory at regional and local levels.

Even if compulsory or not, depreciation is calculated according to systematic and rational criteria in more than a 50% of the cases considered. But negative answers have been received for all the levels in the case of Canada, Ireland, France, Finland, Greece, Germany and Spain.

In a 60% of the entities considered, depreciation is not calculated for all depreciable assets (44% in the case of local governments)

Accumulated depreciation is only reported in 50% of the cases considered.

In a 59% of the situations, the method to calculate depreciation is not set by law or official pronouncements. Anyway, and in the case of central level, positive answers have been received from Austria, Japan, Portugal, Denmark, Belgium and New Zealand. At local and regional levels, the situation is the same in those countries, except for Austria. Positive answers have also been received from Sweden, Switzerland and some entities in the USA.

Stocks

In a 50% of the cases, stocks are valuated at acquisition cost of market value (if lower), as for example in Austria, Ireland, Portugal, the Netherlands and Spain. They are valuated at acquisition cost, even if higher than the market value, in the rest of the situations.

At local level and regional levels, the acquisistion cost (or market value if lower) is the more extended practice in the United Kingdom, USA, Australia and Switzerland. France, Germany, Denmark or Belgium use the acquisition cost even if higher than the market value.

Accounts Receivable

In more than a 50% of the cases, accounts receivables are accounted in different items in order to differenciate those that mature in the current fiscal year from those whose maturity date is beyond of its end. But this differentiation is no established in Japan, Greece, Germany, Denmark, Belgium, New Zealand and in an important majority of american states and Canadian provinces whose answers have been available.

Also a 50% of the entities differentiate accounts receivables in the short and long terms, except, at central level, in Canada, Japan, Ireland, Finland, Greece, Germany, Denmark, New Zealand and Spain.

Accounts Payable

A vast majority of the entities considered admits to report separately the amounts of each long term debt issuance. Denmark at Central Level and some american states are the most significant exceptions.

A detailed information on the long term debt issued, interest rates and maturity dates is also separately provided, with some exceptions as Ireland, Finland, Greece, Germany, Portugal and Denmark.

Interests on debt are accrued in about a **50%** of the cases considered.

Equity

Equity is defined as the difference between the values of net assets and liabilities. Some exceptions are found in a 26% of the cases considered, as in Japan, Ireland, Finland, Germany, in some Swedish and Belgian regions and in some Canadian provinces.

No reserves are reported in governmental balance sheets in a 27% of the cases considered, as in Austria, Germany, Portugal and Denmark, as well as in regions and cities in Australia, Belgium, Sweden and Norway.

3. Level of acceptance of accounting principles

After selecting three of the principles with a more significant incidence in financial reporting (accruals, matching concept and conservatism), our main purpose now is to analyse the level of its acceptance among the countries covered by this study.

3.1 Accrual Accounting

Even if a significant number of countries indicates that accrual accounting is practised, we observe that practices concerning the use of accruals are rather heterogeneous. This fact evidences that the introduction of accrual accounting is in progress in many of the countries covered by the study.

As representative elements of the degree of development of accrual accounting in the different accounting systems we have selected some areas as non financial fixed assets, depreciation and provisions (allowances) and other aspects as financial expenses, pensions and contingent liabilities.

In the case of fixed assets, some countries that recognise to use accrual accounting adopt a financial flow approach rather than an economic flow approach. This is for example the case of the answers received from central governments in Canada, Ireland and Greece, and also, from some regions in Canada, USA, Germany and Spain.

The countries that do not use depreciation even if recognising to use accrual accounting are, at central government level, Canada, Ireland, France, Finland, Greece and Spain, at regional level, some states or regions in Canada, USA, France, Germany and Spain, and at local level, France, Germany and Spain.

Regarding financial expenses, we have tried to analyse the recognition of implicit financial expenses. A 50% of the countries that use accrual accounting do not recognise such expenses along the life of the debt issued. This is the case, at central level, of Canada, France, Finland, the Netherlands and Spain, at regional level, of Switzerland, Canada, France, Finland, The Netherlands, Germany, USA and Spain; and at local level, of Norway, France, Australia, the Netherlands and Spain.

In the case of contingent liabilities, almost all the countries analysed indicate to report losses, commitments or risks related with potential responsibilities. Only at central level, Finland, Greece and Spain, some regions in Germany and Spain and some municipalities in Spain and Norway do not report such liabilities.

The case of pensions is quite similar, considering that few countries that use accrual accounting do not apply it in the case of pensions. This is the case of Austria, the Netherlands and Spain at central level, some Swiss cantons, Canadian provinces or american states. At local level, we find this situation in Germany and Spain.

3.2 Conservatism

The conservatism principle has been analysed in the case of provisions related with accounts receivable, contingent liabilities and risk provisions.

The reporting of provisions is a practice very seldom adopted, except in the case of accounts receivable. Anyway, and even if conservatism is recognised as an accounting principle in the accounting regulation, this is not a practice adopted at central government level in Austria, Japan, Denmark and Spain, at regional level in Switzerland, Canada, Austria, USA, Japan, Swe-

den, Germany, Belgium and Spain, and at local level, in Japan, Norway, Sweden, Germany, Belgium and Spain.

On the contrary, contingent liabilities are considered in a vast majority of countries, except in Denmark and Spain at central level, in some regions in Austria, Germany, Belgium and Spain and in the local governments in Norway and Spain.

Conservatism seems also not present on the accounting treatment of pensions in the case of central governments in Austria, Japan, Ireland, Denmark and Spain, in some regions in Switzerland, Austria, Canada, USA, Japan, Germany, Belgium and Spain and in local governments in USA, Japan, Germany and Spain.

3.3 Matching Concept

Matching revenues and expenses is important to define the concept of economic result of the year. Considering that such a result is not so relevant in the case of governmental entities, the application of that principle in governmental accounting is not so extended as in business accounting. This is for example the case of Spain in what concerns the accounting treatment of capital grants.

Almost a 50% of the answers obtained evidence that the countries that manifest to apply the matching concept do not match the cost of fixed assets with the revenues obtained. But considering that in governmental entities it is not possible in most cases to identify a clear relationship between costs and revenues, the usefulness of that principle is perhaps related with matching revenues and costs of the services provided. Then, depreciation must be considered.

The countries that recognise to apply that principle but do not depreciate fixed assets are, at central government level Canada, Ireland, France, Finland, Greece and Spain; at regional level, Canada, some american states, France, Germany and Spain; and at local level, Norway.

Another element of coherence in the application of that principle is again pension accounting. The use of accrual accounting in that case allows the es-

tablishment of a more clear relationship between the revenues of the year and necessary expenses to obtain them. But the fact is that even when the application of that principle is recognised, matching revenues and expenses is not practiced in the central governments of Spain, Denmark and Ireland, some Swiss cantons, Canada, USA, Germany and Spain. At local level, the most evident cases are found in Germany and Spain.

4. Classification of systems according to the accounting practices

According to the results obtained, cluster analysis allows the establishment of afinity groups between countries and regions according to the different accounting practices covered by the study. Some possible classifications by afinity groups are presented in the case of:

- Accounting Practices for fixed assets
- Depreciation of fixed assets
- Leasing
- Receivables and Payables
- Contingencies
- Pensions
- Extraordinary Gains & Losses
- Foreign Currency

4.1 Fixed Assets

At central government level, Cluster Analysis evidences a clear afinity between Germany, Canada and Ireland, countries that do not report fixed assets in financial accounting and that use similar practices to recognise, valuate and report those assets.

A second group can be established with France and Denmark, that also includes Greece, Finland and Spain. Those countries report fixed assets but do not depreciate them.

In a third group we find Austria and Japan, that report and depreciate fixed assets, capitalising also financial expenses. Anyway, Austria does not depreciate intangible assets.

In a last group, New Zealand and Portugal are included, using practices rather similar to those that are used in business accounting.

At local level, except in Finland, all the countries report fixed assets even if practices are quite diverse.

At regional level, the situation is also heterogeneous. But a clear afinity group can be established in the case of Canadian Provinces and Belgium, as well as with Germany and Spain.

4.2 Fixed Assets Depreciation

A first afinity group can be established in the case of Austria and Belgium at central level. A possible group can also be defined with the Netherlands and Japan, even if those countries present some differences regarding depreciation methods used.

At regional level, a first afinity group can be defined with american states and some Swiss cantons, where depreciation is generally not compulsory but is practised. A second group, in the case of continental europe above all, can be established with regions in Belgium, France, Germany, Austria and Spain. Canada can also be included in that group. In all those regions, depreciation is not usually practised. A third group more heterogeneous can be found in the case of regions in Australia, New Zealand, Japan, Sweden and the Netherlands. In those regions, depreciation is compulsory and usually practised, and information related to accumulated depreciation is as well reported.

At local level, the most clear group is integrated by some local governments in the USA, Norway, France and Germany, where depreciation is not practised.

4.3 Leasing

A first afinity group can be established with Germany, Denmark and Spain, that did not consider in 1992 leasing as a way to purchase fixed assets. Another afinity group can be established with France and Austria, countries that provide information on actual and future commitments related with business contracts.

At regional level, a clear group can be established in the case of regions in Germany, Canada, Austria and Spain, while at local level, USA, Japan, Sweden, Australia and Portugal present also a quite similar situation according to the level of information provided.

4.4 Receivables and Payables

Some afinity groups can be established at central level. The first one with Japan and New Zealand, where short and long term receivables or budgetary and non budgetary receivables are not differenciated. Canada is rather close to those countries. Another group is integrated by Austria and the Netherlands, where budgetary and non budgetary receivables are not separated. The accounting practices regarding payables are here quite similar. A last group can also be considered in the case of Germany and Finland.

At regional level, the most clear group can be established in the case of Germany, Sweden, France and Belgium, while at local level USA, Australia and the Netherlands follow similar practices regarding the classification and level of disclosure of the information provided.

4.5 Contingencies

At central government level, the first afinity group can be established with Finland, Greece and Spain, where information regarding contingencies is not reported. On the contrary, Austria, Japan, Portugal and New Zealand offer the more informative accounting system according to the disclosure of contingencies reported. At regional level, a similar situation can be found in Swit-

zerland, Canada, USA, Japan, Sweden, Portugal, New Zealand and Spain. At local government level, also a similar group can be established with USA, Japan, Sweden, Portugal and USA.

4.6 Pensions

The results obtained evidence that a 50% of countries use accrual accounting for pensions (Canada, France, Finland, the Netherlands and New Zealand) while the other use a cash based accounting system (Austria, Japan, Ireland, Denmark and Spain).

At regional level, accrual pension accounting is practised in Canadian provinces, american states and regions in Sweden, France, Australia and New Zealand. At local level, the situation is also similar in Norway, France, Finland, Great Britain, the Netherlands, Australia and New Zealand.

4.7 Extraordinary gains and losses

The main afinity group is established with Canada, Ireland, France, Finland and New Zealand, that offer a significant level of disclosure of this item at central government level. The situation at regional level is quite heterogeneous, except between USA, New Zealand, France and Australia. At local level, Norway, Sweden, France, Finland, USA, Japan, Germany, Portugal and New Zealand are also rather close.

4.8 Foreign Currency

At central government level, the clearest afinity group can be established with Germany and Spain, where in 1992 no accounting treatment for those foreign currency transactions was considered. At regional level, the situation is similar for Germany, USA, Switzerland and Spain, while at local level, USA, Norway, Belgium and Spain also represent a clear group.

Exhibits 4 and 5 show, in the case of central and local levels, the frequency of afinity relationships on the accounting practices followed by the

countries covered by the study that have allowed the cluster analysis that has been described.

Exhibit 4.

Frequency of affinity relationships. Central Level

COUNTRIES	AUSTRIA	CANADA	JAPAN	IRELAND	FRANCE	FINLAND	GREECE	GERMANY	PORTUGAL	NETHERL.	DENMARK	BELGIUM	N. ZELAND	SPAIN
AUSTRIA	XXX	1	3	2	2					1	1	1		
CANADA	1	XXX		5	5	3	1	3		2			2	1
JAPAN	3		XXX	1							2		2	
IRELAND	2	5	1	XXX	4	3	1	3		1	1		1	1
FRANCE	2	5		4	XXX	4	2	2		2	1		2	2
FINLAND		3		3	4	XXX	2	2		1	1		2	3
GREECE	1	2		2	3	3	XXX	1			1			3
GERMANY		3		3	2	2	1	XXX		1	1			3
PORTUGAL	1		1						XXX				1	
NETHERL.	1	2		1	2	1		1		XXX			1	
DENMARK	1		2	1	1	1	1	1			XXX		1	
BELGIUM	1											XXX		2
N. ZELAND	1	2	3	1	2	2			1	1	1		XXX	
SPAIN	1	1	1	2	2	3	3	3			3			XXX

Exhibit 5.

Frequency of affinity relationships. Local level

COUNTRIES	USA	NORWAY	JAPAN	SWED.	FRANCE	FINLAND	U.K	GERMANY	PORTUGAL	NETHERL.	AUSTRALIA	BELGIUM	N. ZELAND	SPAIN
USA	XXX	3	4	4	3	1	1	2	4	1	3	2	1	3
NORWAY	3	XXX	2	2	3	3	2	1	1	2	1	1	3	1
JAPAN	4	2	XXX	5	1	2	1	2	4		3	1	3	1
SWEDEN	4	2	5	XXX	1	1	2	2	5	2	2	3	3	1
FRANCE	3	3	1	1	XXX	1	1	2	1	1	1		2	1
FINLAND	1	3	2	1	2	XXX		1		1	1		3	
U.K.	1	2	1	2	1	1	XXX	1	1	3	2	1	1	
GERMANY	3	2	2	2	3	1	1	XXX	1	2		1	1	1
PORTUGAL	3	1	4	6	1	1	1	1	XXX		2	3	3	
NETHERL.	1	2	1	1	1	1	3	1		XXX	3	1	1	
AUSTRALIA	3	1	3	2	2	1	2	1	2	2	XXX	1	1	
BELGIUM	2	1	1	3			1	1	3	1	1	XXX	1	1
N. ZELAND	1	3	3	3	2	3	1	1	3	1	1	1	XXX	
SPAIN	3	1	1	1	1			1				1		XXX

5. Summary and Conclusions

Generally Accepted Accounting Principles are widely applied in the governmental accounting systems of a great majority of the countries covered by this study. It has to be considered that in a 78% of those countries, legal or official pronouncements have defined accounting principles that for financial reporting purposes are rather close to those that characterize business accounting. The definition of an accounting entity concept, uniformity and conservatism are perhaps the most commonly adopted solutions.

Even if the number of countries that manifests to use an accrual based accounting system, accrual accounting is not so generalised. This fact also evidences that many countries are shifting their accounting systems based on cash or modified cash bases to modified or even full accrual basis. Anyway, the true and fair view concept is not considered as a relevant objective of financial reporting.

Heterogeneity in accounting practices is certainly important, even if a cluster analysis allows the distinction of some afinity groups that the paper has identified in the case of depreciation, fixed assets, leasing accounting, contingencies and pension accounting. This is why it must be accepted that, in spite of a rather clear convergence in the field of the application of Generally Accepted Accounting Principles, heterogeneity of practices in governmental accounting systems makes comparability of financial reports a difficult task to achieve.

Appendix

Countries	level of information
SWITZERLAND	Regional
AUSTRIA	Central, Regional
CANADA	Central, Regional
USA	Regional, Local
JAPAN	Central, Regional, Local
NORWAY	Local
SWEDEN	Local
IRELAND	Central
FRANCE	Central, Regional, Local
FINLAND	Central, Local
GREECE	Central, Regional, Local
GERMANY	Central, Regional, Local
AUSTRALIA	Regional, Local
PORTUGAL	Central, Regional, Local
GREAT BRITAIN	Local
THE NETHERLANDS	Central, Regional, Local
DENMARK	Central
BELGIUM	Central, Regional, Local
NEW ZEALAND	Central, Regional, Local
SPAIN	Central, Regional, Local

Levels of information Available

2.4 A Comparative Investigation into Managerial Accounting Systems of Local Government[1]

Dietrich Budäus/Klaus Buchholtz[2]

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I. Context and Conceptual Framework of the Investigation

The starting point of this study in 1993 was the observation that German reform endeavours in the public sector show a substantial deficit in public management accounting (Budäus 1994; Reinermann 1993, Schauer 1993; Lüder 1993). But meanwhile, there is a comprehensive discussion on New Public Management (NPM) and public management accounting in Germany, too. Even more, some new concepts which attempt to adapt management accounting to the needs of NPM have been developed in practice.

Because of this development it is necessary to make some introducing remarks to NPM, as public management accounting is an integral part of NPM. Based on theoretical accounts the central aspects of the framework of the investigation, which are conceptually connected with the aims and issues of the investigation, will be characterized . In the second part of the paper we will give an overview of the study and discuss essential findings.

As part of the investigation we refer to the current discussion and development in the field of NPM, which meanwhile has become a term world wide used for changing the public sector. Due to this popularity the understanding of NPM has to be specified. NPM encompasses the process of reform of public sector, a process which has been taking place at international level for more than fifteen years; it generally can be characterized as the replacement of the bureaucratic model by a management model. This means a shift from a law-orientated and formally structured organisation to the idea of efficient management and allocation of public recources based on a new economically defined role of state operations and functions.

NPM roughly can be separated into the two fields of changing external and internal factors, influencing costs and performances of the public sector (*Fig. 1*).

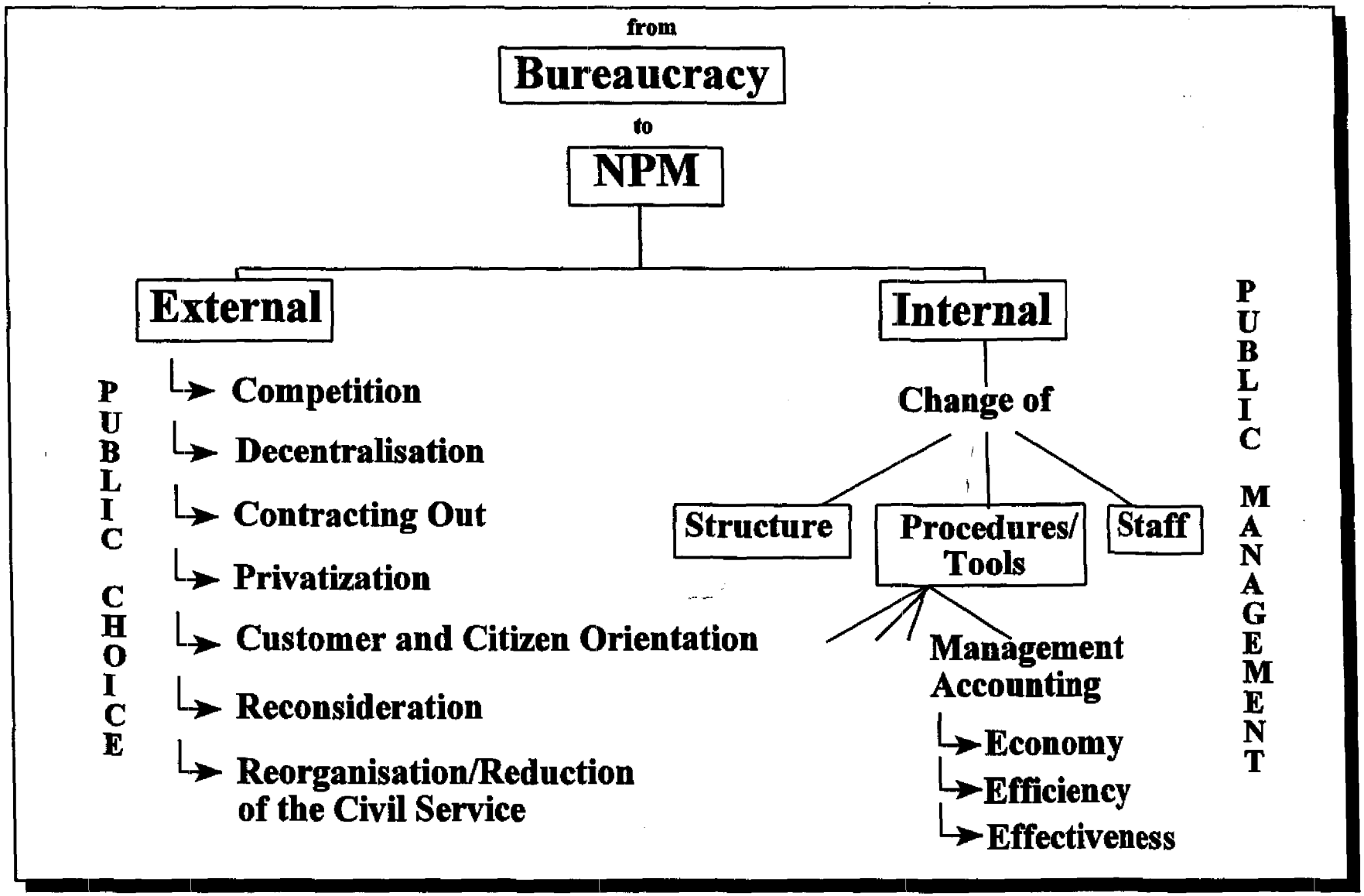


Figure 1. New Public Management

The first field of NPM refers to the reform of the external conditions of public administration. The different aspects of NPM mentioned in *Fig.1* are well known and it is not necessary to repeat the arguments in this context. The pros and the cons of these concepts have been discussed in the economic theory for many years, especially in the theory of public choice which finally provide essential quidelines for the reform endeavours in practice, too.

The second field of NPM refers to the internal reform process of public organisations. This is discussed as managerialism or as public management. Administration replaces its classic bureaucratic structure by decentralized centres of responsibility smiliar to those of a holding company. Accordingly, procedures and tools must be changed in the similar way as qualification and motivation of staff.

In this context the interdependencies between structures, procedures and staff are critical. So the necessity and practicability of procedural and structural specifications are predominantly determined by the organizational culture, i.e. the behavior, the qualifications and the value of all staff members. And indeed, one result of the investigation is that the importance and structure of management accounting depends on organizational culture.

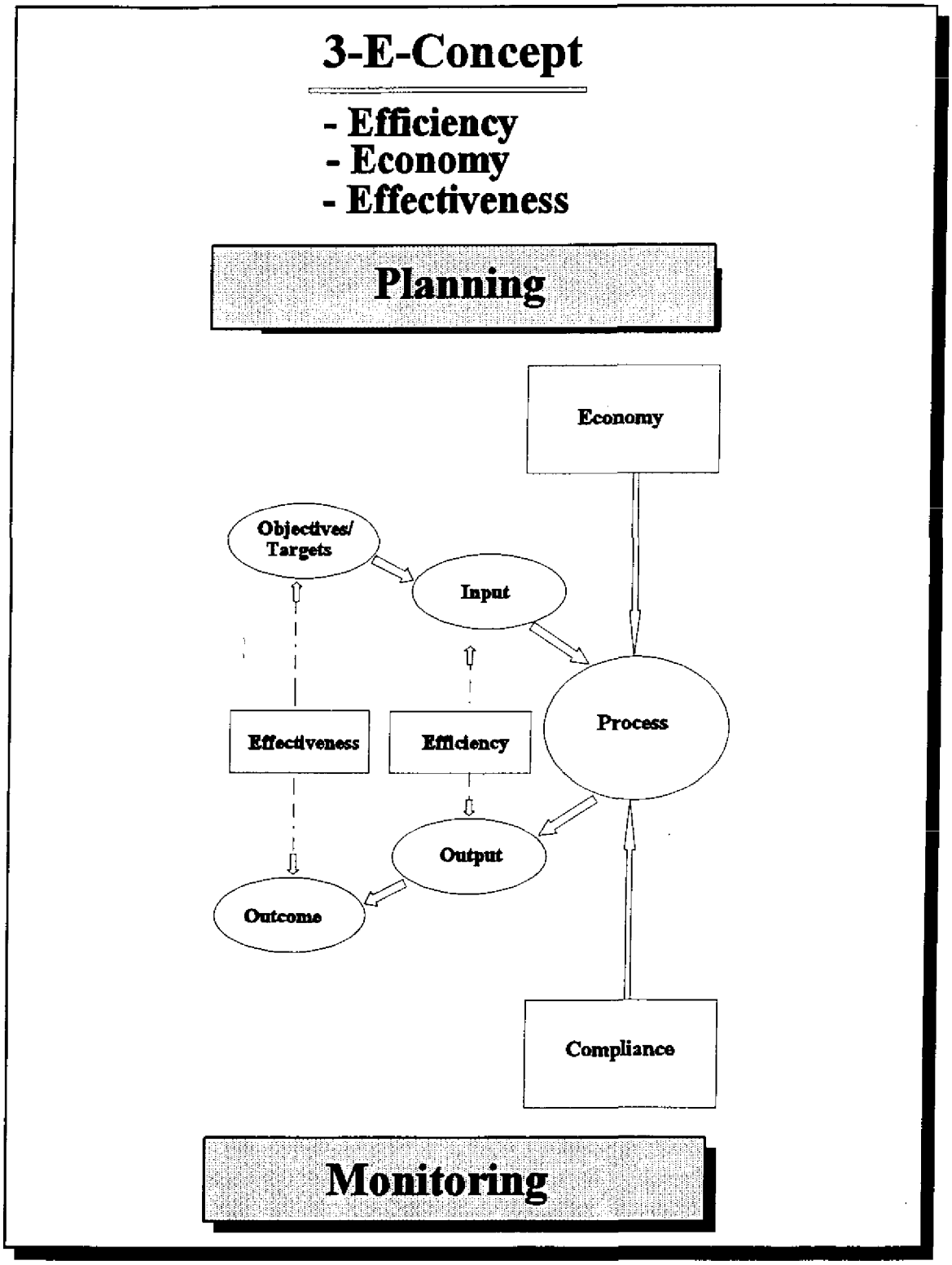
Management accounting is part of the tools needed to control and support public management processes. The dimensions of control are effectiveness, efficiency, and economy. Before discussing these criteria the central question of relevance of information has to be addressed. Thus it has to be clarified, what kind of information is important for which group of people in influencing and assessing administrative activities.

In principle a distinction can be drawn between the kind of information which is of importance for the public and the taxpayers and the kind of information which ranks highly for management decision within administration. The first category of information is the crucial linch-pin of financial accounting. The second category referring to costs and performance is the crucial linch-pin of management accounting. However, a distinct seperation of both categories cannot be assumed. There are indeed overlaps, as the studies of Rowan JONES (1994) and Klaus LÜDER (1994) clearly indicate. But – without neglecting these aspects – our investigation primarily concentrates on costs and performances as those factors, which should be dominant for public management accounting. So, rationalisation of internal administrative decision-making based on cost accounting will be one of the main functions of management accounting. Therefore the reform discussion in local government in Germany presently is focused on developing cost accounting systems. Even

the cabinet of chancellor Helmut KOHL decided to introduce cost accounting to improve economy at federal level in February 1996.

But economy is just one side of changing public administration. Additionally it is of crucial importance to control and document efficiency and effectiveness, too. Therefore we have chosen the well known 3-E-concept as conceptual framework of the investigation. This means that public management accounting has to cover the 3-E-concept by providing information on cost and performance for planning and monitoring effectiveness, efficiency and economy (*Fig. 2*).

Figure 2. 3-E-Concept



Effectiveness refers to objectives and outcome, efficiency is defined as relation of output and input and economy refers to the operating process focussing on the relation of planned costs and actual costs. According to this concept public management accounting should encompass - of course in a normativ manner - three different accounting systems,

- a cost accounting system to control economy,
- an output accounting system to control efficiency and
- an outcome accounting system to control effectiveness,

and their connections.

As widely known, the most difficult problem is the development of an outcome accounting system to control effectiveness. Therein, one of the main differences between public and private management accounting seems to be settled. Whereas in the private sector outcome accounting is substituted by results of the market (profit or loss), public sector outcome accounting with focus on effectiveness is the linking pin between political and the administrative sector.

Refering to the 3-E-concept, it has to be mentioned, that we do not discuss and analyse problems of performance measurement, for instance by special indicators, evaluation and other concepts. We have focused our investigation on conceptual aspects of management accounting.

As next step, it is necessary to integrate public management accounting, based on the 3-E-concept, into the management process and of course into the the system of accountability (*Fig. 3*). The decentralised centres of responsibility account for economy and efficiency, the executive management account for efficiency and - in coordination with the council - for effictiveness.

