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## **WORKING PAPER**

### **Governmental Accounting Reforms: Going Back Where We Belong?**

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## GOVERNMENTAL ACCOUNTING REFORMS: GOING BACK WHERE WE BELONG?

### **Abstract**

Based on governmental accounting experiences and on the rising criticism considering accrual accounting, this paper aims at proposing that accrual accounting in governments will only succeed in the coming years in businesslike (parts of) governments. This proposition mainly leans on the inappropriately transferred framework from the profit sector, the underestimated difficulties considering accrual budgeting and the poor attention on the political dimension. This paper intends to shed a light on important technical and political issues that seem to be forgotten in the mind of the protagonists of transferring accrual accounting as a successful tool in modernising governments.

### **Keywords**

Cameralistic accounting, accounting reform, government accounting

## GOVERNMENTAL ACCOUNTING REFORMS: GOING BACK WHERE WE BELONG?

### INTRODUCTION

Since the eighties a radical wave of organisational, managerial and accounting reform in the public sector of many countries and jurisdictions has occurred (Broadbent and Guthrie 1992; Burkitt and Whymann 1994; Barton 2004). The *New Public Management* (NPM) has played a dominant role in this reform drive (Hood 1991, 1995; Lapsley 1999). NPM is used as a generic label, a handy shorthand for reforms that intend to “lessen or remove differences between the public and private sector and shift the emphasis from process accountability towards a greater element of accountability in terms of results (Hood 1995, p. 94).”

The major New Public Management characteristics (Osborne and Gaebler 1993; Lapsley 2000) can be summarized as follows:

- disaggregation of large governments into decentralised units based on “products” (devolution),
- abandoning the focus on inputs and introducing interest for organisations’ outputs instead,
- privatising, creation of competition as in enterprises,
- the adoption of private sector management style and techniques,
- improving transparency to stakeholders and creating greater visibility to top management direction,
- quantification of standards of service and introducing performance measurement.

This striving for a rational economic defined business point of view in governments made it necessary to abandon the traditional cameralistic/cash accounting systems and to introduce businesslike accrual accounting systems transferred from the profit sector. This move was assumed to increase accountability and management tools in a convergent way. Further, accrual accounting would increase transparency of the financial situation of governmental organisations. It would match the real economic costs with outputs achieved, allowing for a better evaluation of performance (Evans 1995). Following the principle that ‘you can only manage what you can measure’, assets and liabilities would become more manageable (Slamet 1998). Combined with continuous reporting and additional commentary on output and performance indicators, this allegedly could increase parliamentary scrutiny (Likierman 2000). For these reasons, accrual accounting from a business point of view would support and improve the NPM drive, whereas the old-fashioned cameralistic accounting system in governments was no longer appreciated.

One cannot deny that NPM in general and accounting reforms in particular have radically changed the public sector landscape. Reviewing the international literature concerning governmental accounting reforms, the various scientific research contributions were mainly concentrated around three themes, namely (1) *descriptive studies* of the governmental accounting reforms (e.g. Coy et al. 1994; Christiaens 2000), (2) *theories explaining why governments chose for adopting accrual accounting*; an important example is the “contingency theory” (Lüder et al. 1992 and many consecutive papers in the CIGAR

publications), and (3) *empirical studies focusing on the implementation of the accounting reform* (Jones and Pendlebury 1991, 2004; Lin et al. 1993; Allen and Sanders 1994; Christiaens 1999; Carvalho et al. 2005). The empirical studies generally reveal that, due to different factors, the setting up and implementation of governmental accounting reforms appear to be less successful and are diverging in an uncontrolled way. Some reforms have had unintended effects, either because of a misuse of the information or because insufficient attention was paid to the application of the reform. First, in some cases, the availability of output information has exposed bad performance of organisations. This may have provoked substantial discontent from voters, who now become aware of the organisational failure (Schick 2003). Rather than using this information to improve performance in the future, it then quickly becomes a superfluous information flow that is not properly used in decision-making or monitoring of the organisation. Second, reforms are often badly designed, so that they do not deliver on their promises. Schemes for measuring outputs do not always pay attention to their application in practice. For instance, performance management systems may not be linked to the incentives operating on senior managers, or performance reporting may not be sufficiently credible. Such reforms may only increase corporate overhead cost without the benefit of changed behaviour (Matheson and Kwon 2003). Apparently, many governmental reforms are facing difficulties as there is a continuing lack of compliance. These studies indicate more and more problems as time progresses and some jurisdictions are even undergoing reforms of their previous reforms.

One might be curious how the NPM wave may evolve. What are the results after more than 