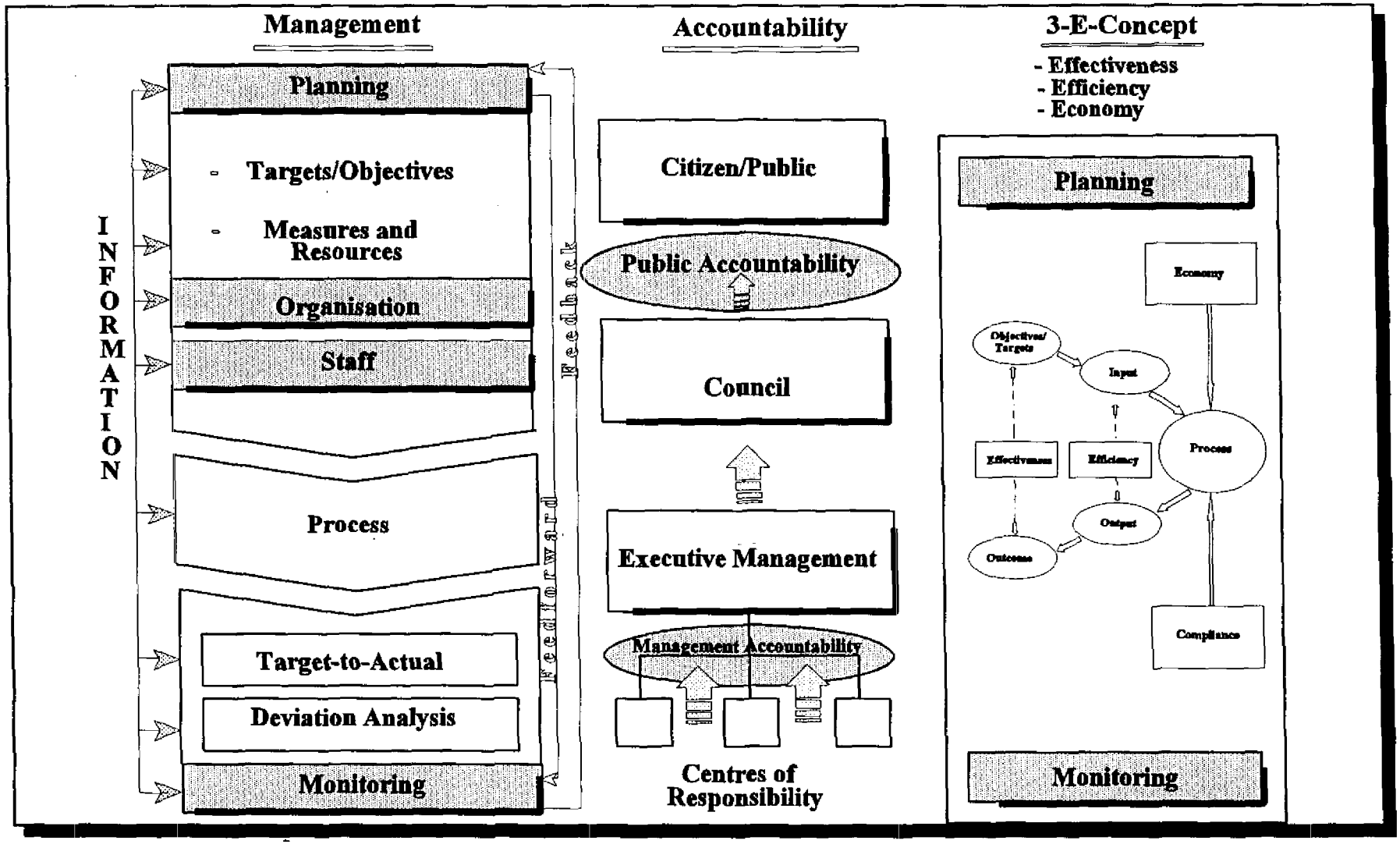


Figure 3. Management – Accountability – 3-E-Concept

We are convinced that this integrated concept will help to structure and improve the discussion, the research, and the scientific support for the reform process of public management accounting in practice and last but not least to transfer tools and concepts from private sector to public sector.

Additionaly, the study relates to **LÜDER's contingency model** (Lüder 1994 a; 1994 b) for identifying the reform environment and the reform situation of the towns and cities studied. **LÜDER's approach** is used on the one hand to analyse and discuss structural variables and on the other hand to discuss the chances of introducing a management-orientated accounting system and to compare the results of our own study with this concept. What appears particularly interesting in this context is the significance of the organizational culture (soft factors) for the reforming capacity of public administration. It is assumed that organisational culture is less of a prerequisite for introducing management accounting (hard factors), but there tends to be a substitutive relationship between a culture-orientated approach and a management accounting system.

II. Methodology of the Study

For developing an appropriate research design the following three issues are addressed:

- selection of promising cities and towns for the case study analysis;
- selection of research techniques;
- measures for ensuring validity, reliability and objectivity of the findings.

Since the objective of the study is to stimulate the process of administrative reform in Germany by providing guidelines for the development of management accounting systems based on broad international data, case studies are chosen as most appropriate overall research design. The **process of selecting the case study cities and towns** is largely based on the results of the international research carried out by the Carl Bertelsmann Foundation (Germany) in the context of the Carl Bertelsmann-Prize 1993 awarded for outstanding "Democracy and Efficiency in Local Government" (Bertelsmann Foundation 1993, 17-19). From the cities and towns nominated for the final contest those with highly developed management accounting systems were chosen for this study, namely: Braintree (Great Britain), Christchurch (New Zealand), Delft (Netherlands), Hämeenlinna (Finland), Phoenix (USA/Arizona), Tilburg (Netherlands). In addition, the following German towns and cities were in-

cluded to ensure effective transfer of international experiences:' Castrop Rauxel, Duisburg.

Because of the low sample range the investigation basically provides recommendations for the design of management accounting systems and some working hypotheses for further research. Nevertheless, similarities in the approach of several communities can be seen as indicators for general trends.

In terms of **research techniques** a twofold approach was chosen. Firstly, the cities and towns were analysed on the basis of written material available from the research of the Carl Bertelsmann-Prize. Secondly, research based on primary sources was carried out applying the research techniques of interviewing based on a questionnaire and analysing original documents provided by the cities and towns. The findings of the study are primarily derived from evaluations of the level of sophistication of concepts and systems applied by the cities and towns. As evaluation tool a scoring model was used.

Validity and reliability of the findings were attained by applying a standardized questionnaire, by an additional documentary analysis and by a final check of the documented results with the communities during verbal discussions.

III. Essential Findings of the Study

Before concrete statements can be made about the design of management accounting, it seems necessary to extract factors of influence for its sophistication. Thus, it is possible to explain differences in the design of management accounting systems and ultimately implement the transfer into practice aimed for in an optimal manner. First of all therefore, factors of influence and then aspects of design of management accounting are discussed in the following for local administration.

Since it concerns a rolling and on-going process for the introduction and progressive development of management accounting, it should be pointed out that the following accounts of respective communities reflect the stage of development of the second half of the year 1994.

A. Factors Influencing the Introduction and the Sophistication of Management Accounting

An analysis of influencing factors of studied communities relevant for management accounting can be made in a logical manner by considering two aspects. Firstly, there is the effect of environmental conditions of the country in question to be explained and considered for the introduction of a system of management accounting. Secondly, a conclusion can be made regarding the significance of management accounting as part of the pursued concepts of reform through analysis and systematisation of reform principles and approaches of the local administration being studied.

Management accounting is to be understood in this article as being management support by means of development and use of a management-orientated information system. The use of **LÜDER's contingency model** thus seems to be a logical procedure for gaining general statements about the probability of the introduction of a system of management accounting. Modification of this model is made to the effect that in addition to the stimuli and structural variables of the country in question, environmental conditions of the communities are taken into account, too. The results of analysis based on the contingency model are summarised in *Fig. 4*.

Figure 4. Probability for Implementation of Management Accounting particularly at Local Level (Lüder 1994 a, 7; Lüder 1994 b, 6-10)

		Combination of Structural Variables	
		Favourable	Unfavourable
Stimuli	Present	Very likely USA (Phoenix) NZ (Christchurch) FIN (Hämeenlinna) NL (Delft, Tilburg) GB (Braintreee)	Possible FRG (Duisburg, Castrop-Rauxel)
	Absent	Unlikely	Impossible

In general, it can be established that in comparison to the analyses carried out by LÜDER at state level, the likelihood for introducing management accounting can be regarded as being potentially greater. The plus side is primarily that the influence of the societal structural variables is more pronounced by the much greater involvement and closeness of the public at local level. Furthermore, there is often a cross-party consensus as an impetus for reform at local level. For these reasons, the assessment of Great Britain at local level was made – in deviation from LÜDER's classification at state level – as being "very likely".

The following stimuli and structural variables in the investigation have been revealed as characteristic for the local level. A part of the major factors of inducement for initiating the reform process (stimuli) are the almost common financial bottlenecks of the state and the communities, an increasing pressure induced by the public and in individual cases (Hämeenlinna, Phoenix) a considerable dissatisfaction of politicians and administrative management with decision making and management structures. Prime factors for success in the process of innovation are a strong political will across party boundaries and a strong visionary managerial personality at the top of the administrative tree. In addition, an active involvement and qualification of employees right from the outset is considered essential. In individual cases (especially New Zealand, but Great Britain, too) the state has attempted to secure the success of reform by changing the political system and altering the laws to suit. The New Zealand "Local Government Act" for example, is regarded as one of the most comprehensive legal structures for management accounting in the public sector (see in particular: §§ 119C – 119D, 223C – 223F Local Government Act New Zealand). Introduction of management accounting in Germany is regarded as "possible" at present, due to the extreme financial bottlenecks as a stimulus. With the introduction of extensive freedom for experiments in legislation in some federal states, based on the Scandinavian free commune approach, there are tendencies being detected which indicate improvements in the unfavourable overall structural conditions.

Contingency model analysis shows that introduction of management accounting based on environmental factors specific to the country in question for all the countries in the study, with the exception of Germany, can be regarded as being "very likely". As a comprehensive explanatory aid for the empirical results at local level, this deductive orientated model cannot be, nor should be regarded as being adequate. As *Fig. 5* depicts, some results of the investigation can be regarded as unexpected in the light of contingency model analysis. Above all Christchurch and Tilburg, including Hämeenlinna too, have, as expected, a high level of sophistication in management accounting; in terms of

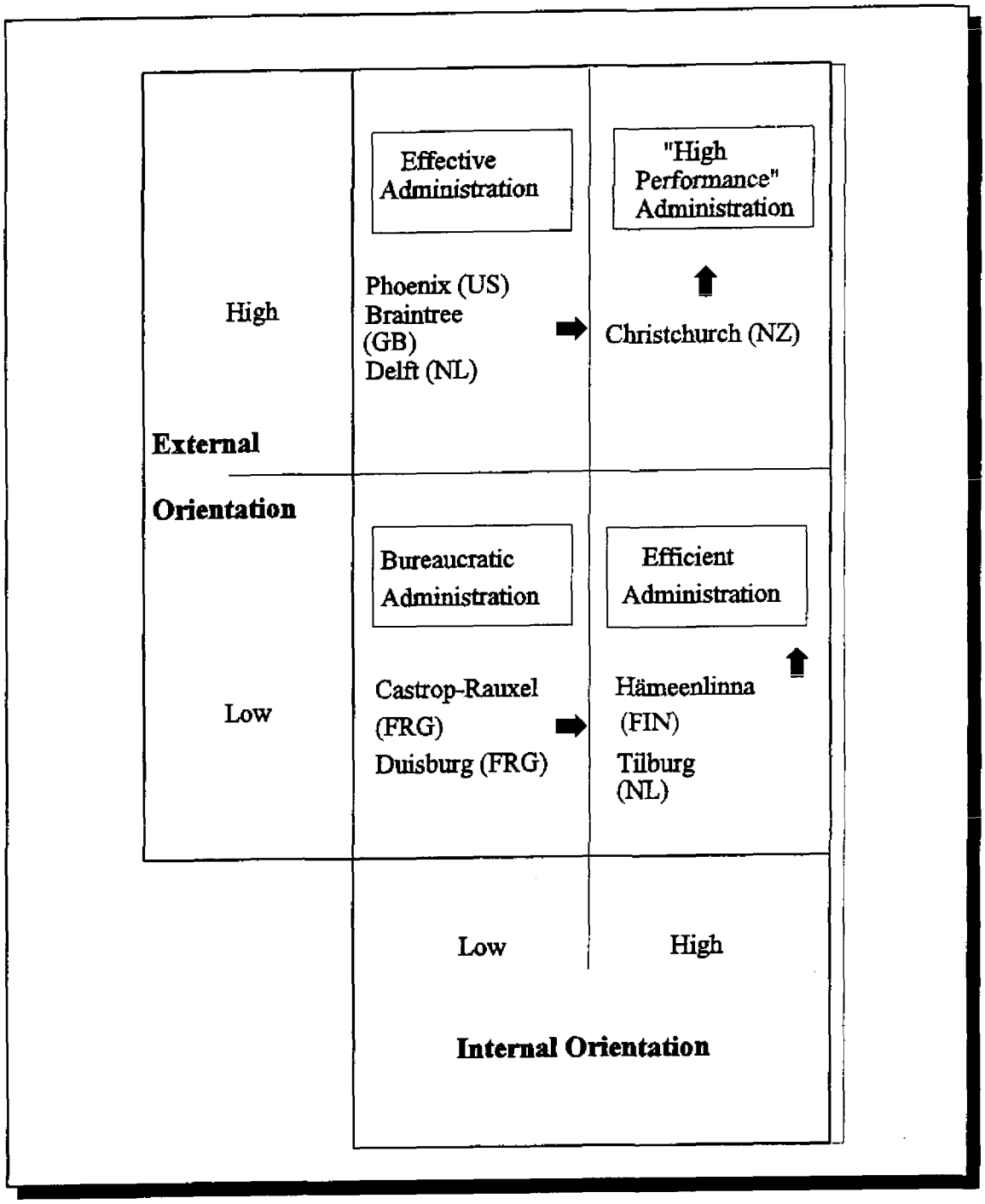
the German communities those aspects are also anticipated as poorly developed or even undeveloped. What was not expected however was the relatively low level of sophistication of management accounting in Phoenix, Braintree and Delft. The difference particularly between the two Dutch communities allows the conclusion to be drawn that introduction and sophistication of management accounting must be dependent upon criteria, which are specific to the community in question.

Figure 5. Stage of Development of Management Accounting in the Context of Results of the Contingency Analysis

		Scope and Detail of Management Accounting	
		Low	High
Probablility for Imple-men-tation of Management Accounting	Very likely	Unexpected Phoenix (US) Braintreee (GB) Delft (NL)	Expected Christchurch (NZ) Tilburg (NL) Hämmeenlinna (FIN)
	Possible	Expected Castrop-Rauxel (FRG) Duisburg (FRG)	Unexpected

A **systematisation of approaches to communal administrative reform**, which should be suitable for clarifying of the level of development in management accounting, can be made by a distinction of internal orientation and external orientation (Banner 1993: Reichard 1993). Regarded as internal orientated are in this context all activities, which are aimed primarily upon increasing efficiency and economy. These are mainly reform activities for improving organisational structure and strategy, procedures used and instruments (such as management accounting), for employing, assessing and developing staff, plus organisational culture. Under the term of external orientation are summarised all measures which are directed towards an improvement in effectiveness. This particularly includes activities in the sectors of citizen and customer orientation, external rendering of accounts, democratic participation and control, competition, plus cooperation between politicians and administration. *Fig. 6* provides a basic classification of communities studied according to the two mentioned criteria.

Figure 6. Classification of Approaches to Overall Administrative Reform

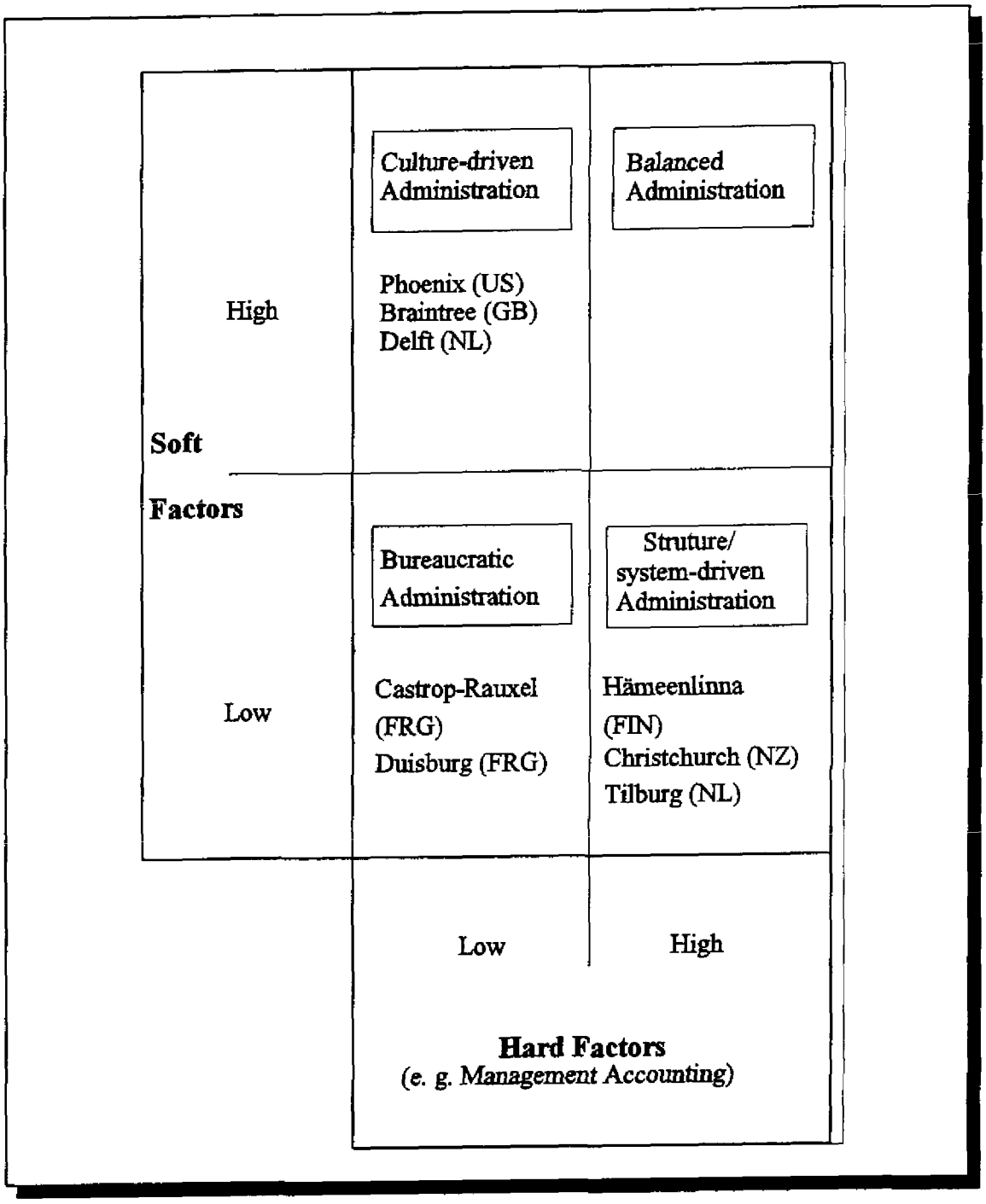


Two aspects in particular emerge as results from Fig. 6. Firstly, the quadrant of "high performance" administration appears to represent an ideal condition, which is aimed for by nearly all the communities. Secondly, this ideal condition is to be attained by various ways. Based on bureaucratic administration, external orientated reform activities can, initially, be at the centre point supplemented by internal orientated reform activities (Phoenix, Braintree and Delft) or vice-versa (in particular Christchurch, Hämeenlinna and Tilburg, but also Castrop-Rauxel and Duisburg).

In order to be able to clarify more accurately the significance of management accounting, "hard" and "soft" factors of internal reform are separately compared in line with the 7-S model (Peters and Watermann 1982) in *Fig. 7.* The organisational structure, the procedures and instruments (systems) and strategy are regarded here as "hard" factors. The "soft" factors relate primarily to staff (qualification and skills) and the organisational culture.

In comparing the results in *Fig. 7* and *Fig. 5*, it reveals that those communities in which management accounting has surprisingly been less developed, pursue a cultural and staff-orientated approach in internal-orientated administrative reform. The investigation also revealed that none of the studied communities has chosen an approach to reform which is aimed at a uniform and simultaneous development of "hard" and "soft" factors (*see Fig. 7*).

Figure 7. Classification of Approaches to Internal Administrative Reform



In summation the following hypothesis can be established:

There is a substitutive relationship between "hard" and "soft" factors in the implementation of internal-orientated administrative reforms at local level. Accordingly, the likelihood of finding a highly developed management accounting system is remote where a cultural and staff-orientated approach is pursued for internal reform.

The town of Phoenix proved to be an impressive example for this hypothesis. On the basis of organisational culture, which is characterised fundamentally by communication and trust, monitoring and control is secured less by formal reporting, but more by active discussion during meetings (social monitoring). A function of controlling as an independent institution is therefore not established in Phoenix, and extensive management accounting has not yet been introduced, despite a recognised and successful reform process lasting more than 20 years.

As to how far substitution can now be fully implemented in respect of a system of management accounting and a management concept based on "soft" factors, still remains to be investigated as part of a separate analysis.

However, the following discussion of selected statements taken from current literature shows the relevance of the conclusion drawn above.

Fristly, it appears quite obvious that for sufficient explanation of innovations and concepts of management accounting at local level LÜDER's contingency model forms a useful but not fully sufficient basis. An adequate extension of the model for this purpose could be achieved by analysing the approaches towards internal administrative reform. Since management accounting mainly involves "hard" factors the 7-S model provides an appropriate framework for comprehensive analysis of facotrs influencing the sophistication of management accounting by distinguishing "hard" and "soft" factors of management.

Secondly, the conclusion drawn above could be understood as a recommendation for areas of public management where management accounting is not (yet) sufficiently developed. If it is taken as common sense, for example,

- that - following STEWART and WALSII (1994) - "... fully satisfactory measures of performance are unlikely ever to be discovered", especially at policy, i.e. effectiveness level and
- that - following JONES (1994) - "... the lack of effectiveness measures has simply meant a concentration on low-level-efficiency and ecomony"

then for the purpose of managing effectiveness a concentration on "soft" factor management seems to be more advisable than the attempt to develop a higly sophisticated management accounting for quantitatively measuring effectiveness.

Finally, the finding of the investigation provides additional evidence for the discussion about a global NPM paradigm. It is generally accepted that NPM is founded and characterised by a globally unanimous development of general themes in public sector reforms. However, differences with regard to focal points and details of concepts of the reform have been observed. HOOD (1995) explains these differences as being a consequence of unintended and unexpected side effects of the reform. In the context of this investigation the differences in empirically oberservable approaches towards NPM can be explained along the lines of 7-S model. Since different environmental conditions cause differing "fits" of the 7 "S", reform themes do change less due to unintended side effects but more due the individually defined suitable fits of the 7 "S".

B. Essential Findings for the Implementation of the 3-E-Concept and the Design of Management Accounting

In the present stage of the research process it is not yet possible to establish a theory integration all elements of public management accounting. As a first step to develop such a theory it is therefore necessary to identify the empirically observable elements which confirm practical relevance of the aforescribe conceptual framework and provide basic guidelines for the design of management accounting. Subsequently, fundamental elements are listed and explained in the order of the conceptual framework. To clearly demarcate findings from explanations, the findings are presented in italics and numbered.

Dissemination ot the 3-E-Concept

(1) The 3-E-concept or comparable conceptual frameworks are applied in almost all non-German communities as the basis for performance measurement and management. In Germany, this kind of concepts is not yet taken into account for the development of the frame concept for administrative reform.

Since the 3-E-concept originated in the Anglo-Saxon and Anglo-American countries it is not surprising that it is well-known and often applied by the communities in those countries. In countries where governmental audit institutions use comparable concepts as auditing framework (especially Great

Britain and New Zealand) the necessity to focus management accounting on the 3-E's is even higher. The most popular reform concept in Germany, the "Neue Steuerungsmodell", is largely focused on inputs and outputs for products and thus on effeciency. Effectivness and economy are generally neglected.

Comprehensive Results Concerning the Conceptual Framework

(2) The conceptual framework established in chapter I is regarded harmoniously as a powerful platform for integrating the management process, the 3-E-concept and the various levels of accountability.

The 3-E-concept is used in practice - as in literature - as a basis for performance measurement. Virtually all studied communities carry out an assessment of administrative activities by means of an analysis of inputs, costs, outputs and outcomes. Furthermore, a clear assignment of accountability for the 3-E's (effectiveness, efficiency, economy) at various political and managerial levels is primarily made for those communities which utilise internal contacts as a basis for delegation and decentralisation (in particular Braintree, Christchurch, Delft, Tilburg).

Finally, with the paradigmatic change to public management, there is regard for necessity to take much more into account those phases of the management process which have been - due to tighter legal conditions - less relevant in the bureaucratic model (mainly monitoring and control). With the aid of the established conceptual framework, these sectors, hitherto separately studied in theory and practice, are integrated to a standardised platform.

(3) *Apart from the comprehensive division of work, accountability is assigned for the effectiveness, efficiency and economy at various levels of management of the administration and for policy.*

Tendentially, the political level is responsible for the securement of effectiveness, the head of administration for securement of efficiency and the departmental management for the securement of economy. In the most prominent form this division of accountability is found in the concept of contract management in Tilburg.

(4) *The concentration of external rendering of accounts and thus of central control for the illustration of the financial situation is no longer suitable for the public sector. Enhancement by providing information for the 3-E's has already been widely implemented.*

Some communities are compelled by legislation not only to render external accounts about the financial situation to the public, but also provide information on effectiveness, efficiency and, to some extent aspects of economy (Christchurch, Braintree). In the wake of increasing the release of information to the public, without legislative compulsion, other communities provide this information mainly relevant to internal management (Phoenix, Hämeenlinna, Delft, Tilburg). In addition, the 3-E's are increasingly used as part of external auditing by the state auditing authorities (The Audit Commission 1994, 12-14). Thus, nothing can be stated about a weakening of central control in the wake of the paradigmatic change to public management.

(5) *A basic prerequisite for assessing administrative activity based on the 3-E-concept is the determination of quality standards.*

Due to a change in the quality of a product or a service, influence can be exerted on all 3-E's. However, there is a conflict of interests and objectives. For example, a reduction in water quality can lead to reducing water-purification costs and thus to increased efficiency. Effectiveness, on the other hand, can decline, if the outcome worsens in the water supply sector due to an increasing sickness rate caused by poorer water quality. Nearly all communities confront this by establishing quality standards for their services or products, the adherence to which is secured in part by quality certification of the corresponding processes (e.g. Braintree). Because quality frequently has a direct influence on the outcome, quality standards are predominantly determined in conjunction with the planning of targets and outcome.

(6) *The concept of management accounting must encompass all three levels of the conceptual framework (i.e. effectiveness, efficiency and economy), and must aim to optimise these as a whole. Only in this way, defective control can be avoided.*

As already shown, conflicting aims exist between the 3-E's, which were confirmed by the communities studied as being relevant to practical experience. Defective control based on these conflicting aims can only be avoided if all 3-E's are part of the management accounting concept. If effectiveness is disregarded, then efficiency, for example, could be increased almost at random by lowering the standard of service. However, the effects upon society aimed for by the administrative services would decline. Equally, an exclusive concentration upon effectiveness could lead to a high standard of welfare. However, this would be bought at the expense of "waste". *Fig. 6* shows that of all the communities studied, only Christchurch has so far managed to effect a balance between the 3-E's. But all communities are striving to achieve this

state of affairs, even if some for the time are initially focused more sharply on efficiency and economy and others more on effectiveness.

Definition of Products and Services

(7) Transition from an input- to an output-orientated planning and monitoring system is needed as a fundamental prerequisite for implementing the conceptual framework. For this purpose, the development of a universal and hierarchical product/service structure has proved to be practical and essential.

The definition of products/services is regarded by all communities as the key prerequisite for the transition from a system of input- to output-orientated management. Products/services are to be defined at various stages of aggregation (e.g. product groups, products, sub-products/activities) in order to take account of the information needs for all managerial levels. A universal and hierarchical product/service structure (see *Fig. 8* for an example) is accordingly regarded with unanimity as necessary.

Figure 8. Example for a Hierarchical Product/Service Structure (Christchurch/New Zealand)

Levels of Products	Number (approx.)	Examples	Evaluation Levels (3-E's)
Significant Activities	15	Library Services	Effectiveness
Business Units	34	Libraries Unit	Effectiveness
Product Classes	200	Lending Services, Information Services	Efficiency
Products	600	Lending Services: Books, Non-books for Adults and Young Adults, Children	Efficiency
Sub-Products/-Activities	Thousands	Service operations (e.g.): Enquiries, Reservations, Photocopying, Bookmark Service maintenance/development (e.g.): Promotion, Stock maintenance, Stock movement	Economy

Level of Effectiveness (Target Level)

(8) A logical definition of outcome indicators for measuring effectiveness can only be effected if based on strategic targets, which have been developed within a framework of comprehensive processing of strategic planning.

Criticism of the 3-E-concept is frequently directed at the concentration upon efficiency and economy normally to be determined. The reason for this is perceived as a lack of available methods for measuring effectiveness (Jones

1994, 52). As a result of this study it emerged that it is more the definition as regards content of suitable outcome indicators that is seen as the problem, and less so the methodology of measurement. An inherent definition of outcome indicators can only be logically effected on the basis of (strategic) targets, as they are intended to measure the medium- to long-term targets. Implementation of strategic planning encompassing a definition of strategic targets and corresponding outcome indicators is accordingly regarded by all communities as an essential prerequisite for management on the basis of effectiveness. Except of communities in Germany, such a strategic planning process has already been implemented in all communities under consideration.

(9) Customer satisfaction is affected by the increasing importance of customer orientation, even in the public sector, to acquire an important outcome indicator for measuring effectiveness.

In nearly all communities, customer satisfaction plays a crucial part within the context of measuring effectiveness. In Braintree, even a so-called "net customer satisfaction" is defined as a principal indicator of the administration. Although this is derived consistently from the strategic target entitled "concentrating on the customer and providing quality services", it appears problematic that in this way emphasis is placed simply on subjective and individual satisfaction. Other communities attempt accordingly to add to the indicator "customer satisfaction" by introducing indicators which are more objective and geared to the public welfare. This is how in Tilburg (Netherlands), for example, the guidelines of the policy entitled "promoting economic development in Tilburg" is being reviewed not only with the help of a survey of businesses, but in particular by measuring and comparing economic growth in Tilburg with the national average.

(10) *The hypothesis put forward as part of "New Public Management" in that policy ought to be concentrated on strategic control and thus on target level or effectiveness, could only be affirmed by this investigation to a certain extent. Even if accountability of the politicians relates to effectiveness, then policy makers will still have to be involved in the planning of measures and budgeting (procedural level) and appropriate monitoring.*

An essential function of the policy is regarded unanimously by the communities studied to be establishing strategic targets and thus strategic control. A further important function of policy consists in putting these targets in concrete terms to form specific priorities for annual planning. A division of these two areas of function, as stated in the context of "New Public Management", does not appear to be very sensible or practical.

Level of Efficiency (Procedural Level)

(11) The transition from a traditional bias towards input planning to a system of output-orientated procedural planning and budgeting has already been completed in all communities, except in those communities within Germany. Responsibility for implementation of the planned measures is borne solely by administration.

In the non-German communities under review, budgets are set predominantly on the basis of planned outputs (quantities and quality of services). Some communities draw up the budgets on the basis of cost, others, however, are still orientated towards cash figures.

(12) *To support the output-orientated planning and monitoring system with essential information on costs and performance, introduction of an across-the-board management accounting system has been planned as standard. The system has just been introduced to some communities.*

The transparency necessary for management purposes concerning costs and performance of products/services can only be created by introducing an across-the-board management accounting system. In virtually all the communities, costs have already been assigned to products/services, that means including clearing of internal services, depreciation and imputed interest. Planning and recording of performance is still generally effected in the form of quantities, and to some extent, by the use of quality indicators. Transparency of costs and performance forms the basis for improving efficiency.

(13) *To increase or secure efficiency, periodic investigations are increasingly being made, in addition to an on-going process of management accounting.*

An on-going and detailed recording of costs and performance as a basis for a comprehensive review of efficiency, especially in the sectors of overheads, is sometimes regarded as having little economic value. As an alternative, periodic investigations are undertaken by some communities, which are supposed to contribute to increased efficiency by employing methods such as zero-base-budgeting or overhead-value-analysis.

(14) *At procedural level, the aspect of planning seems to overshadow that of monitoring.*

All communities studied tend to place greater emphasis on planning than on monitoring. A much greater effort is expended on planning procedures than on checking the maintenance of planning as an element of monitoring. Hardly any informative target-to-actual comparisons or deviation analyses are

undertaken. As justification, social monitoring can certainly be mentioned in an individual case (such as Phoenix, USA). Beyond this, it is to be assumed that the lack of experience with output-orientated monitoring information must give rise to monitoring being neglected. As an approach to alleviating the problems of monitoring, some communities attempt to obtain standards for the level of costs and performance in making intercommunal comparisons.

Level of Economy (Process Level)

(15) At process level, the main focus with the comparison of target-to-actual costs is on monitoring the achievement of budget costs.

Comparison of target-to-actual costs is predominantly implemented as simple monitoring of achieving the budget. Determining target costs in the context of cost minimisation is only achieved in some communities by making intercommunal comparisons. Periodic cost investigations are undertaken at times to achieve this.

(16) *Continual pressure to economise is being exerted on internal service departments with the establishment of internal "customer-supplier" relationships by offset charging of the services concerned.*

In nearly all communities studied, internal service departments, too, must win their customers and offer a competitive price for the service demanded. Internal transfer prices are chiefly set as a result of negotiations of the departments involved. Economic pressure arises, such that internal customers (apart from a few exceptions) can procure services from external service providers.

Special Aspects with regard to the Design of Management Accounting

(17) Management accounting is used primarily for the purpose of supporting the planning and monitoring process at procedural level, and is thus implemented across the board.

Implementing management accounting should make costs and performance transparent for the processes of planning and monitoring. The aim here is to fully record costs and performance, and to causally assign them to products/services (cost-unit accounting system, based on full cost accounting). In the event of deviations from budget, there are, generally speaking, no systematic analyses of the actual utilization of capacity (inflexible budget costing). Implementation of management accounting going beyond this support

base of planning and monitoring are only found in very isolated instances, such as in supporting contracting-out decisions or for calculating charges.

(18) *Management accounting in some communities is based on expanded system of single-entry bookkeeping, and in other communities on double-entry bookkeeping. As a result, payments or expenses are not always precisely demarcated from the costs.*

Above all, recording costs is accomplished in the main by means of either a single- or double-entry bookkeeping system. Precise demarcation of costs, within a twelve-month period, is not always effected in this respect. As a result, assessment of periodically incurred costs or the degree to which costs are covered for a given period can only be interpreted under certain conditions.

(19) *To secure full recording of costs and causal cost allocation to products/services, the introduction of capital accounting is required as well as time records for the staff on duty.*

Nearly all communities establish the costs of capital (depreciation and imputed interest) of fixed assets automatically with the help of capital accounting. However, depreciations are often not regarded as a suitable measure for resource consumption, especially for infrastructure capital. With the introduction of life-cycle orientated cost accounting, quality of cost information should be improved in this respect. Causal assignment of staffing costs is accomplished in all communities on the basis of time records to establish the use of staff.

(20) *Management accounting in the sector of performance recording has to be supplemented by non-monetary factors. In this context, performance recording is regarded as less likely to be the main problem than the methodology in factual definition of suitable performance indicators.*

To identify the outputs of products/services, non-monetary indicators are essential, in addition to monetary ones. The management accounting system, a familiar feature of the private sector, provides simply quantity-orientated key figures in the non-monetary domain. Further non-monetary performance indicators can be obtained from various sources (such as operation statistics, customer surveys, economic statistics). At present, the greatest problem is seen to be with the factual definition of suitable indicators, relevant to controlling the management process. Systematic analysis of the information requirements is still rarely undertaken in this context.

(21) *A "performance culture" is the prerequisite for acceptance of information on costs and performance as a basis for management.*

With the introduction of the aforescribed management accounting system, costs and performance are sometimes extrapolated down to the level of individual members of staff, or at least to individual departments/teams. Development from the traditional "administration culture" to one geared to a performance-orientated culture is regarded with unanimity as an essential prerequisite for the effective implementation of management accounting. Introduction of time schedules for staff and the utilisation of cost and performance information as a basis for performance-related pay cannot be successfully implemented without this prerequisite being fulfilled.

IV. Recommendations for the Reform Process in Germany

Management accounting currently is an important element of administrative reform in Germany. The main reason for this fact is that German reform approaches have often been developed along the lines of the "Neue Steuerungsmodell" which is largely focused on "hard" factors. However, this "hard" approach is not satisfactorily based on the 3-E-concept. The concentration on efficiency bears the danger of defective control and as the ultimate consequence puts the process of administrative reform at risk. It is recommended that the levels of economy and effectiveness of the 3-E-concept should become part of German reform approaches.

Since effectiveness is largely neglected the role that politicians play in the reform process in Germany is still not defined. Moreover, the concentration on products has often caused a separation of policy and administration. Thereby, effective policy making, which is the main differentiating aspect of public management, has become even more difficult. In this context, policy is step by step substituted by administration. However, the opposite is intended by NPM. So it is recommended to strongly support policy by implementing a comprehensive management accounting based on the 3-E-concept. In this way, policy will gain the necessary information and support at the level of effectiveness to focus on policy making.

A special opportunity for German communities is to learn from mistakes and experiences made abroad. Especially the traditional dominance of planning over monitoring and control should be avoided from the very beginning of the reform process. Therefore, it is recommended to give equal attention to the functions of planning, monitoring and control in particular by introducing a comprehensive management accounting. In this context, comprehensive means that planning and monitoring functions should be integrated by management accounting. Thus, as a first step, it is recommended to introduce a

budget accounting on full cost basis with main emphasis on cost unit accounting. Non-monetary indicators should be included as part ot the output and outcome accounting.

Finally, we think that German communities could be more optimistic about the benefits from the process of administrative reform provided the 3-E-concept will be applied comprehensively in future.

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3. Studies on Governmental Accounting Innovations

3.1 Budget Accounting in China: Continuity and Change

James L. Chan

Abstract

Under the orthodox socialist model, governmental accounting in China became budget accounting. Given the close link between accounting and budgeting, major changes in the Chinese economic system in general and in public finances in particular, are bringing about some potentially fundamental changes to the Chinese government accounting system. The promulgation of a new Budget Law in 1994 has quickened the pace of reform. This paper analyzes the key reform provisions of the law and explores their implications for accounting and the need for new standards to strengthen accountability and financial control. It proposes that governmental accounting has a mission and scope broader than the State Budget, which no longer covers most of the economic activities and financial transactions of the Chinese public sector. This requires a new accounting framework that includes but is not limited to budgetary control. The building blocks and likely controversies for such a framework are described.

With almost 1,200 million people, China has 22% of the world population. Among them are 1,800,000 people working in the almost 500,000 admistrative agencies and public service institutions in the public sector, and many more are in state enterprises. The changing nature of their work is the subject of this paper.

The rapid and sustained growth of the Chinese economy produced by economic reform since 1979 (Table 1) ironically has resulted in a weaker public sector beset with fiscal woes. As recently as the early 1980s, a World Bank report (Dernberger 1991, 532) was able to state: „The principal instrument of financial control over the [Chinese] economy is the state budget, through which about 30 percent of GDP flows." In 1994, government revenues accounted for only about 12% of GDP in 1994, a decline of 15.8% from the 1979 level. Falling revenues and rising expenditures led to a 480% rise in the Central Government budget deficit, from 11.5 billion yuan in 1990 to 66.7 billion yuan in 1995. In 1995, the Central Government issued 153 billion yuan of debt (2.9% of GDP), almost a sevenfold increase since 1990. The Central Government's ratio of debt issues to expenditures rose from 21 % in 1990 to 52.8% in 1995[1] (Gao 1995, 3). Deficit financing seems to have become the

1 Yuan is the unit of Chinese currency. One U.S. dollar is equivalent to approximately 8 yuan at the exchange rate in early 1996. In China, one hundred million is usually referred to as one *yi*, which is equivalent to one-tenth of one billion. Throughout this pa-

norm. Clearly, managing the public finances of China is an enormous challenge, but it is critical to the government's capacity to influence the course of the economy and sustain the pace of reform (Wang 1994).

Table 1. An Overview of the Chinese Economy

Year	GNP (Billions 1987 constant yuan) (1)	Annual Growth Percent (2)	Inflation Percent (3)	Central Level Budget Deficit (Billions yuan) (4)
1979	544.70		2.00	17.06
1980	587.20	7.80	6.00	12.75
1981	613.60	4.50	2.40	2.55
1982	667.00	8.70	1.90	2.93
1983	735.70	10.30	1.50	4.35
1984	842.70	14.54	2.80	4.45
1985	944.90	12.13	8.80	-2.16
1986	1020.80	8.03	6.00	7.05
1987	1130.10	10.71	7.30	7.96
1988	1252.40	10.82	18.50	7.86
1989	1305.20	4.22	17.80	9.23
1990	1379.90	5.72	1.60	13.96
1991	1475.10	6.90	3.00	20.27
1992	1677.50	13.72	5.60	23.75
1993	1902.30	13.40	14.50	

Source: K. Lieberthal. 1995. *Governing China*. N.Y.: W. W. Norton.
(1) p. 258; (2) Derived from (1) by J. Chan; (3) p. 271; (4) p. 250.

In pursuit of economic refom, China has initiated a series of steps to change its public budgeting system. A new Budget Law, promulgated in April 1994, has been in effect since January 1, 1995. As governmental accounting in China is heavily influenced by budget concepts and practices – indeed it is commonly called „budget accounting" – efforts are currently underway to formulate a new set of accounting standards. The dynamic changes in the budgeting system have created a great deal of uncertainty, as well as opportunity, for reforming Chinese governmental accounting. A purpose of this pa-

per, Chinese financial statistics are converted to billions, unless otherwise specified. Note the discrepancy between the deficit numbers quoted and those in Table 1. The authors lack the information to reconcile these numbers.

per is to explore governmental accounting standards issues that arise input from the changes introduced in the new Budget Law.

Section I describes the symbiotic relationship between public budgeting and governmental accounting in China. Section II documents the structure and process of Chinese public budgeting. Section III analyzes the 1994 Budget Law, focusing on changes that have significant accounting implications. The concluding Sections IV and V identify issues expected to be addressed in budget accounting standards.

I. Traditional Budget Accounting

A. A Taxonomy of Chinese Accounting

In recent years accounting in China has been undergoing major reforms as a result of its conversion from a centrally planned economy to what it calls a socialist market economy. A new set of accounting standards has been implemented for business enterprises operating in both the private sector and the public sector (PRC Ministry of Finance 1992). Next on the reform agenda is budget accounting. What is budget accounting?

1. The Domain of Budget Accounting

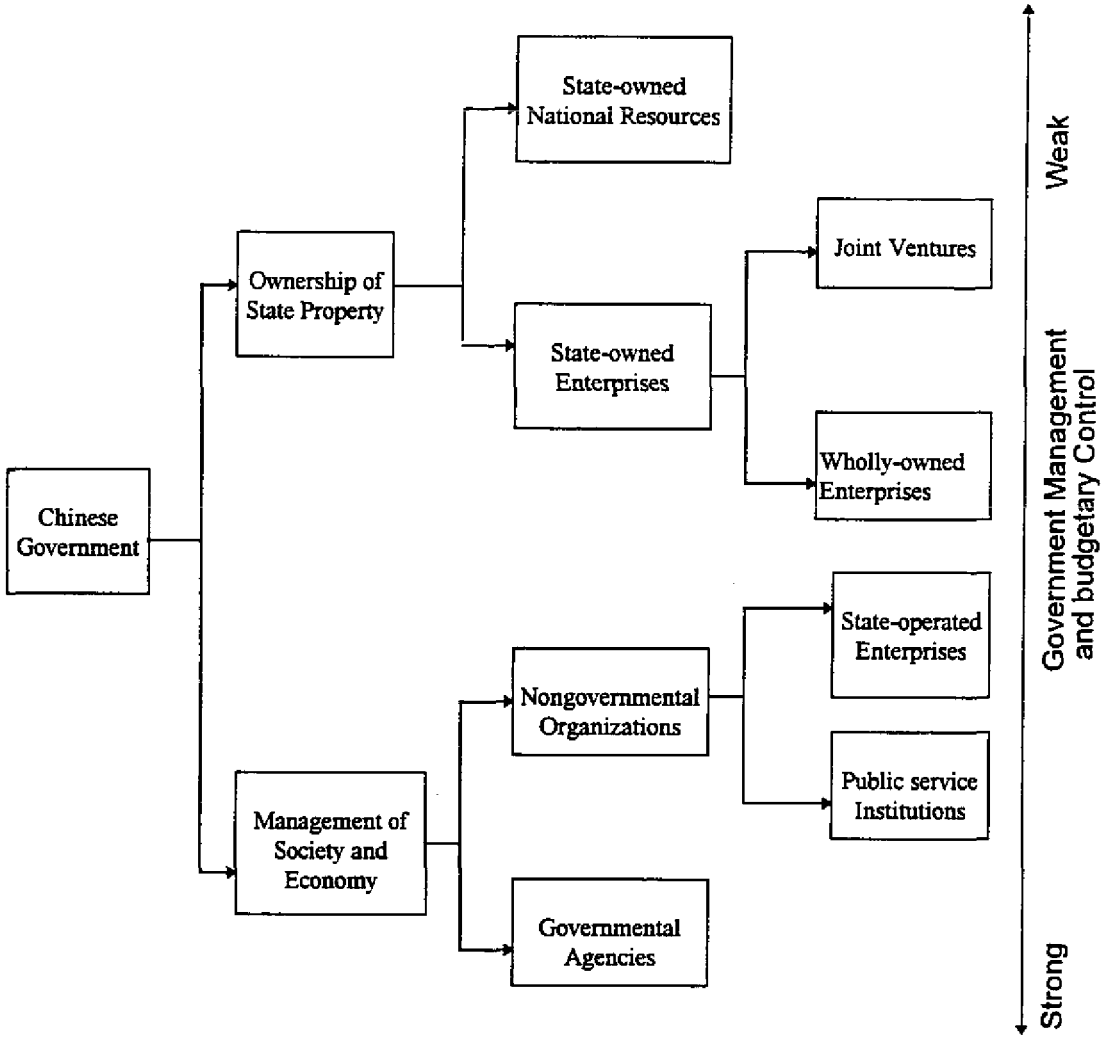
The term „budget accounting" is a reflection of China's official ideology of socialism. China's Constitution adopted in 1982 (Lieberthal 1995; Zheng 1992) contains the following relevant provisions:

> **Article 6.** The basis of the socialist economic system of the People's Republic of China is socialist public ownership of the means of production, namely, ownership by the whole people and collective ownership by the working people....
>
> **Article 7.** The state economy is the sector of socialist economy under ownership by the whole people; it is the leading force in the national economy. The state ensures the consolidation and growth of the state economy.
>
> **Article 15.** The state practices economy on the basis of socialist public ownership. It ensures the proportionate and coordinated growth of the national economy through overall balancing by economic planning and the supplementary role of regulation by the market. ...

Article 16. State enterprises have decision-making power with regard to operation and management within the limits prescribed by law, on condition that they submit to unified leadership by the state and fulfill all their obligations under the state plan....

Article 17. Collective economic organizations have decision-making power in conducting independent economic activities, on condition that they accept the guidance of the state plan and abide by the relevant laws.

Figure 1. The Functions and Organization of the Chinese Public Sector



Under these constitutional provisions, the Chinese state possesses both ownership and management functions (Figure 1). It owns national resources and business enterprises either wholly or partially. It is also responsible for managing the society and the economy. This second function is carried out through (a) state-operated enterprises and public service institutions, and (b) government administrative agencies, which implement public policies. As the right-hand side of Figure I indicates, budgetary control by the state is stringent for government agencies, moderate for goods/service producing organizations in the public sector, and minimal for enterprises in which the government has ownership.

2. A Sino-American Comparison

To avoid the need for repeated definitions, a few key terms should be introduced at this point. Table 2 provides a comparison between Chinese and American public sector organizations. In China, it is customary to refer to organizations as „units“ (or *danwei*). The implication is that, no matter how large an organization is, it is still a component (unit) of a larger entity – the state. The Chinese state is administered by a cabinet (called the State Council) under the formal oversight of the National People's Congress, with a similar setup at 4 to 5 levels of local government. There exists a formal separation between the parallel structures of the state and the ruling Communist Party. However, the party determines China's national policy, and party members occupy virtually all policy-making positions and most managerial positions (Lieberthal 1995).

Table 2. A Comparison Between Chinese and American Public Sector Organizations

China	U.S.
Administrative Units	Government Bodies: • Administrative • Legislative • Judiciary • Regulatory agencies
Institutional Units (Services)	Government-owned or affiliated • Universities and colleges • Elementary and secondary schools • Hospitals and other health care providers • Social service agencies • Public authorities (e.g. housing) • Government corporations (e.g. Postal Service)
Public Enterprises (Production)	Federal Government corporations (e.g. Tennessee Valley Authority) Local government enterprises (e.g. airports, utilities)

In the context of the Chinese state, there are three major categories of units: administrative units, institutions and enterprises. *Administrative units (lingzhen danwei)* make and implement public policies. They correspond to all types of governmental bodies in the American context, including governing boards and oversight bodies. Nonprofit organizations that render services are called *institutional units* or simply institutions *(shiyie)*. They correspond to government-owned educational institutions, health care providers, and social service agencies. American public authorities and government corporations also perform functions similar to some Chinese „institutions." In keeping with its socialist character, the Chinese state also owns or operates a large number of diverse *business enterprises* or simply as enterprises (*qiyie*), ranging from manufacturing concerns to trading companies and financial institutions. American counterparts to these are few in number, but would include the Tennessee Valley Authority for generating electricity, or local utilities and airports.

The diversity of Chinese public sector functions is reflected in Chinese public sector accounting. Conceptually, the Chinese public sector may be

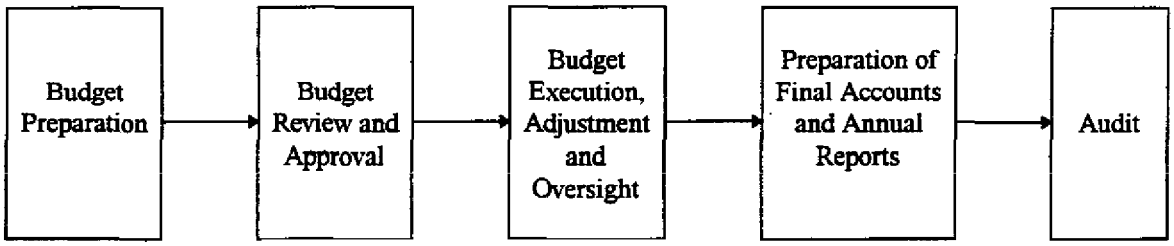
thought of as a decentralized firm with three types of responsibility centers: cost centers, break-even centers and profit centers. These correspond roughly to the administrative units, institutional units and public enterprises in the Chinese context. As state enterprise and the emerging private enterprises are required to follow the same set of accounting principles, the term *„enterprise accounting"* is commonly used to refer to state enterprise accounting. From the perspective of theory and practice, in a broad sense, Chinese *budget accounting* encompasses what would be termed „governmental accounting" and „nonprofit accounting" in the United States.

As a consequence of the state budget being a tool for central economic planning in a socialist country, Chinese governmental accounting is officially known as *budget accounting*. The influence of the budget is so strong that accounting as such does not have an independent identity. Accounting is considered only as a tool for monitoring and controlling budget execution. Furthermore, the term „governmental accounting" is often associated with the era prior to the establishment of the People's Republic of China in 1949 (Chan 1995). However, this ideological interpretation of the term has lost some of its validity as China moves toward a market economy.

B. Public Financial Management Process

The leading role of the budget is reflected in the design of the Chinese public financial management process. After the budget is prepared, it is reviewed and approved after any modifications are made. Budget execution follows, accompanied by the recording of financial transactions and activities. At the end of the fiscal year, the books are closed and annual accounts are prepared and audited (Figure 2)

Figure 2. The Public Financial Management Process in China



In comparison with the American system, there are a few noteworthy differences. First, an annual State Budget is articulated with the five-year national development plans currently in effect. Second, the preparation of the State Budget involves the combination of several levels of sub-national governments, eventually merging with the Central Government budget to form the State Budget (detailed in the next section). Third, while legislative bodies (People's Congresses at each level of government) have the formal authority of budget approval and oversight, the budget process is dominated by the executive branch, especially the Ministry of Finance and finance bureaus at lower levels of governments. Fourth, legislative monitoring of budget execution occurs within the fiscal year. Fifth, the „final accounts" (i.e. after the books are closed) are subject to the approval of legislative bodies.

As Chinese government accounting is currently in effect an adjunct to the state budget, it would not be possible to have a full understanding of it without comprehending the Chinese public budget structure and process in some detail. This is done in the next section.

II. Conventional Budget Accounting

The State Budget of China consists of the budget of the Central Government and the combination of provincial budgets (formally called the local government budget). These budgets are termed *„overall budgets" (jon yushuan)* to distinguish them from *„unit budgets." (danwei yushuan)* Logically, the budget accounting system is structured in terms of „overall budget accounting" and „unit budget accounting."

A. Overall and Unit Budgets

As Figure 3 shows, there are five levels in the budgeting system corresponding to the five levels of government in China – Central provincial city/county, town and village.[2] (Below the provincial level, there is a distinction between urban areas (i.e. cities) and rural areas.) The hierarchy of county, towns and villages applies to the rural areas; large cities usually contain several counties.

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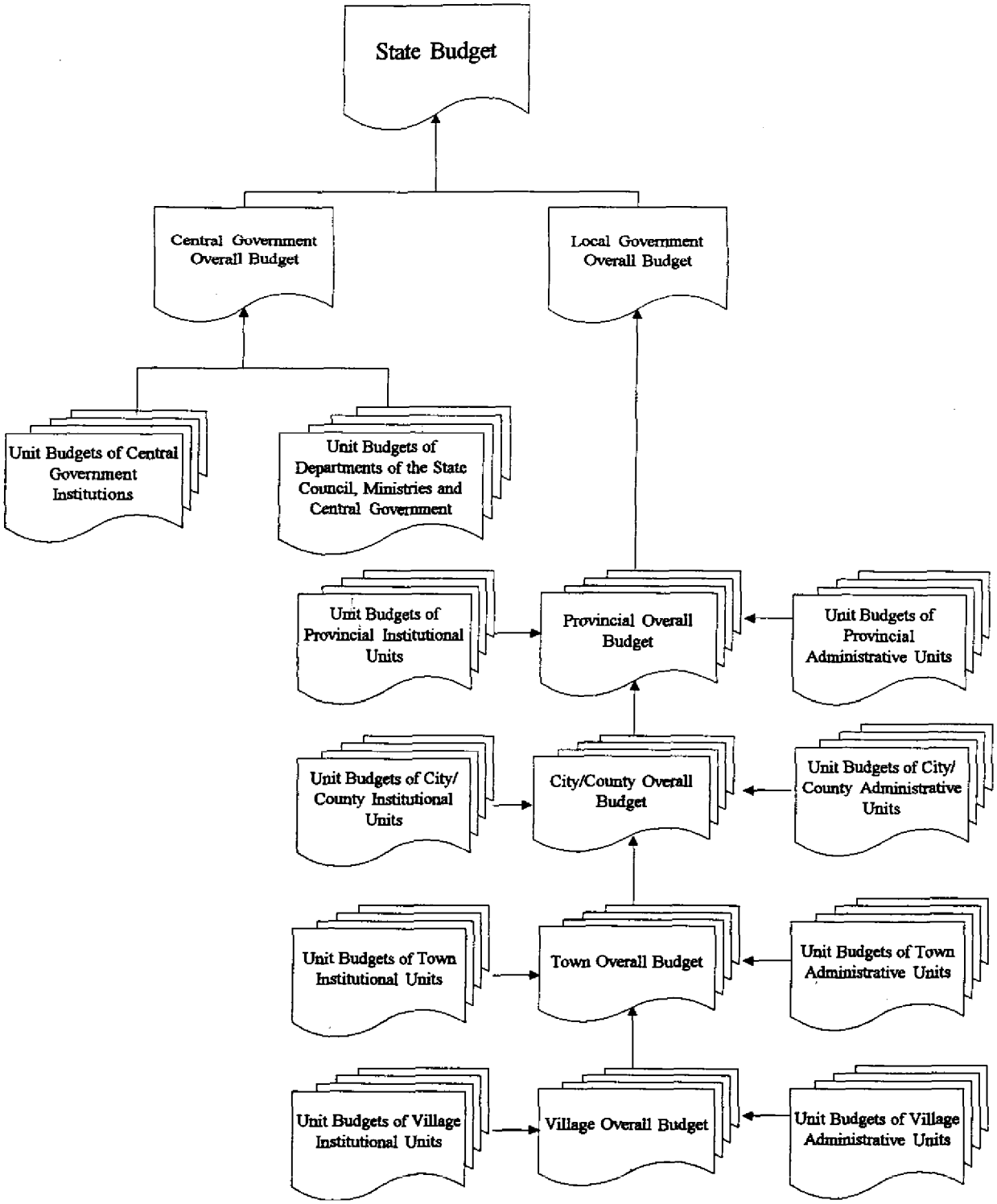
2 This is a general characterization. There are further divisions and exceptions. For example, major cities, such as Beijing and Shanghai, report directly to the Central Government and have the status of provinces for purposes of budgeting and accounting. Lieberthal (1995) is an excellent source of information of not only the formal structure of China but also how the system works in practice.

A few major cities, such as Beijing and Shanghai report directly to the Center and are regarded as provinces for purposes of financial management.

Figure 3. Budget Structure and Preparation in China



Starting from the bottom rung of the hierarchy of the Chinese government, the overall budget of a village is made up of the unit budgets of all institutions and the unit budgets of all administrative agencies at the village. (In contrast to the pre-reform period, the budgets of government-owned public enterprises are not included in the overall budget of government at all levels.) Likewise, all unit budgets of a level are reviewed and approved at their respective level. This horizontal aggregation of the budget preparation process is repeated at each of the village, town, city/county, and provincial levels, as well as at the Central Government level.

The overall budgets of all villages in a town are submitted to the town, the next higher level of government, where they are reviewed, modified and eventually approved. Plus, the town level of government has its own administrative agencies and institutions, and the unit budgets of these town-level organizations are also prepared, reviewed and approved at the town level. At this point, the town overall budget is formed by merging the approved town-level unit budgets as well as the approved overall budgets of the town's subordinate governments (namely the villages). This vertical integration process of successive review, approval and submission is repeated upward: villages ==> towns ==> counties/cities ==> provinces and eventually to the Center.

At the Central Government level, the overall budgets of all the provinces (collectively termed the *„Local Government Overall Budget")* are merged with the *Central Government Overall Budget* to constitute the *State Budget.* Thus China has a unified public budget. (In contrast, the Budget of the United States Government does not encompass those of 50 states and the over 80,000 local governments. Nor is it a common practice for the budget of an American state, i.e. the equivalence of a Chinese province, government to include the budgets of the local governments in its jurisdiction.)

As we have seen, unit budgets are the building blocks of an overall budget in the Chinese public budgeting system. The system classifies units, administrative agencies and institutions, in terms of their dependency for the state's budgetary support. Organizations that depend completely on the higher-level government's budget support are termed *„full budget management units."* Some institutions (e.g. hospitals and educational institutions) are permitted to charge fees for their services on a regular basis. They may nevertheless ask for subsidies to cover some of their costs. These are called *„differential budget management units."* Finally, organizations expected to cover all their costs from their own revenues – self-supporting operations – are descriptively

called *„self-receipt self-payment budget management units"* (Tang 1992, 148-149).

The highly integrative nature of the Chinese budgeting system requires the support of an equally integrative accounting system. There are nationwide uniform charts of accounts for revenues and expenditures. Not only do the unit budgets have to tie with the overall budgets, a unit budget for a multi-level organization is supported by an accounting system at each level. Elaborate systems, procedures and forms are designed to process a vast number of upward remittances and downward allocations of funds, transfers and grants. These are described in Chinese-language textbooks (e.g. Shi and Jiang 1993). What follows is a distillation of a few important concepts underlying the current system.

B. Characteristics of the Chinese Budget Accounting System

„Budgeting dictates accounting." This is probably the simplest way to sum up the way government accounting is practiced in China today. The budget laws enacted are elaborated by rules and regulations issued by the Ministry of Finance. The Bureau of Budget Management in the Ministry of Finance develops accounting rules and procedures that conform to and support the budget rules and procedures. The advantages of this system are (a) it ensures consistency between budgeting and accounting and (b) it enjoys the enforcement power of the state. These advantages could, paradoxically, turn out to be obstacles to introducing changes to the accounting system. After being appended to the budget for so long, Chinese government accounting has a weak conceptual and institutional base to launch a major reform. Nevertheless, incremental progress can still be achieved by attempting to understand the characteristics and rationale of the current system.

1. Accounting as a Budget Tool

As indicated earlier, parallel to the system of overall budgets and unit budgets is a system of „overall budget accounting" and „unit budget accounting." The overall budget accounting systems are operated by the Ministry of Finance and the finance bureaus at each subordinate level of government. They track the execution of overall budgets – i.e. receipts and payments. Reports are prepared on the tenth day of each month; in addition, monthly, quarterly and annual statements are submitted. These statements basically report the amounts of the various sources and uses of funds. The primary objective of

the accounting system is to prevent spending in excess of appropriations, and to ensure the collection of revenues.

Each of the administrative units or institutions („units") has its own accounting office. The hierarchical structure of these accounting offices resembles their reporting relationships to their oversight government agency. There can be as many as two levels of accounting offices below the supervisory accounting office. Unless one actually sees the piles of forms and rows of desks in an office, it is hard to imagine the sheer size of the Chinese financial bureaucracy. Perhaps one statistic captures it: there are almost two million accounting functionaries toiling their trade.

What are a few significant features of the Chinese government accounting system as it is practiced today? The next section attempts to answer this question by describing some of its characteristics.

2. Characteristics

Chinese budget accounting is currently characterized by its faithfulness to the prevailing national policy, a high degree of uniformity and broad coverage (Shi and Jiang 1993, 10-15).

Budget accounting in China keenly reflects the prevailing political ideology and public policy. In an officially socialist country like China, the government budget is an integral part of its economic development plan to achieve certain national goals in keeping with the direction determined by the Chinese Communist Party. Upon its adoption by the National People's Congress, the budget becomes law. Budget accounting fulfills its budget enforcement function by dutifully tracking the flow of budgetary resources.

This view of Chinese budget accounting may miss a larger point: the state budget no longer plays the role it used to assume. When the government played an exclusive or at least dominant role in determining the course of the Chinese economy, the state budget was an instrument of proactive macroeconomic planning and management. Budget accounting, observed Shi and Jiang (1993, 11), „is really about planning and control."

The role of the state budget in a *socialist market economy* is less certain and clear. It certainly retains its managerial function with regard to the core of government (i.e. the administrative agencies). The Chinese Government, like all governments, conducts monetary policy. It is in the area of fiscal policy where issues have arisen: To what extent should the State Budget subsidize failing state enterprises? How should the Central Government and local

governments divide (or share) service responsibilities and their financing? What activities and revenues should be „on budget“ or „off budget“? While budget accounting, per se, is not concerned with such policy questions, the answers to these questions nevertheless determine what is to be accounted for.

Chinese budget accounting is highly uniform. The uniformity is a consequence of the Central Government's authority to prescribe the laws and regulations and the existence of an elaborate administrative apparatus to enforce them. (The Audit Administration is part of the State Council and the Auditor General reports to the Prime Minister.) The regulations determine such details as the chart of accounts for all the administrative units and institutions at all levels of government throughout China. The accounting procedures and the form and content of accounting reports are also mostly centrally determined. The implementation and enforcement of these uniform policies and procedures is facilitated by a large network of local chapters of the Chinese Budget Accounting Society, which was established in 1990 under the *auspices* of the Ministry of Finance. The society publishes the monthly journal Budget Accounting, which that disseminates policy pronouncements on a timely basis. Since 1992, budget accounting has also been recognized as a specialty at par with enterprise accounting in the national accounting professional qualification examination.

Normatively, Chinese budget accounting is encompassing in its scope. Until recently, it used to encompass not only government administrative agency accounting, public institution accounting, but state enterprise accounting as well. As a consequence of economic reform, state enterprise accounting has been separated from budget accounting, even though standards are still set by the government through an unit of the Ministry of Finance. Currently there is a debate on whether institutional accounting should be disassociated from budget accounting (Lee 1996). That is not likely to occur so long as state-sponsored institutions rely on state budgets for financial support to any significant extent. Even if institutional accounting became a separate system for purposes of standard setting, the standards would still be determined by government. Nevertheless, it is interesting to notice how a diminished public purse has raised questions about the applicability of accounting rules designed for the state's budgetary control. It is too early to expect any consensus on this critical issue. The conservative forces are strong. „To simply equate governmental accounting under capitalism and budget accounting under socialism,“ protest two Chinese experts (Shi and Jiang 1993, 13), „degrades the status and functions of Chinese budget accounting. This is both very partial and unjust.“

While the foregoing may be an accurate normative account of how budget accounting in China is supposed to work, the way in which public finance is conducted in China nowadays compels a review of the traditional precepts. We therefore turn to a major milestone in the form of a recent budget law.

III. The 1994 Budget Law

In 1994, the People's Republic of China promulgated a new Budget Law to be effective on January 1, 1995. This law replaced the 1991 „State Budget Management Regulations" then in effect. While the new law codifies and reaffirms most of the current practice, several reform measures were introduced. These will be emphasized in the following analysis.

A. Scope

The 1995 Budget law provides the legal basis for all phases of the Chinese public financial management process outlined in section 1. After laying out general principles, the Law in ten chapters and seventy-nine articles deals with: the jurisdiction of budgetary control; budgetary revenues and expenditures; budget preparation; budget review and approval; budget execution; budget adjustments; final accounts; oversight and legal responsibilities.

In this section, the Budget Law will be analyzed in terms of institutional alignment and substantive policies. (An unofficial translation of the Budget Law is available from the author.)

B. Institutional Structure

The formal hierarchical structure described in Figure 3 is maintained by the 1994 Budget Law. There are however some changes. Perhaps the most important is the adjustment of the relationship between the Center and local governments through the system of separate revenues. The other major change concerns the role of the People's Congress in the budgetary process.

Traditionally public budgeting in China is regarded largely as part of an administrative function. Budget submission to the People's Congress, as the Chinese legislative body or parliament is called, is a legal formality; approval by an overwhelming majority is routine. While there is no reason to expect a drastic change in this basic situation, the new Budget Law does give consider-

able formal authority to the People's Congress at each level of government throughout the process.

In particular, the People's Congress or its Standing Committee at each level of government is empowered by the Budget Law to (a) review and approve the draft budget submitted by the administrative branch; (2) review and approve requests for budget adjustments; (3) receive reports of budget execution at least twice a year; and (4) review and approve draft final accounts. It is not clear whether these formal powers will be fully exercised by the People's Representatives (as Chinese legislators are called).

Much of the 1994 Budget Law is devoted to a detailed prescription of the vertical relationship between lower- and high-level governments, especially between the Center and subnational governments. In particular, the State Planning Commission and the Ministry of Finance at the national level wield considerable power over the local government sector through policy directives as well as through a vast network of finance bureaus throughout the country. Unlike the American system where the administration receives budget appropriations from Congress, Chinese government agencies receive their appropriations from finance bureaus at the same level of government. Financial transactions are handled through branches of the Treasury run by the People's Bank of China. The hierarchical nature of the institutional setup enables the Center to exercise what a 1983 World Bank report labeled as „centralized financial surveillance and control" (Dernberger 1991, 537).

Whereas the Budget Law meticulously lays out the institutional structure and the process for preparing various documents, one has to search through the documents for insights about the Chinese government's current budget policy. The result of such an effort is presented in the next section.

C. Budget Policy

Budget policy refers to a government's decisions about resource allocation and the means of financing public expenditures. The 1994 Chinese Budget Law enunciated a few general principles and formally endorsed the system of shared revenues and the system of dual budgeting.

1. General Policies

The Budget Law affirms several budget policies:

First, local governments are not allowed to run deficits or issue bonds (Article 28). The Central Government is not permitted to run deficits either in its „public budget". However, the Central Government is permitted to borrow funds for capital projects as appropriate (Article 27).

Second, budget decisions should be guided by „the principle of economy and saving." A balance should be struck between overall well-being and priorities, such as „government public expenditures" (Article 30) and the development of poor regions (Article 31).

Third, budgeted revenue should maintain „an appropriate relationship with the growth rate of the Gross National Product" (Article 29).

Fourth, the budget for a particular year should be based on the results of the previous year and current projections (Article 25), with 1-3 percent of the budget reserved for unforeseen requirements (Article 32).

In addition, the 1994 Budget Law reaffirms two recent initiatives: (a) establishing a system of separate revenues for the Center and local governments (Article 8), and (b) setting up a „dual budgeting" system. These relatively new ideas are discussed in the following sub-sections.

2. Separate Revenue System

The realignment of the service functions and fiscal base of the Center and local governments has been a key concern in Chinese public finance in recent years. The 1994 Budget Law gave new force to the concept of „separate revenues" *(fensui)* for each level of government.

In the past, local governments remitted local tax revenues in amounts predetermined by the Central Government and in turn awaited the Center's budgetary support. Now, four criteria have been established to guide fiscal relations between the different government levels: (a) Budgetary support should be commensurate with the level of management responsibility. (b) Budget support should be consistent with service burden. (c) Budget support to and demand for remittance from a region should be based on its fiscal ca-

pacity. (d) Budgetary allocation should be sensitive to the needs of nationality minorities[3] (Shi and Jiang 1993, 123-126).

After experimenting with several ways of sharing revenues, China's new alignment of revenues and expenditure between the Central Government and local governments is as follows:

The Central Government is assigned custom duties, consumption taxes, and certain other revenue sources. These revenue sources support: (a) national defense and foreign policy; (b) the Central Government's administrative costs; (c) large-scale construction projects and infrastructure development; (d) scientific and technical projects of national significance; and (e) major higher education instituions.

Local governments are designated business operation taxes, real estate taxes and individual income taxes, as well as some other revenue sources. These revenue sources support: (a) social welfare programs; (b) cultural, educational scientific, public health and sports expenditures; and (c) local government administrative costs.

In addition, company income taxes, natural resource taxes and value-added taxes are shared between the Central Government and local governments.

The delineation of separate and shared taxes has the potential of significantly altering the relationship between the Center and local governments. It accommodates the desire for greater fiscal and decision autonomy on the part of local governments, especially the prosperous ones in the coastal region. At the same time, the system also reduces the Center's reliance on upward remittances by lower-level governments. As the system is still being implemented, it is too early to reach any firm conclusion as to its long-term impact. What is clear at this point is the concept and practice of a tightly knit State Budget based on the principle of successive combination is being weakened.

3. Dual Budgeting System

Since 1949 China began using what might be called a „single budget system" which made no formal distinction between operating and capital expenditures. Beginning in 1992, government budgets in China were required to separate

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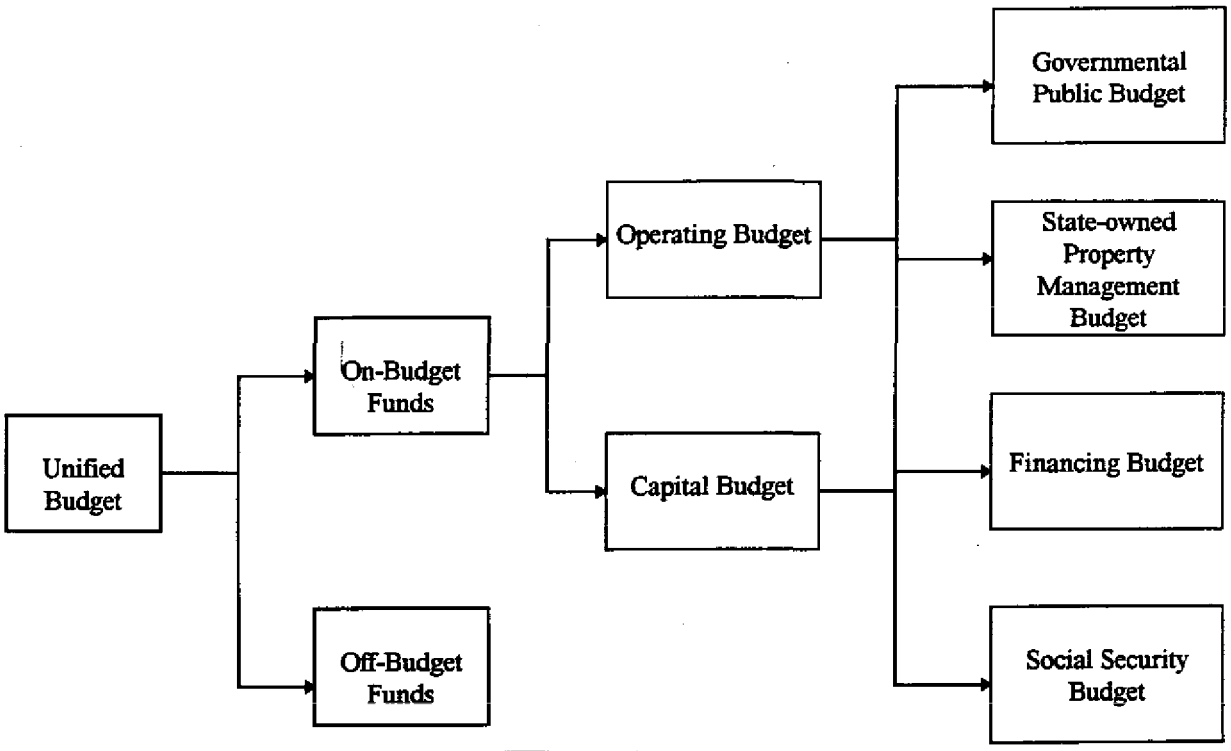
3 National minorities refer to ethnic minorities who live mostly in the border regions such as Tibet and Sinjiang. The areas populated largely by the minorities are usually given the status of autonomous regions (or countries and villages).

expenditures into recurring expenditures and development expenditures (Shi and Jiang 1993, 143-146). This system, commonly translated and translated as „dual budgeting," was initially discussed in terms of separate operating budgets and capital budgets[4] (see Figure 4). However, as will be explained later, dual budgets will soon become multiple budgets.

Figure 4. From Single Budget to Multiple Budgets



The single budget system has the advantage of a simple structure and relatively easy preparation. It succinctly presents an overview of budget receipts and expenditures. Such a budget, however, does not clearly recognize or differentiate the nature of each type of government receipts and expenditures. Nor can it help policy makers trace the causes of budget deficits or identify funding sources for solving the deficit problem. Since economic reform began in China in 1979, there have been many structural changes in the economic system and in public finances. The single budget system was judged to be inadequate for meeting the needs of economic reform.

4 A similar system is used by the Federal Government in the United States. American state and local governments, however, usually have an operating budget and a capital budget. The operating budget is usually required by law to be balanced, while the capital budget is financed by debt, capital grants and, usually to be a limited extent, by current revenues.

The adoption of the dual budgeting system has been justified on the following grounds: (a) the recurring vs. development classification better reflects the functions of a socialist country; (b) it improves the transparency of the budget, thereby facilitating budget deficit control and the planning of borrowing; (c) it tightens budget restraints, thus raising the effective utilization of budgetary resources (Shi and Jiang 1993, 144-145). Each of these reasons is briefly described below.

Functional Classification of the Budget. As a socialist country, the Chinese government has two basic functions: social management, and the direct conduct and indirect regulation of the national economy. Accordingly, Chinese public finance also has two functions. The first function is to use the sovereign power of the state to redistribute income and to raise the people's standard of living by ensuring the normal working of the government and development of various social service institutions. The second function is based on the collective ownership of economic resources. Here the objective is to expand the production of goods directly or through the development of productive capacity or macroeconomic regulation.

Accordingly, the dual budgeting system associates recurring expenditures needed to support the normal functioning of the state and social development with revenue sources derived from the exercise of the sovereign power of the state. On the other hand, the investment-oriented funds for expanding productive capacity should come from the retained earnings of state enterprises established under the principle of collective ownership. The intent is to establish a stable and balanced relationship between recurring expenditures and developmental expenditures. The recurring budget is prepared ahead of the development budget. It is insisted that the recurring budget be balanced and expenditures be rigorously controlled. Projected surplus in the recurring budget is transferred to the development budget. The guiding principle for the development budget is: spending depends on the availability of funding; or in the form of a slogan, putting food on the table ahead of development. Clearly, the philosophy is to put more emphasis on current consumption.

Increased Budgetary Transparency. The separate disclosure of recurring expenditures and development expenditures is also expected to help control the budget deficit and determine the size of borrowing. The magnitudes of these two types of spending can point to the extent to which the two national functions described earlier are being carried out, and the relative weight given to each one. When a deficit arises, one can ascertain whether it is an operating deficit or if it can be traced to other causes. Similarly, the reasons for government borrowing and the uses of borrowed funds are to be clearly disclosed.

Increased Effectiveness in Resource Utilization. Under the dual budget system, the recurring budget is placed under severe constraints. Recurring expenditures can only be financed by recurring revenues. Local governments are prohibited from incurring deficits in the recurring budget, and are encouraged to use it to subsidize development expenditures to the extent possible. The Central Government is allowed judicious borrowing. The side benefit of the dual budget system is to put all public debt under central management and greater control. The preparation of a development budget is intended to sensitize policy makers to the concept of return on investment and the capacity to service debt.

The application of the principle stated earlier led to the following assignment of financing sources: (a) Recurring budget revenues are derived mainly from various taxes, including enterprise income taxes. These are used to finance operating or recurring expenditures, which are expenditures for running the government, and paying for social development and social security. These are classified in terms of nonproductive capital construction, agriculture, forestry, irrigation, culture, science, public health, industry and commerce, relief and social welfare, administrative expenses, the cost of the judicial system, police, national defense and foreign affairs, subsidies, and others. (b) Development budget revenues come primarily from transfers from the recurring budget, receipts from specific projects (e.g. tax for urban renewal, fees for developing water supplies), and borrowing from domestic or overseas sources. It should be noted that the concept of „developmental expenditures" is quite broad. Examples include infrastructure construction costs, research and development expenditures, new product testing, geological exploration, urban renewal and aid to underdeveloped regions.

For reasons that are not clear to an outside observer, the original recurring (operating) and development (capital) binary classification has been replaced by a fourfold classification to be effective in 1997 in connection with China's Ninth Five Year Plan. The new categories are: government public budget, state-owned property management budget, financing budget and social security budget (Yang 1995, 16). It appears that the „government public budget" is synonymous with the recuning or operating budget, which is financed largely by taxes. The „state-owned property management budget" is for capital expenditures to be financed by earnings derived from using public property. The financing budget accounts for debt issuance and debt service, as well as other credit activities. Finally, the social security budget is a conglomeration of retirement funds and unemployment insurance funds; no specific revenue sources are identified except „financing through administrative measures" (Yang 1996, 16).

The new classification system represents a significant departure from the original conception of dual budgeting. The current literature is not clear about the exact demarcation of the boundaries of these categories. The rationale for the new system has also not been fully explained. What is predictable, based on the American experience, is that the multiple budgets will give rise to a proliferation of deficit (or surplus) numbers for different components of the budget. This could lead to confusion and debates on the size of „the deficit" number.

4. Further Developments

After the Budget Law was promulgated in April 1994, China began an effort to create a body of accounting standards in support of the law and to provide guidance for the development of accounting systems. In September 1994, the Bureau of budget Management of the Ministry of Finance convened an „International Symposium on Governmental Accounting and Treasury Management." This symposium was noteworthy in several respects. First, the term „governmental accounting" reemerged as part of the official lexicon, signifying at least a willingness to reconsider the relationship between budget accounting and governmental accounting standards. Second, as evidence of its desire to harmonize accounting standards with international norms, a half dozen experts from other countries were invited to share their experiences.

For the last several years, a small group of Chinese budget accounting experts has been functioning as a de facto standards advisory board to the Ministry of Finance, which has the legal authority to promulgate accounting. The following sections offer a perspective on developing govermnental accounting standards in China.

IV. A Perspective on Developing Governmental Accounting Standards in China

A. Scope and Objectives

The ambiguous identity of Chinese governmental accounting is due to the transformation of the public sector in China. When the state was the sole owner of all property and a major producer of goods and services in the socialist economy, governmental accounting was all encompassing. It was further labeled as budget accounting to emphasize the role of the budget in planning and controlling the economy and society. However, as state enterprises

became privatized completely or partially in the emerging market economy, their accounting began to form a separate identity, as evidenced by a high degree of conceptual development and professional expansion. The global reach of Chinese business enterprises and their association with foreign firms (e.g. joint ventures) has also motivated the articulation of Chinese accounting with international standards. There exist now a separate Accounting Law and a body of standards for business enterprises, developed with extensive international consultation and technical advice (PRC Ministry of Finance, 1992).

Next came the increased fiscal autonomy of state-owned or affiliated institutions that produce a vast array of public services. As more of these institutions are expected to be selfsupporting from user charges – off-budget funds – they take on the character of business enterprises. A natural byproduct of this trend is the accounting for these institutions to become further removed from the domain of budget accounting. Indeed, a set of institutional accounting standards has recently been promulgated, and its coverage under the budget accounting umbrella is being debated (Lee 1996).

Consequently, the scope of governmental accounting has been effectively reduced substantially to essentially the core governmental entities and functions. As such, „budget accounting" is ironically an apt description of the accounting for the uniquely governmental entities and activies. In China, as is the case throughout the world, the budget is universally a public policy statement and a tool for planning and controlling governmental activities. We may have therefore found something common to governmental accounting in all political and economic systems: in so far as accounting for purely governmental functions is concerned, the objective of accounting everywhere is to facilitate budgetary control.

However, the scope of governmental accounting need not be the same as the public budget. As the statistics cited at the beginning of this paper suggest, the coverage of the Chinese State Budget has diminished rather substantially in the last twenty years. Paradoxically, the scope of accounting has to expand to compensate for the shrinking coverage of the public budget.

This issue of the relationship between budgeting and accounting may be illustrated by offbudget funds. A serious problem in Chinese public finance is the growing proportion of so-called off-budget funds. As a percentage of budget receipts, off-budget funds stayed at 25% or less in the 1950s and 1960s. It jumped to 75% by the early 1980s and was almost equal to budget receipts by 1990 (Wang 1994, 42).

Off-budget funds by definition are not subject to the same degree of scrutiny and control as on-budget funds. Is it bad policy to allow off-budget

funds? Not necessarily. Off-budget funds might be viewed as a deliberate move to allow or even encourage fiscal autonomy so as to reduce the dependency on the State Budget. Managers have the incentive to market their services and please fee-paying customers. An entrepreneurial spirit serves as an antidote to fight bureaucratic indifference. Within the public sector, a fee-supported market economy now competes with the budget-supported bureaucracy.

The problem is that in the absence of (the enforcement of) clear public policy regarding when and how much to charge for services, the public may be faced with a proliferation of authorized and unauthorized fees. Reduced fiscal discipline invites mismanagement and corruption. At best there are a „second budget" and two sets of books. At worst, no books are kept for off-budget money, in spite of requirements to account for both on-budget and off-budget funds. From the point of view of public accountability, weaker budgetary control has to be reinforced by a stronger accounting system.

Liberating governmental accounting from the conceptual and institutional constraints of budgeting has a number of advantages. First, as discussed above, it prevents resources from escaping financial accountability. Second, it becomes possible to introduce additional concepts and measures in the public financial management system. This second point will be elaborated in the next section.

B. Measurement Focus and Basis of Accounting

Like governmental accounting in many other countries, budget accounting in China uses the cash basis of accounting, keeping track of cash receipts and disbursements. The basic accounting equation is:

Fund sources - Fund applications = Fund balances

While this system may be adequate for the purposes of budgetary control, it has led to inaccurate deficit measures and neglect of long-lived assets and long-term liabilities.

1. Deficit Measurement

The focus on current financial resources has led to the inclusion of debt proceeds along with revenues as fiscal receipts in the Chinese Government's official calculation of budget deficits. Table 3 and Figure 5 compare the official

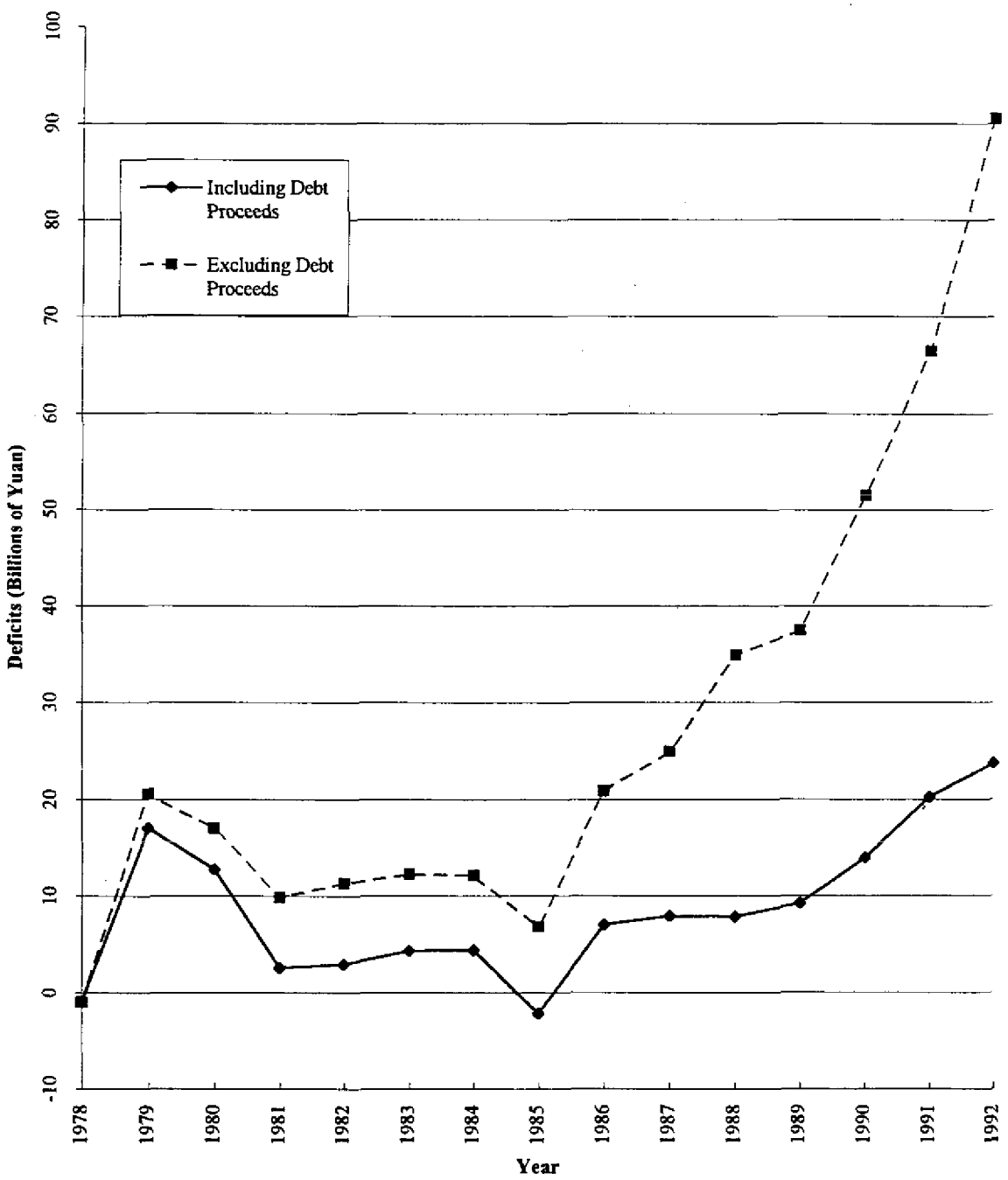
deficit numbers (also included in Table 1) with „real deficit" numbers for which debt proceeds are excluded (Wang 1994, 82 and 86).

Table 3. Chinese Government Budget Deficits

Year	Deficits (Billions of Yuan)		Deficits (% of GNP)		Bank Overdraft (Billions of Yuan)
	Debt Proceeds		Debt Proceeds		
	Included	Excluded	Included	Excluded	
1978	-1.01	-1.01	-0.28	-0.28	
1979	17.06	20.59	4.27	5.15	
1980	12.75	17.05	2.85	3.81	
1981	2.55	9.86	0.45	2.07	
1982	2.93	11.32	0.56	2.18	
1983	4.35	12.29	0.75	2.11	
1984	4.45	12.18	0.64	1.75	26.08
1985	-2.16	6.83	-0.25	0.80	27.51
1986	7.05	20.88	0.73	2.15	37.01
1987	7.96	24.92	0.70	2.20	51.50
1988	7.86	34.94	0.56	2.48	57.65
1989	9.23	37.53	0.58	2.35	68.46
1990	13.96	51.50	0.78	2.87	80.11
1991	20.27	66.41	1.02	3.34	106.78
1992	23.75	90.49	0.99	3.78	

Source: Adapted and translated from Wang, S. G. 1994. *Report on the State Capacity of China.* Hong Kong Oxford University Press, Table 4.3.

Figure 5. Chinese Government Budget Deficits



Source: Adapted and translated from Wang, S. G. 1994. *Report on the State Capacity of China*. Hong Kong: Oxford University Press, Figure 4.4.

Prior to 1978 when the Chinese borrowed a negligible amount, there was no discernible difference between these deficit measures. However, borrowing

has escalated steeply since the mid-1980s, amounting to 66.7 billion yuan in 1992. During this period, the government's bank overdraft almost quadrupled. During the period from 1979 to 1992, cumulative deficits amounted to 416.8 billion yuan or 356 yuan per person for China's 1.2 billion people. In explaining the 90.5 billion yuan difference between 1992 budgetary receipts and expenditures, the Chinese Finance Minister disclosed that the government had borrowed 45.5 billion yuan from domestic sources and 21.2 billion yuan from foreign sources, leaving a „hard" deficit of 23.7 billion yuan (Wang 1994, 85).

As indicated earlier, Chinese local governments are prohibited from running deficits or borrowing (presumably in part to cover the deficits). The Central Government, while being required to balance its operating budget, is permitted to borrow judiciously to finance capital construction projects. As discussed earlier, the dual budget system was initially proposed to create a separation of operating and capital expenditures. The new four-way classification system has thrown this separation into doubt.

2. Asset and Liability Recognition

In view of the decision to set governmental accounting standards, it is not find that a debate has begun in China on whether to adopt the accrual basis of accounting. Traditionalists argue that in keeping with its distinctive function of budgetary control, budget accounting should continue to use what amounts to the cash basis of accounting. Others view accrual basis as progressive reform. If the history of a similar debate in the United States is any guide, such a debate will be prolonged and exhausting. While it is impossible to forecast the outcome of a debate over the adoption of accrual-based accounting, it can be confidently predicted that if and when it were adopted, it would lead to the recognition of substantial assets and liabilities of the Chinese governments.

The case for accrual accounting can be buttressed by the decision to adopt the dual budget system. The underlying rationale for such a budget system is that there is a fundamental difference between consumption expenditures and investment expenditures. The former benefit the current period, while the latter benefit the future through the creation of capital. As assets are basically economic resources capable of producing future benefits, substantial investments in physical capital would not be recognized as assets under the cash basis of accounting. The following table shows the amounts of investments in fixed assets by state-owned units in the 1980s in billions of yuan (Beijing Review Press 1989, 99):

Year	81	82	83	84	85	86	87	88
Yuan	96	123	143	183	254	301	364	449

Without using the accrual basis of accounting, there would not be accounting recognition of the Chinese government´s vast holding of public property. In recent years, the Chinese government has mounted an effort to prevent the loss and exploitation of public property. Due to practical reasons (e.g. the difficulties of the inventorying all state property) and theoretical reasons (i.e. the absence of market value in most cases), no one really knows the amount of the Chinese government's assets.

On the other side of the balance sheet, the application of the accrual basis could be expected to reveal huge amounts of long-term liabilities, in addition to bonded debt, particularly for employee retirement benefits. This is a particularly serious issue in light of the rapid „graying" of the Chinese population. In 1991, the number of retired persons reached 24 million or one retiree for every six workers. Retirement benefits in that year amounted to 55 billion yuan. (Wang 1994, 104).

The development of accounting standards calling for the systematic recognition and measurement of all kinds of liabilities would be a major step toward getting a clear picture of the financial position of the Chinese government.

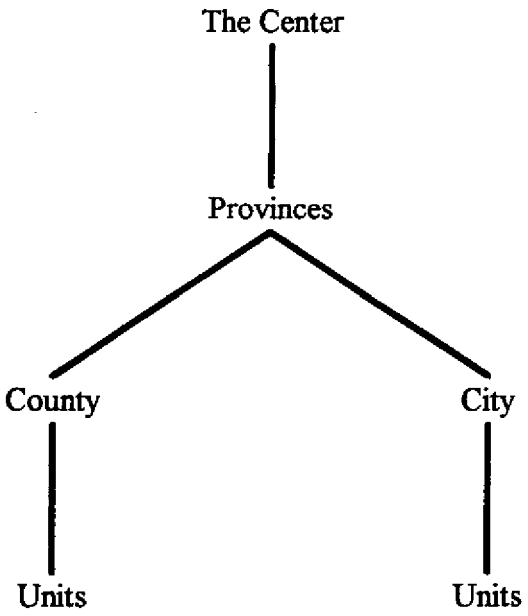
D. Organizing Frameworks

The Chinese budget accounting system is predicated on a hierarchy of successive aggregation of unit budgets into overall budgets (Figure 3). There exists an overall budget accounting system corresponding to each overall budget, and there exists a unit budget accounting system correspondig to each unit budget. While this hierarchical arrangement (Figure 6, Panel A) is still applicable to the *core* of government, i.e. the administrative units, it no longer adequately describes well how economic life is organized in China today.

Figure 6. Two Perspectives on Chinese Organizations

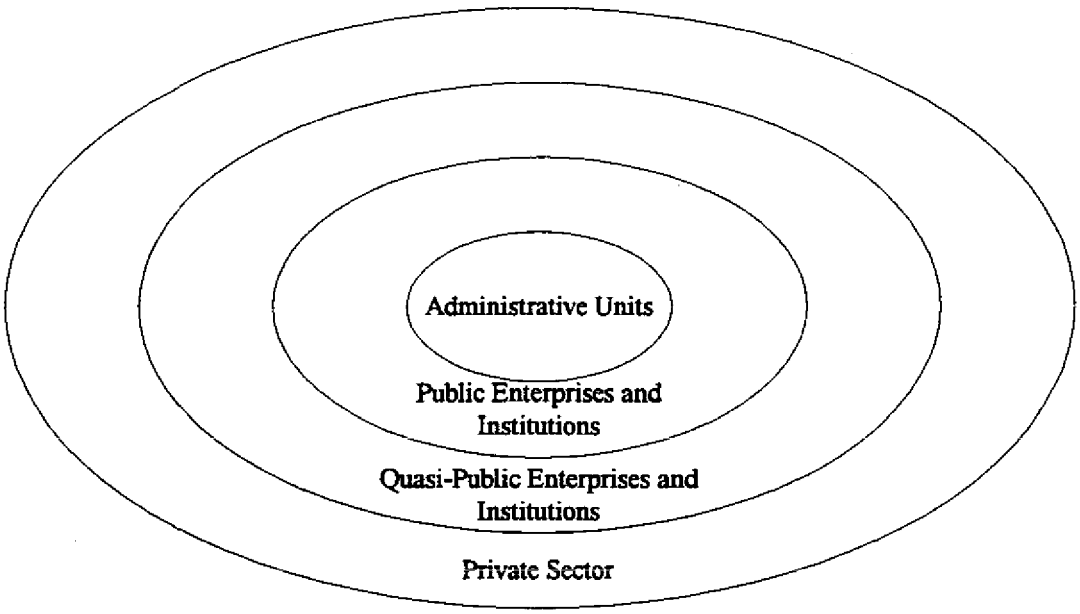
Panel A

Hierarchy



Panel B

Concentric Circles



In the China of the foreseeable future, assuming the current policy holds, the „concentric circles“ view will probably be a more accurate reflection of the macroeconomic and societal arrangement. The administrative units and the underlying Communist Party policy-making structure will continue to function as the figurative – as well as real – center for governing China. Rather than sitting on top of everything, however, the policy making and apparatus of government is surrounded by several layers of organizations. The inner-most layer consists of public enterprises and institutions wholly owned by the state and therefore directly controlled by the government through administrative directives. One layer removed from the center are the quasi-public enterprises and institutions in which the state holds partial ownership. The extent of ownership can range from a voting majority to a minority interest in a joint venture. At this level, procedural control is gradually replaced by outcome-based performance indicators, such as profit or return on investment. Management is afforded a higher degree of discretion in running these entities and are free of the 10-day, monthly, and quarterly reporting requirements imposed on administrative agencies by the budget accounting system. Here we reach the outer parameter of what may be properly called „the public sector.“ In the outer rim are private sector businesses and households whose behavior is regulated by laws and state-enforced private contracts.

The concentric circle view, if accepted, would represent a kind of paradigm shift in Chinese public sector accounting. First, it acknowledges what is already going on: the state budget no longer funds or controls every single economic activity in China. The budget accounting system has to devise, in addition to the compliance measures, performance measures appropriate for each type of entity. Second, a budget would no longer be just a request for funds – a cost budget. There could be profit budgets and investment budgets. As such, a budget is also a financial plan. Third, the notion of „overall budgets“ also requires reconsideration. Instead of being a monolithic pyramid structure, the public sector budget of China might be visualized as an onion. As each layer is peeled, one moves closer to the center and budgetary control increases accordingly.

In this section, I have identified only a few major conceptual issues that should probably be addressed by any governmental accounting standards. Upon the release of those standards, there will be the opportunity to examine how those issue have been resolved.

V. Conclusion Remarks

This analysis has examined the evolving relationship between public budgeting and governmental accounting in China. Accounting will always play a supporting role to the budget by monitoring budget execution. There are also reasons to believe that the mission and role of accounting should be broader than it currently is. A fundamental objective of accounting - and financial disclosure - is to demonstrate and discharge accountability for all public funds. In this regard, public funds include both on-budget as well as off-budget resources. Given the traditional emphasis of public budgeting on receipt and disbursement of cash, accounting can provide a useful balance sheet perspective. Effective accounting for government assets - including fixed assets - can document increased infrastructure investment and can potentially prevent the loss and misuse of public property. Careful monitoring of liabilities - including but not limited to bonded debt - can aid long-range financial planning to meet future budgetary demands. These are worthy candidates for setting effective accounting standards. In the meantime, a modest step may be taken by excluding debt proceeds from receipt in calculating deficits, thereby bringing Chinese governmental accounting one step closer to this minimum international norm.

In conclusion, it seems appropriate to quote from a recent statement by the Chinese vice prime minister in charge of economic and financal affairs:

> The tasks facing public finance will be even more complex and heavy in 1996. The Central Government's revenues for several reasons have decreased. It is also very difficult to realize the goal of reducing the budget deficit. Different regions' finances are uneven; delaying salary payments [and other similar practices] create leftover problems to the future. Finance officers at every level of government are advised to exercise due caution in their work. You are urged to diligently implement the split of the fifth plenum of the Fourteenth Central Committee[5] and meet the requirements made at the Center's economic affairs meeting. The reform of the revenue and tax systems should be further intensified. The organizations for the separate tax system should be perfected. The financial policy of appropriate tightening should be continued to be carried out. Fur-

5 The „fifth plenum of the Fourteenth Central Committee" means the fifth meeting of the Central Committee selected by the Fourteenth Party Congress of the Chinese Communist Party. Usually these meetings set forth major policy directions for the next few years and are therefore frequently cited as sources of major public policies.

thermore, all legally authorized taxes should be levied, and every effort should be made to increase revenues. While local tax collection deserves concern, the collection of national taxes should also be supported. Public expenditures should be tightly controlled; extravagant and wasteful spending should be avoided. Every effort should be made to meet the goal of suppressing and shrinking the deficit. It is hoped that the above measures will create a great start and a good first step for the Ninth Five Year Plan.

You are urged to vigorously enforce fiscal discipline, and launch severe attacks on the evasion of taxes and remittances [to the Center]. The practice of keeping „two sets of books" (moving on-budget receipts off the budget) is strictly prohibited. „Little treasuries" are to be found and eliminated, especially those created by the finance bureaus themselves. I hope all the finance bureaus at all levels will in the new year [1996] implement the Center's guidelines and policy, and make a greater contribution to the contribution of public finance, economic prosperity, price stability and the promotion of development. (Zhu Rong-Ji *The People's Daily,* December 15, 1995; quoted by *Budget Accounting,* March 1996).

Acknowledgment

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3.2 Governmental Accounting in East Africa

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Abstract

The purpose of the paper is an attempt to fill a gap in the literature by considering governmental accounting in three Eastern African countries: Kenya, Tanzania and Uganda.

The paper hypothesises that governmental accounting in all three countries has been determined initially by British Colonial influence and latterly by international aid organisations. Using a reviewed Contingency Model it is concluded that the governmental accounting system in the three countries has remained virtually free from innovation because implementation barriers exert a very strong stifling or distorting influence.

Keywords: Governmental accounting, contingency model, accounting in East Africa, economic development and accounting.

Governmental Accounting in East Africa

"Whether there will be meat in the kitchen is never decided in the kitchen"

Paul Baran

I. Introduction

In his paper, 'The Contingency Model' Reconsidered: Experiences from Italy, Japan and Spain, presented at the 4th Biennial CIGAR Conference, University St Gallen, Lüder (1993, 2) acknowledges that applicability to countries that are economically less developed and/or with other than democratic political systems is not secured and therefore cannot be claimed. The purpose of this paper is therefore an attempt to fill this gap by considering the case of three Eastern African countries; Kenya, Tanzania and Uganda.

The paper is divided into six sections. Section II hypothesises that governmental accounting in the three countries has been determined initially by the colonial influence of the UK and latterly by international organisations and donor agencies such as the World Bank and the International Monetary Fund. Section III re-considers the applicability of the Contingency Model in the light of a differing set of economic, political and social circumstances applicable to underdeveloped countries. Section IV identifies the principal elements of the governmental accounting model applied in the three countries. Section V briefly considers the environment within which governmental accounting op-

erates in Kenya, Tanzania and Uganda. Section VI shows that despite the fact that the three countries went in different directions immediately after their respective independence in the 1960s as regards the organisation and management of government, the governmental accounting system has remained virtually free from innovation because implementation barriers appear to exert a strong stifling or distorting influence.

II. Economic Development and Governmental Accounting

Over the past ten years, living standards in sub-Saharan Africa have fallen by 2 per cent annually. They are now lower than in 1970. In the same period, unemployment has quadrupled, and real wages have fallen by a third. Investment is lower in real terms than it was in the early 1980s (Watkins 1994, 24). In 1993, the United Nations Organisation and the World Bank identified 32 least developed countries, of which 20 are in sub-Saharan Africa including Tanzania and Uganda (Simpson 1994, 5). This sub-Saharan "economic crisis" as described by the World Bank (1989), has long been recognised. As a result it is nowadays widely accepted that overall sub-Saharan Africans are almost as poor today as they were 30 years ago. What is disputed are the remedies for the crisis.

A. Theories of (under) development

Economic development is of paramount importance if sub-Saharan Africa is to escape from its vicious cycle of underdevelopment. However, the notion of "development" is fraught with difficulties. As Colman and Nixson (1986, 4) indicate, strong personal values intrude into conceptions of development. Thus, the meaning of development is not uncontentious; the measurement of development is even more problematic. It is widely accepted that since its inception in the post-war years, the literature on development economics has been dominated by three (very different) streams of thought. First, the stages of growth theories of the 1950s and early 1960s. Second, the international dependence theories of the late 1960s and 1970s and third, the free-market theories of the 1980s and 1990s (Todaro,1992).

B. Free Market Reforms

Different arguments are forwarded as to why free market theories re-emerged at the beginning of the 1980s. Perhaps most crucial to their re-emergence has been the fact that international organisations such as the International Monetary Fund (IMF) and the World Bank have promoted the idea of "structural adjustment".

The World Bank, set up in 1945-6, was conceived for the noblest of reasons: to contribute to human betterment in the postwar world (George and Sabelli 1994, 2). Beginning in 1948, loans for development were made to the southern hemisphere (George and Sabelli 1994, 11). Another member of the World Bank Group, the International Development Association (IDA), was established in 1960 to make 'soft' loans to the world's poorest countries – Kenya, Tanzania and Uganda are among a small group of countries that have received over a billion dollars from the IDA since 1960 (George and Sabelli 1994, 12). In 1979, structural adjustment loans were created. These are intended to help debt-stricken countries reorganise either their entire economies or large sectors of them. According to George and Sabelli (1994, 18) structural adjustment lending is characterised by privatization of government corporations and severe reductions in public sector employment; promotion of exports of raw materials and of export industries; elimination of trade barriers; elimination or sharp reduction in subsidies for agriculture, food staples, health care and education, restrictive monetary policies and high interest rates; a reduction in real wages.

It has been argued that it is too early to come to any final conclusions about the impact of free-market reforms. However, Helleiner (in Wilber and Jameson 1992), Mamdani (1990), Watkins (1994) and Kirkpatrick (1995) are extremely critical of the impact of free-market reforms on economic development.

C. (Under) developments in accounting

Perera (1989, 141) points out that an examination of the accounting development patterns of most underdeveloped countries reveals that they had little chance to evolve accounting systems which would truly reflect the local needs and circumstances. He further argues that the existing systems in these countries are largely extensions of those developed in other Western capitalist countries, imposed either through colonial influence or by powerful investors or multinational corporations.

Because little consideration was given to the needs of the recipient countries, the accounting practices introduced were not always relevant. Consequently, it is still arguable whether these practices are capable of satisfying in the most efficient manner all the accounting information needs of these countries. This argument appears to validate what has taken place in Kenya, Tanzania and Uganda. British accounting practices were adopted across both the private and public sectors. Thus, for example, complex capital accounting procedures which mirrored those used in the UK were imposed on local government in all three countries – with little or no regard to information needs or to the capabilities of accounting staff in the local authorities.

This situation has continued long after the demise of the colonial influence. In the 1980s the information needs of organisations such as the World Bank and the IMF, together with those of other donor agencies, have taken precedence. Thus, changes have been made to accounting practices whether or not they were appropriate to local needs and circumstances. For example, liberalisation of government structures in Kenya required that the hospital in Nairobi be redesignated a parastatal, requiring a change from a cash-based to an accruals-based system. No consideration was given to local information needs nor to the training and expertise of accounting staff.

In one sense at least the situation has worsened during the 1980s. There is a range of donor agencies, each having its own information needs and therefore requiring particular accounting practices. The danger in this is the potential implementation of hybrid accounting systems. Not only may these accounting systems be developed without due consideration to local needs and circumstances, they may no longer conform to one (imposed) set of rules but rather attempt to conform to a variety of (often conflicting) rules. Whatever the impact of free-market reforms on economic development, it does appear that these pressures have had an adverse effect on governmental accounting systems in Kenya, Tanzania and Uganda.

III. The Contingency Model

The Contingency Model of governmental accounting (hereafter, the Model) is based on the assumption that governmental accounting innovations in a country are the result of the interaction of its social, political and administrative variables. On an international setting national differences are assumed to "result from nationally different change behaviour patterns influenced by the particular national setting" (Lüder 1993, 15). As a result, the Model from the outset deliberately seeks to differ from the approaches and methodologies

used in the comparative private sector literature. This difference in approach is further demonstrated when it is stipulated that for industrialised countries "the information needed, not the enviromental context determines the appropriate governmental accounting system" (Lüder 1993, 1). While the Model has been praised for initiating a useful debate, it has been criticised for its methodological limitations and the lack of robustness and generalisation of its findings.

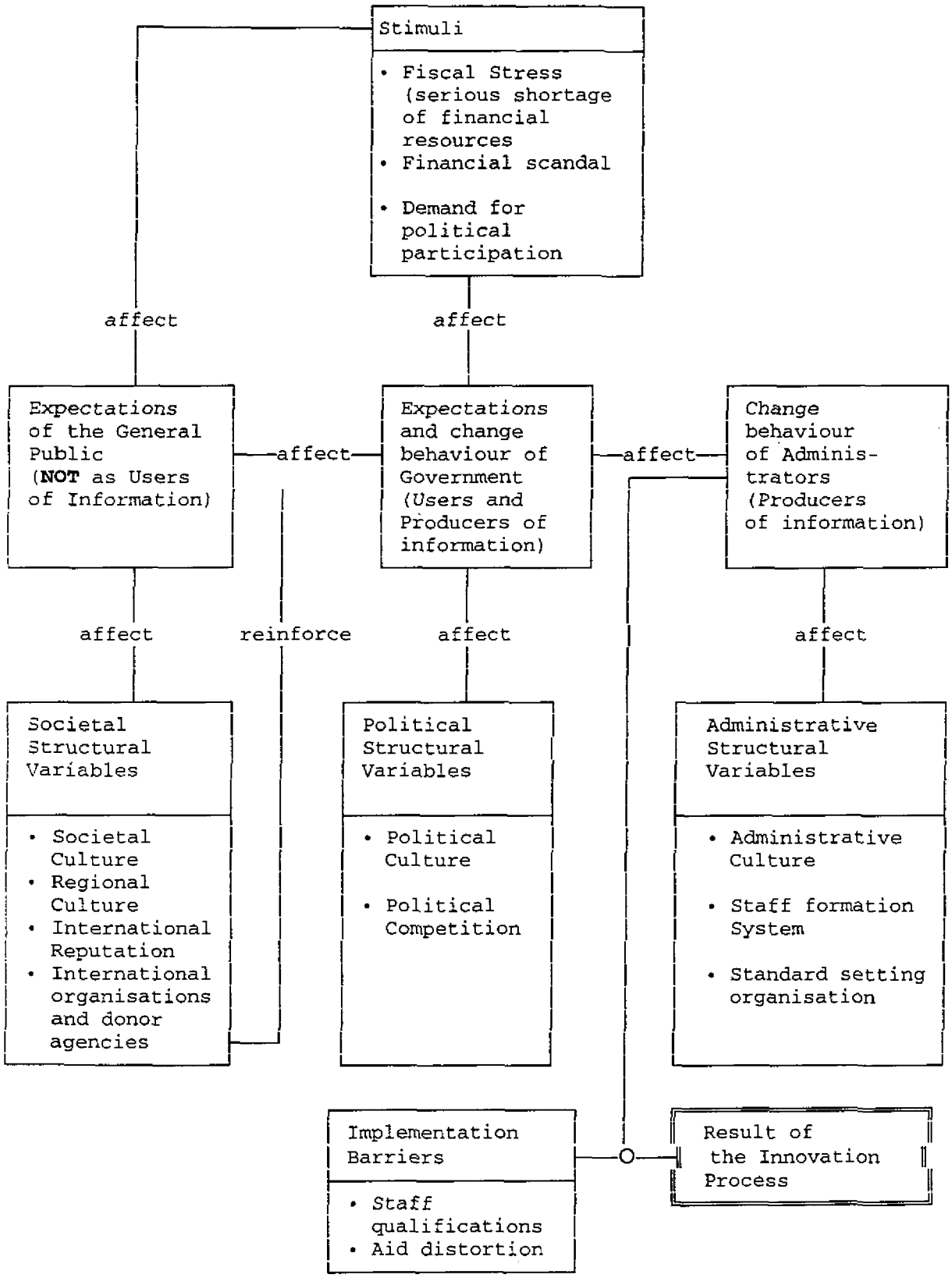
A. The Contingency Model: Re-considered

The basic Contingency Model (1992) as applied to Canada, Germany, Denmark, European Community, France, Sweden, the United Kingdom and the United States of America was re-considered in 1993 when Italy, Japan and Spain were added. This paper takes as its starting point the 1993 Model and reviews its components in light of their applicability in the context of the three aforementioned underdeveloped countries.

1. Stimuli

The Model for underdeveloped countries (hereafter, the revised Model) shown below (figure 1) identifies three stimuli: fiscal stress; financial scandal; demand for greater political participation.

Figure 1. Governmental Accounting Innovations in Underdeveloped Countries



Fiscal Stress: At present the three countries under study (Kenya, Tanzania and Uganda) suffer from fiscal stress. Each has a rapidly growing population which places extra demands on (already insufficient) public resources. At the same time, public resources are being reduced as part of the reforms required by the World Bank, IMF and other donor agencies.

Financial Scandal: There is concern that there has been negligent financial management. Some of this may have been caused by the existence of poorly trained accounting staff - and some donor agencies are involved in funding training programmes in recognition of this fact. However, although difficult to prove, there is evidence that corrupt activities, requiring deliberate misleading financial information, may have taken place.

Political Participation: Within each country there is a demand for more political participation (a relatively new phenomenon in the region), although this meets with varying degrees of success, Kenya showing the greatest resistance to change. Donor agencies provide additional pressure for political change by applying conditions to assistance - again, Kenya is most resistant to such pressure.

Lüder (1992, 108) explains that stimuli in the Model create a need for improved information on the part of the users of accounting information and increase the producers' readiness to supply such information. In the revised Model the effect of the stimuli is different. While in the developed countries stimuli lead to demands by the public, as users of information, for a more comprehensive disclosure of the financial situation, in the underdeveloped countries it is the international organisations and donor agencies which require such information. (In fact, these stimuli have required not only additional disclosure but also significant economic reforms, including a reduction in the size of government, decentralisation of the government machinery, privatisation and restructuration of local government). Moreover, while in the developed countries such information is more readily produced, in the underdeveloped countries there is a greater or lesser reluctance to produce the necessary information and to introduce reforms. Reluctance of this type can lead to refusal for assistance from donor agencies (as has recently been the case in Kenya) which in itself leads to further fiscal stress, and to greater demands (internally and externally) for political participation.

2. Societal Structural Variables

In the revised Model, four variables have been identified: societal culture; regional culture; international reputation; international organisations and do-

nor agencies. All may influence the attitudes of users and producers of information towards the idea of a more informative form of governmental accounting, as do their counterparts in the basic Model (Lüder 1992, 108). The last three variables are different from the basic Model.

Regional Variable: This refers to the fact that any development – economic and/or political – in one country will ultimately have implications for the other two countries, which may be favourable or adverse.

International Reputation Variable: This refers to the standing of a country on the international stage. If viewed positively, external resources will be more readily available – thus, at the present time Tanzania is in receipt of more external funding than is Kenya.

International Organisations Variable: This refers to the major role played in each of the three countries by the World Bank, IMF and donor agencies. It is widely accepted that to sustain economic development in the present economic climate significant increases in transfers from external official sources become a sine qua non condition.

Notwithstanding the fact that all four variables may influence attitudes, the last two variables (international reputation; international organisations) are assumed the most dominant.

3. Political Structural Variables

In the basic Model these too influence the attitudes of users and producers of information (Lüder 1992, 108). As indicated earlier, the demand for greater political participation is a relatively new phenomenon in East Africa. Until very recently the political culture of the three countries cannot be viewed as being open to participation by citizens in the decision making process. On the contrary, a range of factors contributed to the weakness of the political culture – early emphasis by governments on central planning (a strategy adopted by most underdeveloped countries following their independence, irrespective of their political ideology); centralisation of development in big cities; scarce managerial and technical expertise; the existence of strong governments dominated by a particular tribe; ethnic or economic groups reluctant to share power. Furthermore, in the 1970s international organisations (and to some extent donor agencies) provided substantial financing with few conditions attached, thus exerting little or no external pressure for changes in the political culture. Only in the 1980s and 1990s did virtually all financing become highly conditional.

4. Administrative Structural Variables

The shortage of well trained and experienced accountants remains a big constraint in all three countries, in spite of the many efforts deployed by the respective governments to encourage and enhance the training of key staff. Each of the three countries possesses its own institution for training public sector officials (including accountants). However insufficient resources (human and material) are available to allow these institutions to function properly. Moreover, well qualified staff in the public sector (including those working in training institutions) are enticed to more lucrative positions in the private sector. In fact, on occasions external funding used to help train accounting staff in the public sector proves to be counterproductive as these staff as a result become attractive to the private sector.

Salary levels even for well qualified staff are low. To increase their earnings many accountants in the public sector find it necessary to have more than one employment. Hence, only a proportion of their working time is devoted to the accounting function, considerably reducing their effectiveness. Clearly, this too acts as a constraint in all three countries.

Thus, while there are social and political structural variables which result in the users of information seeking a more informative form of governmental accounting, the administrative structural variables are such that the producers of information are unable to respond.

5. Implementation Barriers

Lüder (1992, 108) describes these as environmental conditions that inhibit the process of implementation. These barriers are very important in the revised Model. The shortage of highly trained accountants, the frequent turnover of key senior officers and the inability of staff to devote all their energies to their accounting work is a major implementation barrier. Lüder (1992, 109) suggests that in extreme cases implementation barriers prevent the creation of a more informative accounting system. The staffing problems identified in the revised Model appear to be of this type.

The existence on the field of many international organisations and donor agencies, each with its own list of conditions attached to its financial contributions, can result in the implementation of hybrid accounting systems – here referred to as "aid distortion". Aid distortion does hinder the creation of a more informative accounting system, particularly when local needs and cir-

cumstances (including staffing problems) are given insufficient consideration by the international organisations.

IV. Governmental Accounting in Kenya, Tanzania and Uganda

Perhaps not surprisingly, bearing in mind the Anglophone colonial past of this part of East Africa, governmental accounting in Kenya, Tanzania and Uganda is firmly based upon the British system. While national independence implied changes in the status and character of these countries, changes in other areas have tended to be slow if nonexistent. One such area where there is little evidence of major change is the local accounting profession (private and public), where practices have remained virtually the same as in the era prior to independence.

What is perhaps surprising is that there has been little divergence from this commonality in spite of the differing recent histories of these three countries post independence. This is particularly the case with Tanzania where a command economy introduced just after independence was not followed by any move to introduce a socialist accounting model at the governmental level.

The three countries' governmental accounting continues to reflect to a large extent the British influence. This influence is still visible in the continuation of the Westminster model with its emphasis on the financial accountability of the executive to the legislature and by implication to the electorate.

A. The Westminster Model

Under this model, the National Parliament has the ultimate power to authorise and control the raising of expenditure and finance. The main principle of parliamentary control is that all revenues (taxation and other miscellaneous revenue) should be paid into a specific account, "the Consolidated Fund" and no money may be withdrawn from this Fund without specific statutory authority. To obtain authority to withdraw money from "the Consolidated Fund" the government presents 'estimates' (which are prepared on a cash basis) of the amounts required from the Fund for each service. When passed, these estimates become 'votes'.

Once a vote has been granted, expenditure from that vote may only be made for the purpose for which it has been specified. The person who is both responsible for ensuring that the money spent is for the purpose for which it has been requested and for subsequently accounting for it in the Appropriation

Accounts, is the accounting officer who is usually appointed by the Treasury and is normally the permanent secretary of the department concerned.

The accounting officer is responsible to the relevant Minister for the propriety and regularity of expenditure of the department and signs the accounts laid before Parliament. He/she is normally the department's principal witness before the Public Accounts Committee (PAC) on any matter arising from any Comptroller and Auditor General's (C & AG) report concerning the department.

The Appropriation Accounts are prepared on a cash basis. Their function is to compare the vote with outturn in cash terms and state the residual amount for surrender (or the deficit to be met by excess vote). They are a means by which Parliament keeps control of the cash disbursed by government in any year.

The Appropriation Accounts are audited by the C & AG who is an officer of Parliament. The C & AG's reports are addressed to the PAC which is empowered to raise any question about the accounts presented to Parliament and any matter raised by the C & AG in particular. In the report the C & AG may make any observation about any of the accounts and the expenditure concerned.

B. The Westminster Model: Kenya, Tanzania and Uganda

The linchpin of the governmental accounting system in the three countries is the Ministry of Finance which prepares and monitors the annual budget, advises on and coordinates national and financial economic policies and maintains the government accounting records. It also provides advice to the Minister for Finance on policy matters relating to the various statutory bodies for which he/she is responsible.

Departure from the Westminster Model in the three countries is negligible. As a result the similarities between the three governmental accounting systems are such that focusing on one is sufficient to obtain a full picture of the other two. Consequently, the focus on Kenya does not reflect a preference for that country at the expense of the others.

The authority for raising revenues and for their appropriation is vested in Parliament. The Treasury is responsible for the control and management of those finances after their appropriation by Parliament. Each withdrawal of funds from the consolidated fund must be approved by the C & AG after verifying that the proposed withdrawal is authorized by law. Parliament approves

the Government annual estimates and authorizes the appropriation of funds under section 99 (1) of the Constitution of Kenya.

The consolidated fund is established under section 99 (1) of the constitution of Kenya and in accordance with section 15 (1) of the Exchequer and Audit Act. It comprises the Exchequer accounts into which all revenues and the proceeds of all loans raised are paid and credited and from which issues for the public services are made. The fund is represented by two bank accounts designated as recurrent exchequer and development exchequer accounts which are maintained with the central Bank of Kenya.

As in the case of the Westminster Model, an accounting officer is appointed by the Treasury to be responsible and to account for the financial business of each ministry. The main responsibilities of the Accounting Officer are to:

- sign the Appropriation Account;
- ensure that proper financial and accounting records are maintained and are capable of providing reliable information and form the basis for preparation and submission of periodic statements and accounts;
- ensure that all revenues due to the government are collected and properly accounted for in accordance with laid down statutes, rules and regulations.

The book-keeping and accounting systems to be followed by Government ministries are standardized and are kept under continuous review by the Treasury which issues amendments as the need arises. Governmental accounting policy distinguishes itself from commercial accounting in that governmental accounting concerns itself only with receipts and expenditure arising within the govemments financial year (lst July to 30th June).

Governmental trading organizations such as parastatals use conventional accruals based commercial accounting practices whereas, governmental accounting is entirely cash based. Governmental accounts are audited by the C & AG who should be completely independent from control by any other person or authority.

The requirements regarding the preparation and audit of the annual accounts and other financial statements are contained in the Exchequer and Audit Act. The Act stipulates the accounts to be prepared by Treasury; outlines the responsibilities of the accounting officer; identifies the recipients of revenue; and determines the period within which the accounts must be prepared and transmitted for audit and certification after the end of each financial year.

Apart from the above reporting practice and in order to meet the financial need of audiences-of-interest in more than one country, the Kenyan government has recently been asked to prepare specific information and to report separately in conformity with a newly introduced format; the Short and Long Form Reporting, on all World Bank-financed projects. While there is an apparent need to comply in order to facilitate the conduct of the projects and to insure their success, understandably this new reporting requirement has been reluctantly accepted as it has put more pressure on governmental accountants.

V. The Environment of Government Accounting in East Africa

The following tables provide background data on the three countries included in the paper. There is no homogeneity to the three countries as shown by tables 1, 2 and 3. Nonetheless, the data confirm that there are commonalities: high rates of population growth, low income levels, low living standards.

Table 1. Background Data

	Kenya	Tanzania	Uganda
Population (1990)	24.6 million	26 million	18 million
Population			
- average annual growth rate (1965-1988)	3.8 per cent	3.3 per cent	3 per cent
GNP per capita (1988)	$365	$180	$280
GNP per capita:			
- average annual growth rate (1965-1988)	2.0 per cent	-0.5 per cent	-2.9 per cent
Life expectancy at birth (1987)	58	53	48
Percentage illiterate aged 15+ (1985)	41 per cent	-	42.7 per cent
Infant mortality rate			
- per 1000 live births (1987)	72	-	108

Source: Todaro, 1992; World Bank, 1989.

Table 2. Percentage of Labour Force in 1987 in

	Agriculture	Manufacturing
Kenya	81	5
Tanzania	86	7
Uganda	72	13
UK	3	38
USA	4	31

Source: Todaro, 1992 (based on IBRD, 1987)

Table 3. Percentage of Gross Domestic Product in 1987 in

	Agriculture	Manufacturing
Kenya	31	11
Tanzania	61	5
Uganda	76	5
UK	2	25
USA	2	20

Source: Todaro, 1992 (based on IBRD, 1989)

Since independence the environments of the three countries have been affected by events in markedly different ways. Kenya has, until recently, enjoyed a period of relative political stability with only two Presidents but an absence of effective political pluralism. Tanzania has been the most adventurous in terms of attempting bold government reforms. Its implementation reforms have been more evolutionary than revolutionary. An outstanding feature throughout the period is that Tanzania has enjoyed a great deal of political strength and stability, and this is one of the main reasons why it has been able to experiment so boldly. In addition the Tanzanian government has also been realistic and relatively open (Mutizwa-Mangiza 1990).

Uganda however, unlike her near neighbours, suffered considerable internal strife throughout the reigns of various presidents. When Amin was ousted from power in 1979 the country was left in a state of economic chaos, with its then 13 million inhabitants poverty stricken and disorganised. During this era one of the key functions of government which had deteriorated very markedly was accounting and audit. This had begun with the expulsion in 1972 of the many Asian officials who provided the bulk of experienced accountants and audit staff in government service. A large number of government ministries and local authorities have not produced accounts for audit since the mid-1970s, a phenomenon also evident in both Kenya and Tanzania. "If anything, the fact that the Auditor General gave certificates of correctness to only eight ministries and departments and to one out of 20 regions which submitted accounts for audit, points to serious accounting problems within government ministries, departments and regions." *(Daily News [Tanzania] 10/12/1992).*

VI. Conclusions

In spite of marked differences in the history of, and approach to, government since independence, there has been a marked stability in the method of governmental accounting followed in the three countries under consideration. Indeed the pre-independence colonial Westminster Model has continued with little modification in spite of pressure from international institutions and donor agencies for innovations. However examination of Table 4 suggests that although the combined effect of the revised Model criteria, assuming an even weighting, is rather weak there are differences among the three countries in their respective abilities to innovate successfully.

Table 4. Contingency Model: Favourableness of Environmental Conditions to Governmental Accounting Innovations

CRITERIA	KENYA	TANZANIA	UGANDA
Stimuli			
- Fiscal Stress	+	+	+
- Financial Scandal	+	/	+/
- Political Participation	-	-/+	-
Societal Structural Variables			
- Societal	-	-	-
- Regional	+ = -	+ = -	+ = -
- International Reputation	+	+	+
- International Organised Pressure Groups	+	+	+
Political Structural Variables			
- Political Culture/System	-	+	-/+
- Political Competition	-/+	-/+	-/+
Administrative Structural Variables			
- Administrative Culture	-	-	-
- Staff Formation System	-/+	-/+	-/+
- Standard Setting Objectives	n/a	n/a	n/a
Implementation Barriers			
- Staff Qualifications	-/+	-/+	-/+
- Aid Distortion	-	-	-
OVERALL ASSESSMENT	-	+	-

(KEY:

+	favourable
-	unfavourable
-/+	moving towards favourable
+ = -	can be favourable or unfavourable
/	nil effect
+/	movement towards nil effect)

In all three cases there is, not unexpectedly, a congruence in all criteria apart from political structural variables and the impact of financial scandal. In Kenya the political culture and system appears firmly based on a one-party state in spite of attempts both internal (with increased political competition), and external to encourage effective pluralism. In Tanzania the political system and culture appears more open and willing to embrace pluralism and effective political competition. Uganda sits somewhere between these two extremes with recent public consultation over a new constitution showing a clear majority in favour of the continuation of the no-party situation for some time at any rate (The Economist 26 August 1995).

Financial scandal in Kenya has been well documented in the press as a major concern of external aid agencies. The failure of the Kenyan government to debate the 1993 report of the Auditor General, which identified unauthorised payments of £167 million by the central bank to unknown beneficiaries, has triggered further widespread speculation that it contained revelations of financial malpractice (Financial Times 6 October 1995).

In Uganda on the other hand President Museveni has waged an ongoing battle against official corruption since coming to power in the coup of 1986. Recently he has been publicly lauded in his bold moves to deal with endemic problems of official corruption. He has offered to the IMF and the World Bank to pay for resident externally appointed auditors to monitor Uganda's public sector performance for up to twenty years. During this time a portion of IMF/World Bank debt servicing would be forgiven immediately and the debt principal gradually forgiven (Financial Times 26 September 1995).

In Tanzania there appears to be less public evidence of problems of endemic official corruption. That is not to say that it does not exist but simply that its impact as a stimuli is negligible. These factors maybe reflected in the perceptions of the international aid donor community who appear to be continuing to provide considerable financial support to Tanzania, less to Uganda and very limited amounts to Kenya at the present time.

In comparison to the contingency model's application to industrialized democratic countries, here it would seem that implementation barriers play a stronger role in stifling or distorting innovations to the governmental accounting systems. This perhaps reinforces much of the political economy of development literature which would dispute the assertion that one accounting system suits all countries. It would appear from the analysis that the accounting system cannot be effectively imposed by international organisations and donor agencies whilst ignoring key variables such as administrative culture, staff

formation systems and the implementation barriers of staff qualifications and aid distortion.

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3.3 Reshaping Public Sector Accounting in Poland: Recent Evidence

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Abstract

In the mid – 1990s a significant development of public sector accounting took place in Poland. A substantial differentiation of the accounting system was introduced. New elements and relationships appeared, along with general domination of the Accounting Act, tax regulations and the Budgetary Law. The system of basic regulation of accounting and reporting has also changed. The enactment in 1994 of the Accounting Act (and the fact) has brought to light the political character and political importance of financial information in Poland.

This paper presents the current mode of public sector accounting regulation and its relationship with the overallsystem of Polish accounting regulations. Much attention has been devoted to specific principles of public sector accounting and financial reporting in the public sector, and to government accounting.

0. Introduction

The paper sets out principal elements of the Polish public sector accounting model in the mid – 1990s, as the authors are of the opinion that detailed elaborations are comprehensible for the international community if it is familiar with the basic system. This assumption underlies and determines the descriptive approach adopted in this paper. The same approach was adopted in the presentation during the Workshop in Valencia in 1994. The paper, published afterwards in (Jaruga, Nowak, 1995a) and (Jaruga, Nowak 1995b), was an account of the situation in the early 1990s. Considering significant changes which occurred in Polish public sector accounting in 1994-95, presentation of the current state seems necessary. Descriptions and analyses will be made in the context of a model, elaborated by the Authors, of innovations in Polish public sector accounting in transition democracy and market economy. The model is presented in **Appendix 0.**

1. The 1980s - background for the present system of public sector accounting

The 1989 changes in the political and economic system in Poland initiated intensive evolution of the public sector, aimed at its substantial reduction[1]. In the centrally planed economy, most of domestic business activity had a character of the public sector, the only two exceptions being a relatively strong private sector in agriculture and rather marginal private small business. The principles of public sector accounting were laid down by decrees of the Minister of Finance. The last decree on general principles of public sector accounting before the system transformation was issued in 1983 and was amended twice - in 1986 and 1988. These principles provided a point of departure for public sector accounting transformation in the 1990s. The situation in this field before the transformation can be characterized as follows:

- Central setting of the reporting model and accounting principles, including measurement procedures and plans of accounts, fell within competence of the Minister of Finance, which was one of the canons of the system.
- Basic measurement concept was modified full accrual basis.
- The reporting model consisted of the balance sheet and the profit and loss account.
- Neither legal norms non common practice provided for publication of financial statements.
- General principles of accounting laid down by the Minister of Finance were binding for all types of organizations with the domination of public property, excluding banks. Bank accounting was regulated by the president of the central bank. Therefore, general principles of accounting related also to budgetary units, commercial companies and insurers, as well as political, social and professional organizations and enterprises run by them.

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1 The Gross Domestic Product from Polish public sector amounted to 69,1 % in 1990 and 44,7% in 1993.

2. Demarcation of the public sector 1989

The problem of public sector demarcation gained importance with the system transformation in the early 1990s. Ownership form became the main criterion of the dichotomic division of national economy into the private and public sector. Beginning from 1990, the Central Statistical Office regards as belonging to the public sector entities being state or communal property or mixed property with predominance of public property. Two other criteria which can be applied in public sector demarcation, i.e. the main source of funding and the regulatory impact of the budgetary law, are now used in Poland for public sector restructuring. Public sector organizations financed mainly from the state or local budget constitute the budgetary sphere. Those budgetary sphere entities whose organizaional form and financial principles are regulated by the budgetary law constitute the budgetary sector (governmental sector). The budgetary sector is connected with the execution of the state and local budgets. Polish budgetary law standardizes organizational forms of those state and communal entities whose finances are not regulated by other legal documents. Two basis types of organizational form may be distinguished: **budgetary unit** and **budgetary entity.** Two auxiliary types are connected with the budgetary units: **auxiliary** holding controlled by it and **special** resources – an internal subdivision. Budgetary entities, auxiliary holdings and special resources are set up in order to carry out business activity within public targets realisation if revenues from such activity may, at least partly, cover the costs involved. Business activity carried out by budgetary entities, auxiliary holdings and special resources is called off-budget economy within the budgetary sector. One more organizational form in the budgetary sector are special purpose funds. It is formed on the strength of the law or by a resolution of a municipal council to perform a public task outside the budget (Jaruga, Nowak, 1995a, p.80).

The division of the national economy using the criterion of ownership, budget as the main source of financing, and applicability of the budgetary law overlaps now with another division, i.e. into business and non – business entities. From the accounting viewpoint, it is particularly important to distinguish the class of non – business entities being outside the budgetary sector.

3. The sources of accounting standards

Accounting standards in Poland generally have the character of legal norms. Currently there are four acts regulating the procedures of setting specific accounting standards, and a general Accounting Act:

1. The 1980 Act on fiscal obligations, which in art. 38 p. 3 provides that the Minister of Finance may by way of decree impose on specified groups of taxpayers an obligation to keep account books and may set specific requirements relating to this activity.
2. The 1991 Budgetary Law, which in art. 51, 51a and 70 P. 1 defines procedures of standard setting for public sector entities.
3. The 1991 Act on income tax from natural persons, which in art. 22 p. 8 empowers the Minister of Finance to define (for tax purposes) by way of decree the method of initial value determination and of keeping record of fixed property and intangible assets by taxpayers obliged to keep account books.
4. The 1992 Act on individual (personal) tax from legal entities (person) which in art. 15 p. 5 empowers the Minister of Finance to define (for tax purposes) by way of decree which property elements are regarded as fixed and intangible assets, and to lay down principles of their depreciation and value adjustment (restatement).
5. The 1994 Accounting Act, which:
   - defines the general conceptual framework of accounting,
   - sets general accounting standards, relating both to measurement and reporting,
   - lays down basis principles of auditing and publication of financial statements,
   - in art. 80 – 83 empowers respectively the Minister of Finance, President of the National Bank of Poland and the Head of the Securities Commission to lay down specific principles of accounting and setting standard plans of accounts.

Thus, after 1989 Polish Parliament took advantage of its superior position and made it a strictly political issue in democratic sense of this word to lay down a

general model and general standards of accounting, and to empower central administrative agencies to lay down specific accounting principles and introduce standard plans of accounts. It is interesting to note, though, that accounting standards setting in Poland, in spite of democratic changes and introduction of the free market, still falls within the competence of political bodies and central administrative agencies. this refers both to the private and the public sector. This could be regarded as following the Continental European tradition in the approach to accountancy regulation.

4. Polish accounting system in the 1990s

After the 1989 Change, initiating reorientation towards democracy and free market, the Minister of Finance issued on 15 January 1991 (i.e. with over a year's delay) the Decree on the Principles of Accounting, which replaced his earlier decree of 1983 on the same matter. The new regulation was applicable to the budgetary sector as well. The decree was issued on the basis of delegations provided for in the following legal acts: Act on Financial Management of State Enterprises of January 1989, Cooperative Law of December 1982, Act on Tax Liability of December 1980 and Budgetary Law of January 1991. The structure and scope of applicability of the 1991 Decree is shown respectively in **Appendix 2** and **Appendix 4.** The following accounting concepts underlie the rules of this Decree (Jaruga, Nowak, 1995a, p. 83):

- accrual basis of accounting
- going concern
- historical cost
- substance over form
- prudence
- assets and liabilities recorded at gross amounts and not offset one with another
- full disclosure principle
- consistency in application and adequate disclosure made where there is change in the application.

The clarification of the issue of accounting concepts in the above Decree, combined with progressing democratisation, expansion of the private sector and the development of free market results in new demands of financial information quality, auditing and publication. Moreover, conflicts of interests between the public sector and the private sector, coming to light in the process of privatisation, and ‚imbalance" between legal power and the degree of susceptibility to pressures from interest groups in parliamentary regulation of tax issues and administrative regulation of accounting gave rise to the idea of transferring the regulation of accountancy from the administrative to the parliamentary level. In September 1994, the Parliament enacted the first Polish Accounting Act. It is based on the basic accounting concepts contained in the 1991 Decree. The structure of the Accounting Act and its scope of applicability are shown in Appendix 3 and Appendix 4. The specificity of the Act lies in the concentration on disclosure standards rather than measurement standards. According to the Act, the purpose of financial standards is the preservation of a „true and fair view" of entities' financial condition. lt seems that the most important features of the Act are:

- the introduction of cash - flow reporting
- the introduction of capital group accounting
- increased role of the prudence principle
- the introduction of the concept of deferred taxes.

From the viewpoint of accountancy regulation, the Accounting Act in conjunction with the Budgetary Law has become a legal source of basic accounting principles for all business and non-business entities in Poland, excluding ecclesiastical legal persons. The Minister of Finance, on the strength of his statutory duty to determine specific accounting principles for non-business entities outside the budgetary sector pointed out in § 5 of his 1994 Order on principles for non-business entities that „Ecclesiastical legal entities keep accounts according to principles defined in internal Church rules, relating to these entities". The scope of applicability of this Decree is shown in **Appendix 5.** lt is important to note that rules of the Accounting Act relate directly to business activities in the first place. The specific character of financial institutions, government sector entities and non-business organizations requires

supplementing of the rules of the Act with detailed or specific principles of accounting, which is to be done by authorised central government agencies. It should also be noted that the provisions of the Act relating to financial statements of entities and groups, and auditing and publications of financial statements are not applicable to the budgetary sector. Furthermore, provisions on financial statements of groups, and auditing and publication of financial statements do not apply to non-profit entities, given that they do not carry out business activity.

5. The Budgetary Law and budgetary accounting

The Budgetary Law in Poland traditionally provides the basis for budgetary accounting regulation. It identifies government organs empowered to lay down principles of governmental accounting and reporting, and sets requirements regarding information to be supplied by bodies responsible for budget execution, i.e. respectively, the government for the parliament, and the local government for the commune council and the central government. These requirements include provision of financial information based on closures of account books of the state and local budget.

The structure of the 1991 Budgetary Law is as follows:

1. General provisions
2. Principles of financial management
3. Principles of capital investments
4. Elaboration and passing of the state budget
5. Elaboration and passing of local budgets
6. Budget execution
7. Control of budget execution
8. Liability for breach of budgetary discipline
9. Transitory and concluding provisions.

Not only the structure, but also general provisions of the Budgetary Law influence the principles of Polish budgetary accounting and reporting. This general framework covers the following points:

1) requirement that the state budget ought to ensure the accomplishment of socio-political targets set by the parliament,

2) determining general principles and ways (procedures) of financial resources generation within the state and commune budgets and allocation of these resources for financing tasks following from the functions of the state and local self-government,

3) determining organizational and legal forms of units performing tasks within the state and local budgets,

4) budget definition:
   - budget is an annual financial plan comprising respectively revenues and expenditure of the state or commune,
   - budgets are passed for a period of one calendar year,
   - state budget is passed by way of an enactment called budgetary act,
   - budgetary revenues are cash receipts,
   - budgetary expenditure is cash expenses,
   - the difference between revenue and expenditure is budgetary surplus or deficit,
   - appropriation of the surplus or sources of covering the deficit are determined each time by the budgetary act,
   - the budget allows for creating a general reserve and specific (special purpose) provisions,

5) definition of the budget structure
   a) the state budget consists of distinct parts, each covering distinct classes of receipts and expenses; these parts are
      - a part covering central administrative bodies and central state authorities (organs), judicial authorities and educational institutions, whose managers are disposes of individual parts,
      - a collective part relating to voivodship budgets,
      - a part relating to general subsidies for communes,
      - a part relating to general reserves,

- a part relating to special purpose reserves,
- a part relating to funds for education,
- a part relating to revenues and disbursement connected with covering the deficit and budget surplus appropriation,

b) local and central budgetary revenues and expenses within one group are classified into:
   - sections – according to basic lines of activity,
   - chapters – according to specified groups organizations or budgetary tasks.

c) budgetary revenues and expenditure of the state should be separated, in planning, recording and reporting, from administrative tasks to be performed by local governments,

d) communes and their entities managing their finances under the budgetary law should draw up plans and financial statements according to principles of budgetary revenues and expenses classification.

The above presented general rule indicate clearly that in order to achieve maximum clarity and precision in accounting for budget execution, the cash basis of performance measurement might be appropriate.

The Budgetary Law has empowered the Minister of Finance to determine principles of accounting for central and local government entities, with the exception of national defence and internal affairs departments. The parliament has so enacted that the Minister of National Defence and the Minister of internal Affairs, respectively, in conjunction with the Minister of Finance may determine specific principles of financial management for their budgetary and non – budgetary units, as well as classification of budgetary revenues and spending, governmental accounting and liability for violation of budgetary discipline. However, the Minister of Finance with the Head of the Central Statistical Office lays down rules and terms of budgetary reporting. Parallel with the enactment of the 1994 Accounting Act, the Parliament changed the part of the Budgetary Law relating to the principles of accounting. The provision was vested to the principles of accounting. The provision vested the Minister of Finance with the right to determine principles of accounting and their associations was replaced by a provision stating that these principles are determined in a separate legal act. (The right to determine rules and terms of

budgetary reporting remained unchanged). In this way, principles of financial management and accounting in the governmental sector are regulated by the same body. At the same time, the Budgetary Law makes the Minister of Finance responsible for setting detailed principles of accounting and uniform plans of accounts for governments sector entities. The parliament has left unenanged the 1991 Budgetary Law provision on the possibility of independent determination by the Minister of National Defence and Minister of internal Affairs of specific principles of financial management, budgetary revenues and expenses classification, government accounting and liability for breach of budget discipline for relevant budgetary and other budgetary sector entities. This means that accountancy is generally regulated by the Accounting Act, with the possibility of certain modification of its rules to suit the specific character of some budgetary entities (civil, military or paramilitary). However, the Accounting Act does not apply to tax authorities. The amendment to the Budgetary Law, enacted parallel with the Accounting Act, makes the Minister of Finance responsible for determining accounting principles and plan of accounts for tax service entities.

Current situation in the area of government accounting and reporting regulation is shown in **Scheme 1.** The main feature of the present model of Polish government reporting model is clear lack of interest of the parliament if financial statements prepared in government accounting systems. No requirement is set with respect to the form of such statements or even the need to submit or verify them. The Accounting Act empowers the Minister of Finance to introduce obligatory auditing of budgetary organizations' statements, but so far he has not used this right despite his obligation to compile information on the state budget execution. General implementation of the budget is generally supervised by central government. The Minister of Finance controls the compliance of budgetary receipts and spending. Central budget execution is subject to parliamentary control, while local budgets – to commune councils. The Budgetary Law sets the requirement to verify budget execution after the first half – year and after year end. Semiannual control of- the central budget is done by a designated parliamentary commission upon submission of the Minister of Finance's report on budget implementation (it also goes to the Supreme Chamber of Inspection). At the local level parallel control is done by commune councils (and regional accounting offices). Annual verification of

the state budget execution is done by the parliament on the basis of government's report on i.a. revenues and expenditure connected with budget accounts closures, and a collective report on local budgets execution, including a statement of revenues and expenditure resulting from local budget accounts closures. Annual reports provide a basis for granting exoneration to central and local administrative bodies.

Scheme 1

Regulation of Polish government accounting

Act called ***Budgetary Law***

(parliament - political organ)

General principles of accounting for governmental sector entities (except for tax service bodies) are defined in a separate act

(parliament - political body)

Specific principles of accounting and uniform plans of accounts for budgetary sector entities

(minister - administrative body)

- Minister of Finance
- Minister of National Defence in conjunction with Minister of Finance
- Minister of Internal Affairs in conjunction with Minister of Finance

Principles of accounting and plans of accounts for tax service bodies

(minister - administrative body)

- Minister of Finance

Principles and terms of governmental reporting

(minister - administrative body)

Minister of Finance

6. Specific principles of public sector accounting

The Accounting Act empowers the Minister of Finance to determine specific accounting principles for financial institutions, budgetary sector entities and non - profit organizations outside the budgetary sector. **Appendix 5** details specific accounting principles for the latter.

Specific principles of accounting and reporting for financial institutions apply to both the public and private sector, but their presentation fails outside the scope of this paper. The authors wish to focus on specific principles of government accounting. The Accounting Act does not prescribe any model of governmental reporting. The model used now was set by the Minister of Finance in 1992 on the strength of the delegation in the Budgetary Law. lts description can be found in (Jaruga, Nowak, 1995, pp. 86-89).

The reporting model comprises the balance sheet prepared on the accrual basis and the statement of budget execution prepared on the cash basis, plus supplementary information on current assets on non - budgetary entities. Unclear is the question of auditing, financial statements of the budgetary sector, because old rules are no longer in force, but the Minister of Finance has not laid down new ones yet and, under the Accounting Act, does not have to do so. As regards specific principles of government accounting currently in force, they are set out in the Decree of the Minister of Finance of August 1995. These principles comprise:

1) Obligation to record budgetary revenues and expenses on the cash basis
2) Obligation to account for other event on the accrual basis (under the Accounting Act)
3) Fixed assets are valued and depreciated according to the Accounting Act provisions. Land is not amortised, except for opencast excavation sites, works of art and museum exhibits. Amounts to be written of are determined on the basis of a depreciation plan. The initial value and depreciation write - offs are adjusted periodically. Certain types of assets are amortised completely by transfer to costs in the month of their putting to use. Thus written of assets are subject to stocktaking or quantitative inventorying.

4) Intangible assets are depreciated according to the rules of the Accounting Act.

5) Tangible current assets are valued according to the rules of the Accounting Act, except for making adjustments at the balance – sheet date following the „lower of cost or market" principle.

6) Receivables and debts are valued according to the rules of the Accounting Act, i.e. at the amount to be paid, adjusted by provisions for bad debts.

As we see it now, the most important change in government accepting principles is their approximating full accrual accounting, which is possible owing to bringing it within the applicability scope of the Accounting Act, underlined by the „true and fair view". The introduction of new principles of valuation and accounting for receivables and debts including accrued interest is regarded in central administration circles as a powerful instrument of disciplining the finances of entities and budget execution. This should reduce significantly financial frauds linked with public debt.

7. Plans of accounts

Managers of public sector entities are required to introduce (adopt) and revise enterprise plans of accounts. The Accounting Act empowers respectively the president of the central bank, head of the Securities Commission and the Minister of Finance to set standard plans of accounts for non – budgetary entities. The Minister of Finance has not used this right so far. The Budgetary Law, however, requires the Minister of Finance to set standard plans of accounts for the budgetary sector. Currently enterprise plans of accounts are based on standard accounting plans laid down by the Minister of Finance in 1995. Besides, the Minister of Finance published a separate plan of accounts for local budgets. As regards a plan for the central budget, we can only guess that it exists. (See **Appendix 6** and **Appendix 7**).

8. The influence of the tax law

Accounting for public sector business entities is affected by tax regulations to a similar extent as the private sector accounting, excluding entities exempted from income tax and budgetary sector entities. On the one hand, the Accounting Act introduced principles of assets valuation and income determination, as well as deferred taxation. On the other, the tax system involves specific principles of recognition of revenues and costs of their realization, as well as strict principles of fixed assets and intangibles depreciation and adjustment of their value. This results in differences in the degree of accrual basis modification and the method of applying the matching concept. As a result, entities should make two kinds of book closures, i.e. economic and tax closures. They can make only the tax closures, but this would result in loss of credibility, as a consequence of loss of neutrality of their financial information.

The tax law has the greatest impact on governmental sector units which generally are obliged to obsess statutory depreciation rates and terms, amortisement and restatement. The following rules relating to the budgetary sector illustrate this:

1) Depreciation of fixed assets according to rates prescribed in provisions on income tax from legal persons, excluding:
   - books and library collections,
   - teaching aids,
   - clothes and uniforms,
   - furniture and carpets,
   - livestock,
   - other fixed assets the value of which is defined in provisions on income tax from legal persons (now about 600 ECU) which are amortised only once by transfer to costs.
2) Depreciation of intangibles according to the rule of the Accounting Act, but the depreciation period is stated in provisions on income tax from legal persons.

Due to the overlap between budget execution control requirements, specific principles of accounting and tax regulations, financial information generated

in the budgetary sector is oriented to users from the central government circules. The neutrality of such information is limited to a degree significantly decreasing its economic credibility and reliability. The negative effects of this feature are extenuated by the fact that financial statements of budgetary sector entities are not published.

9. Conclusion

In the mid - 1990s a significant development of public sector accounting took place in Poland. A characteristic feature of the present situation is a dichotomous classification of public sector entities into, first belonging to either the state or local government sector, and second, for entities outside the budgetary sector, into business and non - business entities. The dichotomy is evident if viewed from the perspective of e.g. the American or British regulatory system. If it is immanent characteristic of free market democracies, then in the mid - 1990s Poland joined this group of countries.

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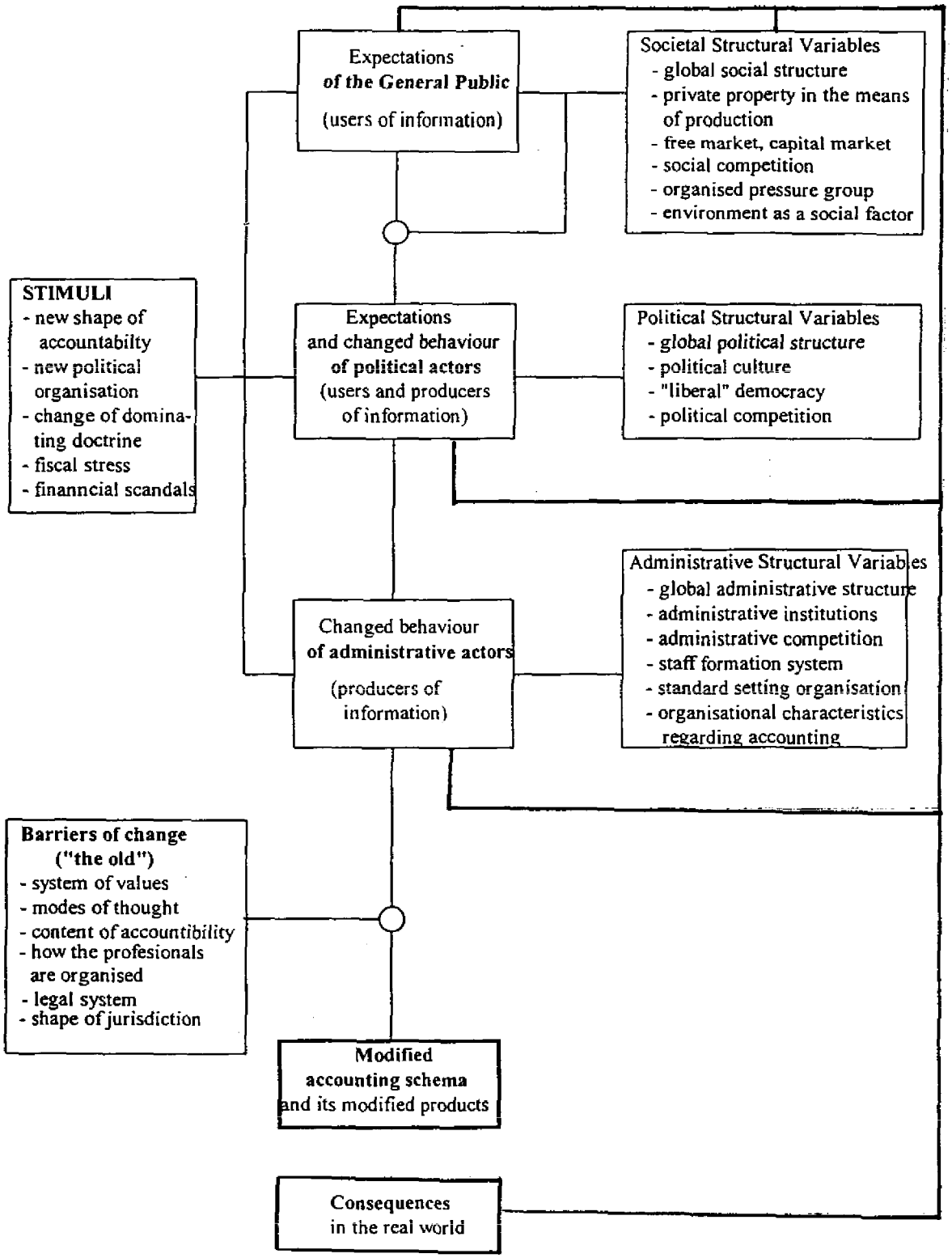
Appendix 0

The Model of Public Sector Accountig Innovations in Poland



Appendix 1

Structure of the 1983 Decree of the Minister of Finance on General Principles of Accounting for Public Sector Entities

I. General rules (§ 1 – § 2)

II. Basic principles of bookkeeping

1. General principles (§ 3 – § 4)

   The principles requirement is to keep account books in accordance with the plan of accounts prescribed centrally for a given type of units, specifying relevant principles of bookkeeping.

2. Accounting evidence (§ 5 – § 8)
3. Account books (§ 9 – § 14)
4. Book entries (§ 15 – § 21)
5. Account books opening and closure (§ 22 – § 28)

III. Basic principles of stocktaking

1. General principles (§ 29 – § 33)
2. Inventorying of cash in hand and tangible assets (§ 34 – § 52)
3. Inventorying of cash in bank, bank credits and other receivables and liabilities (§ 53 – § 57)
4. Inventorying of remaining assets and liabilities (§ 58 – § 59)
5. Simplified stocktaking procedures (§ 60 – § 66)
6. Terms and frequency of stocktaking (§ 67 – § 68)
7. Detailed principles of perpetual stocktaking (§ 68 – § 74)

IV. Valuation of assets and liabilities

1. General principles of assets and liabilities valuation (§ 71 – § 79)
2. Detailed principles of assets and liabilities valuation (§ 80 – § 99)

Appendix 2

Structure of the 1991 Decree of the Minister of Finance on the Principles of Accounting

I. General principles (§ 1 – § 3)

II. Account books (§ 4 – § 7)

This section sets out requirements relating to entity accounting plans and accounting evidences.

III. Stocktaking (§ 18 – § 22)

IV. Determination of the value of assets and liabilities and financial result (§ 23 – § 41)

V. Financial statements (§ 41 – § 43)

VI. Storage of accounting evidence, inventory documents, account books and financial statements (§ 44 – § 45)

VII. Concluding provisions (§ 46 – § 49)

Appendix:

- balance sheet,
- supplementary data for the balance sheet,
- profit and loss account,
- supplementary data for the profit and loss account,
- notes to financial statements.

Appendix 3

Structure of the 1994 Accounting Law

Section 1. Generals rules (Art. 1 - 10)

This section formulates among others the obligation for entities to introduce plan of accounts.

Section 2. Bookkeeping (Art. 11 - 25)

This section formulates among others the requirements for accountig evidences.

Section 3. Stocktaking (Art. 26 - 27)

Section 4. Assets and liabilities valuation and financial result determination (Art. 28 - 44)

Section 5. Financial statements of the entity (Art. 45 - 54)

Section 6. Financial statements of a capital group (Art. 55 - 63)

Section 7. Audit and publication of financial statements (Art. 64 - 70)

Section 8. Data protection (Art. 71 - 76)

Section 9. Legal liability (Art. 77 - 79)

Section 10. Specific and transitory provisions (Art. 80 - 83)

Section 11. Changes in current regulations, concluding provisions (Art. 84 - 86)

Appendixes

no 1 Balance sheet for entities other than banks and insurers

no 2 Balance sheet for banks

no 3 Balance sheet for insurers

no 4 Profit and loss account for entities other than banks and insurers

no 4/1 Profit and loss account with classification of expenses by type, version 1

Appendix 4

Entities falling under Polish legal regulations

1983 - 1990	1991 - 1995	1995 -
(The 1983 Decree of the Minister of Finance)	*(The 1991 Decree of the Minister of Finance)*	*(The 1994 Accounting Law)*
1. State - owned enterprises	1. Legal personsand organizational units without legal status, whether or not they are engaged in business activity	1. Commercial and private companies and other legal persons, excluding the State Treasury and the Central Bank
2. Association of state enterprises and entities financed from the obligatory charges of enterprises and institutions	2. State budgetary units, budgetary entities, auxiliary holdings, special purpose funds and communes and their associations	2. Natural persons and natural person partnerships, providing their net income from the sale of goods, products and financial operations for the preceding fiscal year was at least the equivalent of 400.000 ECU
3. Budgetary units and entities	3. Limited partnerships, general partnerships and partnerships, providing that in the period preceding a given fiscal year their revenues from the sale of products and goods exceed the amount stated in the Decree.	3. Organizational units functioning under the bank law, law on public circulation of securities and trust funds or regulations relating to insurers, irrespective of the value of their income.
4. Higher schools and research and development institutes	4. Natural persons engaged in business activity and natural persons partnrships, providing that in the period preceding a given fiscal year their revenues from the sale of products and goods exceed the amount stated in the Decree.	4. State and municipal budgetary units and their auxiliary holdings, budgetary entities, state and municipal special purpose funds, communes and their associations, excluding provisions on financial statements.
5. Property and life insurance institutions	5. Natural persons conducting business activity and natural person partnerships that do not fulfil the sufficiently high revenue requirement, but wishing to adopt the data included in their financial statement as basis for tax assessment	5. Organizational units without legal status, other than those specified in points 1and 2.

6. Commercial companies with a share of public property above 50% and *(since 1988)* companies with foreign capital

7. Cooperatives and their associations

8. Political, social and professional organizations and run by them enterprises and business entities

9. Remaining state-controlled entities (state-owned, commune-owned and cooperative entities)

10. Parts of above-mentioned entities that are obliged to run their own accounting system

6. Foreign corporations, foreign units without legal status and foreign natural persons engaged in business actvity on the Polish territory in person, through an authorised person (agent) or through employees, irrespective of the value of income

8. Natural persons or natural persons partnerships not fulfilling the requirement of having net income from the sale of goods, products and financial operations (for the period preceding a given fiscal year) equivalent to 400.000 ECU, and wishing to use the data from financial statements as tax basis.

Appendix 5

Scope of applicability of the Decree of the Minister of Finance of 28 December 1994 on specific principles of accounting for non – business entities

Rules of the Decree apply to:

- associations,
- political parties,
- trade unions,
- employer associations,
- business chambers
- church legal persons,
- foundations, charities and social welfare institutions which are not commercial companies,
- scientific societies,
- health care organizations,
- vocational and social rehabilitation,
- foreign entities' agencies.

Structure of the Decree

1. Scope of applicability.
2. Statement of overriding importance of the Accounting Act.
3. Conceptual model – definition of revenues, scope of cost recognition, possibility of departure from the prudence principle.
4. Special treatment of fixed assets depreciation in the case of financing entire activity from budgetary resources – depreciation write-offs decrease the statutory fund.
5. Obligation for heads of entities to determine and update their entities plans of accounts

6. Obligation to prepare financial reports comprising the balance – sheet, profit and loss account and explanatory notes
7. Obligation to follow rules of the Accounting Act upon starting business activity
8. Obligation for church legal persons to keep accounts according to intemal church rules.
9. Appendix
   a) Format of the balance sheet
   b) Format of the profit and loss account

Appendix 6

The Polish Model Chart of Accounts for Governmental Sector Entities

1992		1995	
Class 0 Long term assets		*Class 0 Long term assets*	
011	Tangible fixed assets	011	Tangible fixed assets
012	Equipment	012	Remaining tangible fixed assets in store
013	Equipment in use	013	Remaining tangible fixed assets in use
014	Library books and museum exhibits	014	Library books
015	Liquidited enterprises assets	015	Liquidited entities assets
		016	The pieces of art and museum exibits
020	Intangibles	020	Intangibles
		030	Financial long term assets
031	Home and foreign shares / interests		
035	Financial long term assets		
071	Accumulated depreciation of tangible fixed assets and amortization of intangibles	071	Accumulated depreciation of tangible fixed assets and amortization of intangibles
072	Depreciation of equipment and library books and museum exhibits	072	Accumulated depreciation of remaining tangible fixed assets and amortization of remaining intangibles
080	Tangible fixed assets under construction	080	Tangible fixed assets under construction

Class I Cash and bank accounts

101	Cash in hand
130	The current bank accounts of budgetary units
131	Current bank accounts
132	The bank accounts of means for purchasing long term assets
134	Bank credits
135	The bank accounts for special funds means
140	Short term securities and other money means

Class 2 Receivables, payables and claims

201	Trade accounts
221	Receivables by the reason of budget revenues
222	Budget revenues contra accounts
223	Budget expenditures contra accounts
225	Budgets accounts
226	Long term budget receivables
229	Other public accounts
231	Employees' remuneration accounts

Class I Cash and bank accounts

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130	The current bank accounts of budgetary units
131	Current bank accounts
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223	Budget expenditures contra accounts
225	Budgets accounts
226	Long term budget receivebles
229	Other public accounts
231	Employees' remuneration accounts

234 Other employees' receivables parables and claims accounts

240 Other

Class 3 Materials and merchandise

300 Purchase control account

310 Materials

330 Merchandises

340 Price variances

Class 4 Costs by nature

400 Costs by nature

490 Costs by nature contra account

Class 5 Cost allocation

500 Basic activity (production, trade, services and other) costs

530 Supporting activity costs

550 Management expanses (general entity and administrative expenses)

580 Activity contra account

Class 6 Products (goods, works and services)

600 Finished products and semi-finished products

620 Prices variances

640 Deffered charges by reason of costs

234 Other employees' receivables parables and claims accounts

240 Other

Class 3 Materials and merchandise

300 Purchase control account

310 Materials

330 Merchandises

340 Price variances

Class 4 Costs by nature

400 Costs by nature

490 Costs by nature contra account

Class 5 Cost allocation

500 Basic activity (production, trade, services and other) costs

530 Supporting activity costs

550 Management expanses (general entity and administrative expenses)

580 Activity contra account

Class 6 Products (goods, works and services)

600 Finished products and semi-finished products

620 Prices variances

640 Deffered charges by reason of costs

Class 7 Revenues and taxes and grants		*Class 7 Revenues and taxes and grants*	
700	Sales of goods	700	Sales of goods and cost of sales
730	Sales of merchandise	730	Sales of merchandise and acquisition cost
740	Taxes and grants	740	Budget and off-budget grants
750	Financial revenues	750	Financial revenues and costs
760	Other revenues (eg from tangibles sold)	760	Other revenues and costs

Class 8 Funds, reserves and financial result for the year		*Class 8 Funds, reserves and financial result for the year*	
800	Basic fund	800	Entity fund
810	Budget and off-budget grants	810	Budget grants and budgetary means for purchasing long term assets
820	Financial result appropriation	820	Financial result appropriation
840	Reserves and deferred revenues	840	Reserves and deferred revenues
851	Social benefits fund	851	Social services fund
852	Housing fund		
853	Off-budget funds	853	Off-budget funds
855	Liquidated enterprises property fund	855	Liquidated entities property fund
860	Extraordinary items and financial result	860	Extraordinary items and financial result
		870	Taxes and other obligatory charges in favuor of budget paid in charge of financial result

Appendix 7

The Model Chart of Accounts for Local Government Budget

„1992“		„1995“	
	Balance-sheet accounts		**Balance-sheet accounts**
133	Budget current bank account	133	Budget current bank account
134	Bank credits	134	Bank credits
140	Other money means	140	Other money means
222	Budget revenues contra accounts	222	Budget revenues contra accounts
223	Budget expenditures contra accounts	223	Budget expenditures contra accounts
224	Budget receivables and payables	224	Budget receivables and payables
901	Budget revenues	901	Budget revenues
902	Budget expenditures	902	Budget expenditures
960	Budget shortage or surplus	960	Budget shortage or surplus
Off – balance-sheet accounts			
991	Planned budget revenues	991	Planned budget revenues
992	Planned budget expenditures	992	Planned budget expenditures
993	Other budgets accounts	993	Other budgets accounts

3.4 Governmental Accounting Innovations at the Cantonal Level in Switzerland: Experimenting with the New Public Management

Kuno Schedler

Introduction

The particular features of public financial management in Switzerland are determined by a pronounced financial federalism. The cantons (comparable to the American states) are largely independent as regards their financial and fiscal sovereignty; they are free to fix the type and rate of taxation and levies, as well as the instruments of financial management. It is therefore a consequence of financial federalism that there is no possibility of imposing any specific financial management instrument on the cantons, which means that any attempts at harmonization invariably depend on the canton's readiness to play ball and, by the same token, are apt to founder at any time if individual cantons do not do so.

From the 1940s onward, a multitude of cash and accrual accounting models were tried out at cantonal and communal levels until the 1970s, when the Conference of Cantonal Finance Ministers set up a committee of experts to work out proposals for change. In 1977, the Conference approved a „ Public Sector Accounting Manual“ by way of a recommendation to the effect that a new full accrual accounting model be implemented at cantonal and communal levels in accordance with the principles laid down in this manual. It's purpose was the creation of transparency by harmonising cantonal and local public sector accounting (Stalder 1995, pp. 311). In 1981, the manual was extended, particularly for use by communities. To this day, some 70% of communities and 85% of the cantons have introduced the accounting model in accordance with the manual (Stadler 1994, p. 5).

Despite its early origin (1977), the cantonal accounting model contains several elements of a full accrual accounting model:

- division of the administrative accounts into a current account and an investment account;
- standardized account structures of the public sector, which facilitates cross comparisons;
- harmonized accounting principles and special financing;
- structuring of the current and investment accounts according to institutions (comparable with cost centers);
- encouragement to think in terms of costs through the clearing of internal cost and benefit;
- consolidation of operation-specific accounts with administrative accounts;

- statistical cash-flow;
- statistical structuring of administrative accounts according to functions (functional structure).

From today's viewpoint it must be said that the objectives aimed at by the introduction of the new accounting model, among them most importantly the creation of cross-comparability between cantons and communities, have only been partially achieved. Particularly in the field of cost transparency, the implementation of individual elements of cost accounting (internal clearing) has had an insufficient effect. Moreover, smaller cantons and communities in particular complain that the extent and the wealth of details of the account structure are excessive, thus making accounting too expensive in terms of time and money. However, few dispute that double-entry accounting should generally be introduced consistently on this level of government in Switzerland. It is argued that the implementation of such a model, which is fairly similar to commercial accounting, means that accounting knowledge acquired in the private sector can be applied to public sector accounting. Additionally, the existance of private sector accounting software which can be adapted easily furthered the introduction of the cantonal model (Buschor 1993, p. 224). Furthermore, a draft model budget law created the foundation on which changes could be prepared at a legislative level, which is important in Switzerland.

Having written this, one can consider the Swiss cantonal accounting model sufficient for the needs of a traditional public administration. It is, however, not designed for the needs of a public sector management. Therefore, it can be expected that the accounting model will have to be adapted to the upcoming demands of a new paradigm in the public sector: the shift from public administration to public management.

New Public Management in Switzerland

New public management (NPM)[1] is a comprehensive approach to the re-orientation of management in public administration. It changes the major focus from an administration-oriented to a management-oriented perspective of the public sector. In Switzerland, the term used for most of the cantonal reform projects is „ effect-oriented public management" (*Wirkungsorientierte Verwaltungsführung*). The overriding principle is a shift of emphasis from inputs onto outputs, outcomes and impacts. Essentially, Buschor (1994, 25) distinguishes

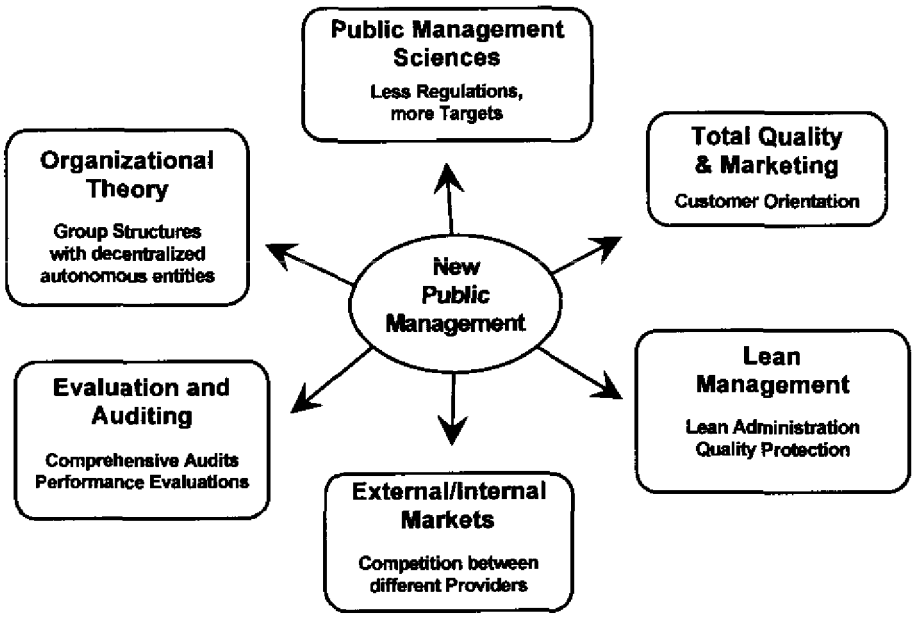
1 The term „ New Public Management" is often rooted to an article by Christopher Hood (1991).

between six basic elements of a comprehensive view which can be described as follows:

- **Total quality / marketing element:** A stronger client and/or citizen orientation is meant to prompt the administration to define its products more deliberately and to bring all its activities into line with these products and their quality. This quality, in turn, is no longer solely defined by the administration, but also by the clients.
- **Lean management element:** Activities that do not add any value to the end product will no longer be carried out. Contracting-out or outsourcing should concentrate the administration's own energies on its genuine strength. One emphasized concept for the Swiss administration is a growing public-private partnership, not only in production, but also in the planning and executing process of the *service public*.
- **Competition element:** The creation of external and internal markets is meant to foster a competitive environment for each part of the administration, which should result in an improvement in efficiency and effectiveness virtually automatically. Wherever this is not possible *per se*, instruments such as benchmarking, competitive testing or competitive tendering should simulate competition. The accountability of individual members of staff is to be enhanced by dividing up the parts played by funders, purchasers and providers, who are then linked within the organization by performance agreements and, for reasons of consistency, lump-sum budgets.
- **Auditing and evaluation element:** The control mechanisms of public administration take their main bearings from inputs. In terms of auditing, the trend is away from purely financial audits towards comprehensive or value-for-money audits. This means that the role of the audit institution has to be re-defined.
- On the other hand, program evaluation and performance measurement are gaining ground in politico-administrative controlling systems, and questions affecting limited areas are increasingly subjected to performance evaluations.
- **Organizational theory element:** Today's centralized administration is too vast and unwieldy for efficient and effective production. For this reason, group structures with decentralized autonomous administrative units are formed in order to delegate a higher degree of independence and accountability to the front. However, decentralization always also means a loss of operational control, which reinforces the significance of strategic management at the political and the central administrative management level.

- **Public management element:** Management instruments are changed in such a way that the yardstick is no longer so much regulation, but the behavior evinced by administrative units and their members of staff. Missions are largely defined in terms of „ what“ ; while it is up to the administrative unit as to „ how“ it will go about supplying the agreed products or reach its objectives.

Figure 1. The New Public Management Framework



Sometimes, a difference is made between elements of managerialism and others of marketisation within a new public management. For the Swiss cantons it can be said that the emphasis clearly lies on the managerialist elements as the administrations do not have enough data about their own business to be prepared for competition. It is, however, planned to start with the introduction of competitive processes – such as competitive tendering – within the next two years. This *external* form of competition will be added to a more internal perspective, which increases choice for internal services such as information services, office material delivery or training activities.

In practice, the Swiss cantons are developing instruments to implement the new public management; however, there is no canton that has already completed the introduction of a full set of new public management techniques or instruments. Most of the cantons have just started in 1995 / 1996 and are therefore still in a learning phase of the projects. Therefore, this paper can only analyse the slight changes that have been put into place up to now and give an

outlook on the ideas and models that seem to affect the change process in Switzerland at the moment.

Criteria for NPM-related Government Accounting

The criteria of a newly designed government accounting can be derived from these six elements of the new public management. It is thereby generally taken for granted that the introduction of a more complex accounting system is the basic condition for a successful implementation of the NPM model. Müller (1995, p. 246) reports that in the City of Lucerne the demand for an accounting and reporting system that is able to produce financial and non-financial information came from the managers within the administration. By decentralising decision making and responsibility for the decisions, a lack of management information came to light which had always existed but was not relevant in the old system. It was only when NPM elements were introduced that accounting and reporting had to be changed.

All the new elements of accounting and reporting combined are seen as a comprehensive system of *management accounting* (the term for which in the German speaking area of Europe is „ Controlling" , an English expression used as a substantive that has the meaning of steering, planning, reporting, checking **and** accounting). Like in other countries (see e.g. Pallot 1995, 149ff), government accounting systems move away from purely financial information to financial and non-financial statements.

Table 2. NPM Creating Accounting Needs

Element of Public Management	**Accounting Needs**	**Developing in CH**
Client Orientation / Marketing	Benefit Accounting	(✓)
	Separated External Reports	✓
Lean Management	Activity-Based Accounting	
Competition / Market Mechanisms	Cost Accounting	✓
Auditing / Evaluation	Accountability-Related Accounting Standards	✓

Decentralization	Formalized Reporting	✓
	Interim Reporting	✓
	Individual Chart of Accounts	✓
	Consolidated Accounting	✓
	Multistage Closing of Accounts	✓
Management by targets / Deregulation	Performance Accounting	✓
	Effect Accounting	(✓)

In order to get worthy information on **client satisfaction** and the benefit of the produced services, a new form of benefit accounting has to be designed. Like in New Zealand, some local authorities have started doing citizen and/or customer surveys (for example the city of Berne). However, these surveys often struggle with methodological problems and are therefore not always accepted as tools to measure the quality of administrative production. Furthermore, the major focus today still lies on the outputs rather than on impact as the projects have only been running for a short time. It follows that the information derived from surveys should be important as an indicator but will not replace the direct democratic instruments of initiative and referendum in Switzerland.

Client orientation also means that the customers of the public administration should be informed about the work that is being done within the organization in a form that enables them to understand easily. Traditional yearly reports are usually not considered to fulfill this function as there are too many input figures which can only be read and understood by experts of public sector accounting. New forms of external reports, so-called product reports, have therefore been developed which present the most important information in an understandable, visionalized manner.

Lean management carries a strong process-oriented view of activities into the public sector. It is, however, not the traditional process regulation in order to guarantee legal fairness, but optimization of business processes in order to trim bureaucracy and shorten time, cut cost and increase quality. In order to get to the information which would be interesting for this approach, one has to develop activity-based accounting systems. However, as there are hardly any already working „ simple“ cost accounting systems, the activity-based approach will have to be the second step after the introduction of a full-cost accounting system. As far as is known, there has been no reports about a successful introduction of activity-based accounting in the Swiss public sector.

The main reason for the implementation of a **cost accounting** system is to further a higher cost-consiousness of staff within the public sector. This is supported by the introduction of internal and external competition and market mechanisms. Both competition and market mechanisms cannot be fair without the administration knowing the true cost of their products. Not only does this mean that the overhead has to be fully taken into account, but it also means that certain product elements – like the creation of „ social jobs“ [2] – are taken into consideration as outputs with their own cost share.

The change of the **auditing** concept and the rise of **evaluation** as a widely accepted method to increase the quality of information for political decisions in the Swiss public administration create a need for accountability-related accounting standards. This has been realized by several organizations, and new standard-setting organizations come up with their ideas and concepts, although none of them with official power. In March 1996, for instance, the Swiss Society for Evaluation was founded and at the same time, a sub-group „ evaluating public management“ was built up with experts from universities, evaluation consultants and administrative practitioners. It is expected that this group will have an influence on the updating of accounting standards in Switzerland.

The most heavy influence on the accounting system stems from the organizational element of NPM: **Decentralization**. By this the information line is cut between the central administration and the decentralized „ agencies“ . This creates a strong need for new instruments, which are developed in Switzerland with high energy:

- A **formalized reporting system** is being developed in order to de-bureaucratize the new information-load that is needed to control the activities of the agencies;
- **Interim reports**, created to give management information regularly from the agency to the department, are written twice to four times a year, depending on the agency;
- Under the umbrella of the existing financial accounting system (cantonal model), each type of agency can develop their **individual chart of accounts**, depending on their needs.

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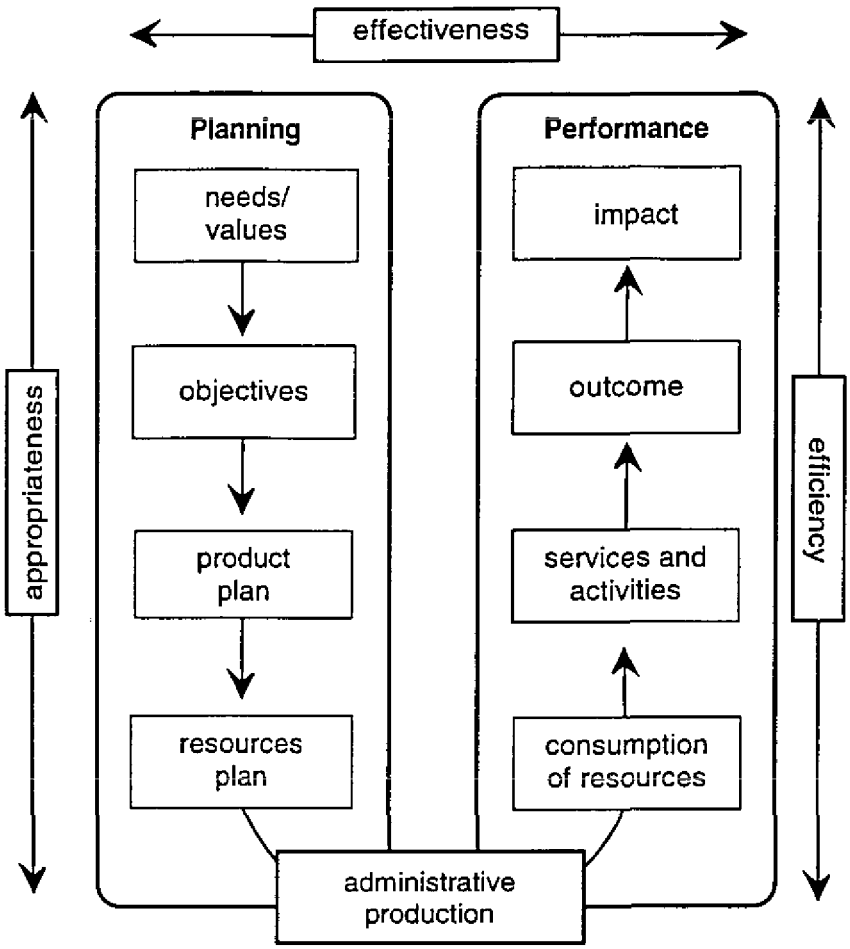
2 For example, the city of Berne found that 10 percent of the workforce in the waste collection and street cleaning department could be reduced if the city as an employer would behave strictly economicly. However, they also found that the redundancy of these people would then cause social cost which could be higher than the savings. These figures will have to be approved by the new cost accounting system which is put in place in Berne in 1996.

- Although there is a shift from the pure public finance perspective to a public management perspective in financial management, one of the most important questions in the public sector still remains the avoidance of deficits. Therefore, there is a strong need for a comprehensive, **consolidated report** on the financial situation of the public sector as a whole.
- Different problems need differents information. To enable managers to decide on the most efficient way of producing a certain product, the accounting system has to deliver partial cost information like marginal costs. In order to be able to decide on potential privatisation objects, there is a need for full cost information. Thus the system is to deliver both, which leads to a **multi-stage closing of accounts**.

Changing the focus of control **from inputs to outcomes** creates a new need for performances and effects accounting in the public sector. These two variations of accounting are sometimes subsumed under the expression of „ performance measurement“ (see also Buschor/Schedler 1994).

A. Government Accounting

Government accounting of the future - which is being developed in Switzeland at the moment - will go far beyond the traditional financial perspective. As has been shown in the last chapter, there is a demand for new information that goes with the uprise of the public management philosophy. In many of the Swiss reform projects, the different levels of accounting are explained to practitioners with the production process model which has been introduced to the CIGAR group earlier (see Mäder/Schedler 1994, pp. 355). In practice, it has actually turned out that this model is better understandable for practitioners and students than the 3-E model, which is normally used to explain the comprehensiveness of the public management concept.



Related to the shown production process, one can distinguish between four levels of a comprehensive government accounting approach:

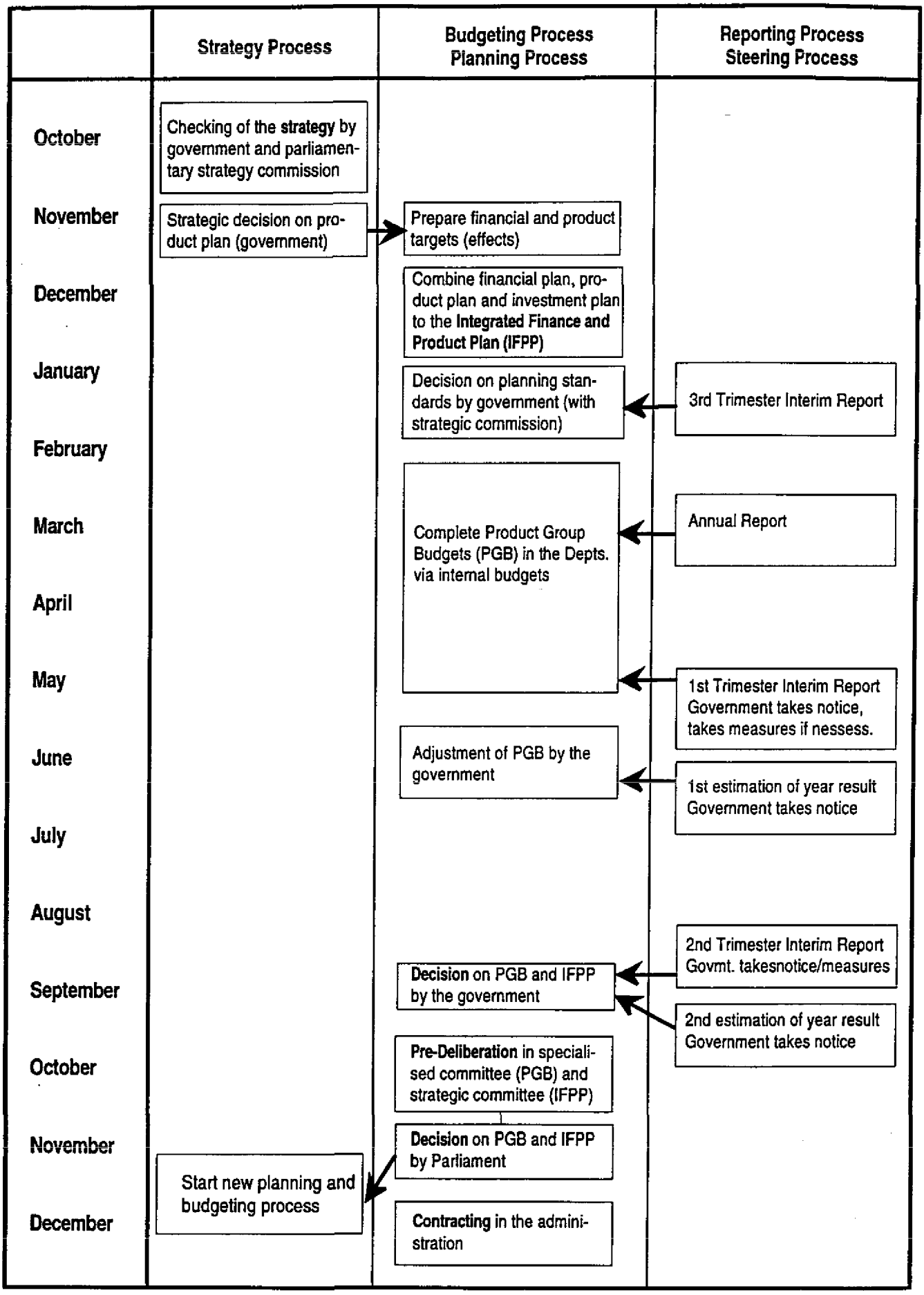
- at the inputs level, it is cost accounting;
- at the outputs level, performance accounting;
- at the outcomes level, effects accounting;
- at the impact level, benefit accounting.

Although the differenciation between the four levels could create the impression of four isolated accounting systems, it is clear that not only the effectiveness of the processes must be observed but also the efficiency dimension, that is input-output relations over all four levels. It is by using information from all levels that measures like cost-effectiveness or cost-benefit ratios can be calculated.

B. Government Reporting

In most of the cantons, as Egli and Käch (1995, pp. 172 ff) describe for Lucerne, government internal and external reporting will be changing dramatically. Internal reports are standardized and take on two different forms: *In-*

terim reports and *yearly business reports*. Interim reports work on different periods: In Berne, they are introduced on a four months basis, Lucerne plans semi-year reports, while other cantons have not decided yet. Experience of the author in different projects shows that the periods of interim reports have to fit to the decision making process of the administration management and the government. In an expert's opinion for the canton and the city of Berne, we recommended to introduce four-month terms for interim reports as this fits best to the existing time frame.


Strategy Process
Budgeting Process
Planning Process
Reporting Process
Steering Process
October
November
December
January
February
March
April
May
June
July
August
September
October
November
December
Checking of the strategy by government and parliamentary strategy commission
Strategic decision on product plan (government)
Prepare financial and product targets (effects)
Combine financial plan, product plan and investment plan to the Integrated Finance and Product Plan (IFPP)
Decision on planning standards by government (with strategic commission)
3rd Trimester Interim Report
Complete Product Group Budgets (PGB) in the Depts. via internal budgets
Annual Report
1st Trimester Interim Report Government takes notice, takes measures if nessess.
Adjustment of PGB by the government
1st estimation of year result Government takes notice
2nd Trimester Interim Report Govmt. takesnotice/measures
Decision on PGB and IFPP by the government
2nd estimation of year result Government takes notice
Pre-Deliberation in specialised committee (PGB) and strategic committee (IFPP)
Decision on PGB and IFPP by Parliament
Start new planning and budgeting process
Contracting in the administration

Although Germann and Weis (1995, p. 90) found that financial planning was introduced in many cantons years ago, there is a lack of strategic thinking in nearly all the cantonal governments in Switzerland. This is especially true for the instrumental reporting basis within the administration: While in private companies, a direct link between reports and (strategic) decisions would be considered essential, it is missing in the administration. This means that with the introduction of a more management-oriented controlling system, the reporting framework has to be designed to be able to have a direct influence on government decisions throughout the year. It is by this improvement of the quality of information for decision that many cantonal administration managers hope to increase the quality of the decisions themselves, too.

External reports are reports designed for the full assembly of the parliament and/or for the public as a whole. They are produced once a year and sent to the interested public (e.g. press, parliamentarians, political parties). Today, the structure of the external reports is two-fold: For financial information, the reports most often have a wide and detailed account structure. This means that should one want to read the report, a minimum of accounting knowledge would be required. The Swiss parliamentarians, however, are not professionals and therefore not experienced readers of financial information in this shape. It has been argued (Bolz/Klöti 1996, p. 175 f) that there should be a link between a new law and the financial plan in order to enable the legislator to consider financial implications of their decisions. This implicates that the external reports take on a new structure: Not the accounting view should dominate but rather a new product (or product group) view which is linked to the main political considerations within the legislating and budgeting process.

In order to get the information needed for external reports, most of the accounts within management accounting are needed. Table 2 shows the use of accounting elements for both internal and/or external reporting.

Table 2: Internal and external reporting

Accounting Elements	internal	external
Accrual Accounting	✓	✓
Cash Accounting	✓	
Financial Accounting	✓	
Cost Accounting	✓	✓
Performance Accounting	✓	✓
Effect Accounting	✓	✓
Benefit Accounting		✓
Interim Reports	✓	
Online Management Information	✓	
Individual Chart of Accounts	✓	
Consolidated Yearly Reporting		✓

Analysis of the Current Accounting Model

The cantonal accounting model has been designed in the 1970's by a committee of practitioners from within cantonal and local administrations. Its major purpose was to improve the basic information for the federal and the innercantonal fiscal equalization system in Switzerland (Handbuch 1981, p. 15). Therefore, it's design puts emphasis on the harmonization of general financial status information and is clearly „ public finance“ -oriented. With the introduction of the functional structure of accounts, however, first steps towards a management information tool have alread been taken then. The model itself has been described elswere (Mäder/Schedler 1994, p. 347 ff) as the „ New Accounting Model“ – an expression which is still used by practitioners.

In order to make clear that there is some potential for development, table 3 shows the differences between the cantonal accounting model and cost accounting. Although a general trend cannot be recognised, the current projects tend to use the existing accounting model as the basis on which the whole of government accounting and reporting will be consolidated while the agencies run their cost accounting systems on an individualised and decentralised basis.

Therefore, it is not foreseeable that the cantonal accounting model should be abolished; moreover, it will most certainly be accomplished with linkages to the cost accounting systems of the agencies. Stalder (1995, p. 319) argues that the steering process of the future will be based on cost information and that therefore the chart of accounts of the current accounting model will be used for statistical indications only.

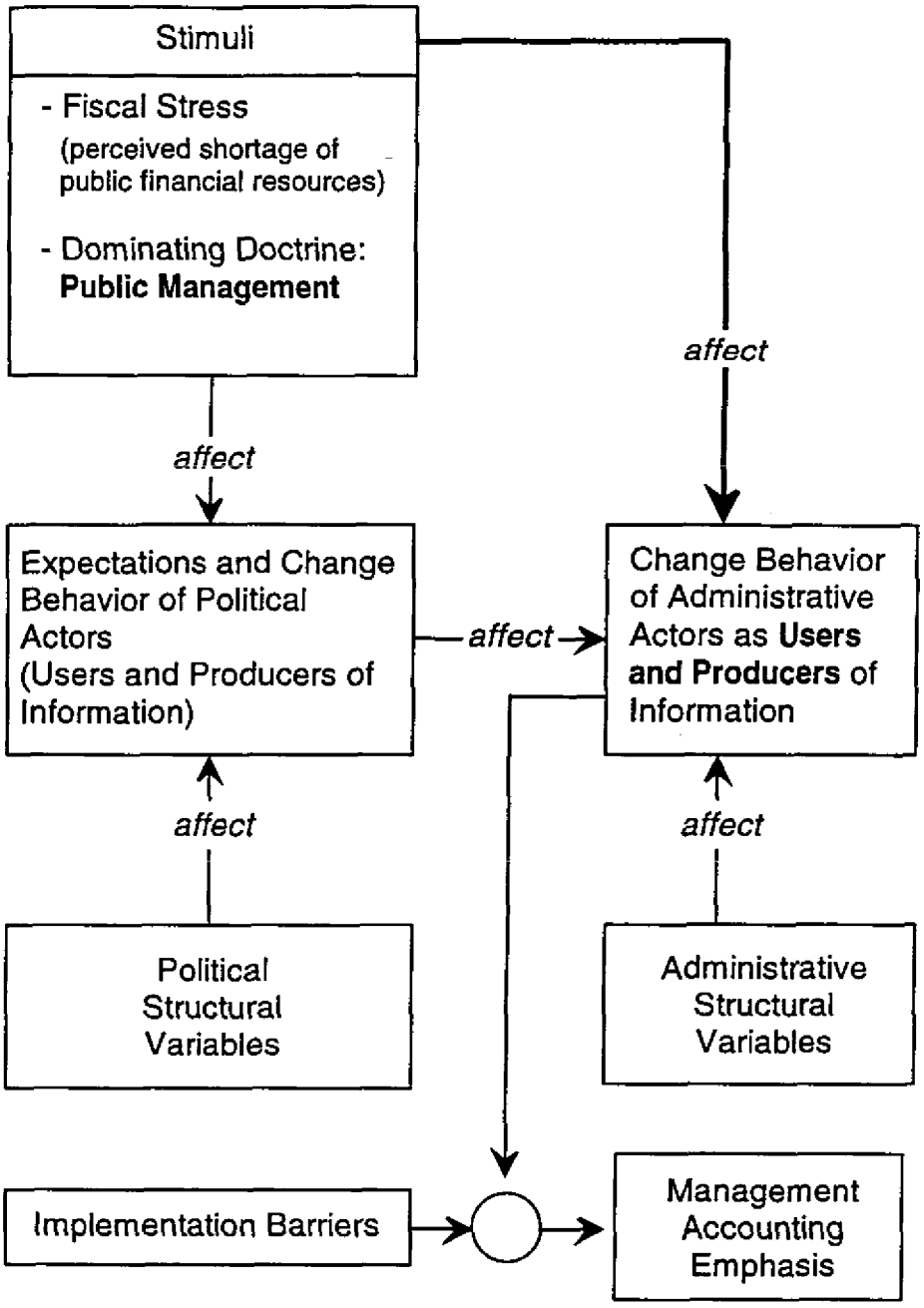
Table 3: Cantonal Accounting Model vs. Cost Accounting

Elements	**Cantonal Accounting Model**	**Cost Accounting**
Leading Paradigm	• Public Finance	• Public Management
Asset Valuation Base	• Depreciated Historic Cost for Administrative Assets • Historic Cost for Financial Assets („ Market Value“)	• Replacement Cost
Depreciation Method	• Generally Fixed Depreciation on Administrative Assets • Depreciation on Current Value	• „ Individualised“ Depreciation on all Assets • Depreciation on Replacement Cost
Internal Clearings	• Globalised Depreciation • Office Material Consumption • IT Consumption	• Depreciation • Internal Services of All Kind • Office Room Rent • Caculated Interest on Invested Capital
Cost-and-Revenue Accounting	• only for Special Financings	• per Cost Unit • per Cost Centre

The Innovation Process

There is no empirical study about the currently happening innovation process in Switzerland by now. However, the work done by the author in reform pro-

jects leads to the impression that there are some peculiarities in the process which can be demonstrated with the help of Klaus Lüder's modified contigency model of public sector accounting innovations (Lüder 1994, p. 9).



The most obvious characteristic of the current reform process is the initial missing of expectations of the general public. Although the increasing budget deficits of some cantons led to a growing fiscal stress, the general public's expectations did not include a reform process in the financial management or even the accounting system. Therefore, from the accountant's standpoint, the general public has not been involved in the reform process by now. It must be said, however, that the intensive debate and the success of the literature about a new public management has actually strengthened expectations of the public (above all, the press) that the reforms of the politico-administrative management will go on and that it will lead to higher efficiency and effectiveness. Thus, there is public support for public management reforms without being clear that this also involves reforms in the accounting system.

The second point that should be highlighted is the new role played by the administrative actors. While Klaus Lüder's contingency model defines them as producers of information only - which may be true for a „ public finance" view of the accounting system - there is a growing need for management information if NPM is widely introduced. Thus the information is as well produced and used by administrative actors. Additionally, the content of the information and its quality varies between the use by politicians and the use by administration managers. As the emphasis lies on the administration at the moment, the accounting system is likely to be designed primarily with a weight on management contents. It is foreseeable, however, that the political actors as users of information will define their new needs within a short period of time and that the accounting and reporting system will have to provide for the relevant information. The St. Gallen Professor for Public Law, Philippe Mastronardi (1995, p. 1550), points out that NPM may only be developed if the transparency necessary for the new „ results-oriented" steering in the public sector can be guaranteed. It is obvious that the accounting reforms will have to take these limitations into consideration.

Conclusions

With the experiences made in mind, and by emphasizing that the described reform ideas are being implemented in an experimental stage in a limited number of administrations in Switzerland, one can come to the following conclusions about accounting innovations in this country:

1. The already existing cantonal accounting model is, although designed with a strong „ public finance" perspective, a good basis for further developments towards a management information system.

2. This process is encouraged and furthered by the increasing number of reform projects of the kind of a „ new public management“ or the results-oriented public sector management.
3. Although there are no standard-setting organisations supporting a harmonized development in the innovation process, there is a growing need for updated accounting standards and therefore one can expect „ inofficial“ standard-setting organizations to gather and fill this gap.
4. Some actors in the politico-administrative system have not taken over an active role in the reform process yet. Among them are the cantonal audit institutions which have in general only re-acted by now. There is, however, a general understanding that the new roles of the audit institutions will have to be defined within a short period of time.
5. Standard-setting will not only be necessary in accounting, but also in related fields. As the format and the clearness of, say, yearly reports are crucial for a new way of political steering, reporting standards are likely to be defined, too.

In comparison to the last paper published in the CIGAR group (Mäder/ Schedler 1994), one could say that the ideas presented then have been developed and implemented in practice. However, this still remains experimental and is in no way to be considered definitive nor even legally bound. More changes are likely to happen within the next four to six years before the legislature will codify the new accounting model for the cantons in Switzerland.

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Appendix A:
Characterizing a Nation´s Governmental Accounting System

James L. Chan

This note represents an attempt to characterize a country's accounting system in terms of institutional framework and basic policies. It focuses on accounting as the measurement and disclosure of financial information. As such, it does not address financial conditions or other financial management function such as budgeting and auditing. The questions raised below are intended to solicit empirical data rather than subjective opinions.

These suggestions are based in part upon the „Interview Guide" used by Professor Klaus G. Lüder in his country studies. Comments and recommendations for improvements are welcome.

Institutional Framework

To what extent:

Professionalism and Independence

- Is the accounting system controlled by the administration (executive branch of government)?
- Is the chief accounting officer required to be a public finance professional?
- Is the auditor independent of the government unit being audited?

Private-Sector Influence

- Are accounting and financial reporting standards based on legal requirements?
- Does the private-sector accounting profession participate in setting governmental accounting policy?

Functional Integration

- Are accounting policies and procedures (e.g. the chart of accounts, measurement rules) influenced by budget laws or norms?
- Have accounting concepts (e.g. accrual) influenced public budgeting?
- Are accounting and financial reports subject to external (parliamentary or legislative) audit?
- Is the accounting system computerized?
- Is the accounting system regarded as a part of the overall management information system?

Centralization

- Does the national government dictate the accounting practices of sub-national governmental units?
- Is the accounting function performed by operating agencies within the government subject only to the coordination of a central office?

Accounting and Financial Reporting Policy

To what extent:

Objectives

- Is the accounting system designed to facilitate budgetary control?
- Is the accounting system designed to facilitate legislative oversight?
- Is the accounting system designed to facilitate monitoring by creditors and other resource providers (e.g. bondholders, grantors and donors)?
- Is the accounting system also designed to facilitate monitoring by the general public?

Accounting Recognition and Measurement

- Is the double-entry bookkeeping system used?
- Is the accounting system organized on the basis of individual funds?
- Is the accrual basis or accounting practiced?
- Do government enterprises follow commercial accounting principles?
- Are bases of valuation other than the historical cost basis (e.g. replacement cost) used?
- Are the government´s capital assests recognized?
- Are the government´s long-erm liabilities recognized?
- Is the annual deficit based on accruals?
- Is revenue recognition based on cash receipts?
- Is depreciation expense recognized?
- Are obligations considered as expenditures?

Financial Reporting

- Are the books closed promptly after the end of the fiscal year?

- Are government managers given interim (e.g. monthly, quarterly) financial reports?
- Does the government periodically issue financial reports to the public?

Contents of Financial Reports

- Does the reporting entity encompass other associated governmental units?
- Are financial data aggregated (e.g. in terms of types of funds) in external reporting?
- Does the government´s financial report include such basic financial statements as a balance sheet, statement of operations and cash flow statement?
- Are actual results compared with revenue projections and appropriations?
- Are economic forecasts or analysis included in financial reports?
- Are non-financial data on service efforts and accomplishment included in financial reports?
- Are internal transactions (e.g. transfers) disclosed in the external financial reports?

Information Dissemination

- Are general purpose financial statements used in external reporting, in contrast to issuing reports tailored to meet the needs of specific user groups?
- Are financial reports formally presented to the legislature?
- Are financial reports disseminated within the government?
- Are financial reports disseminated to the public?
- Are financial reports used by capital market participants?

Reforms

What changes have recently taken place, or are currently in progress, in improving governmental accounting and financial report in terms of any of the above aspects?

Appendix B:
List of Delegates

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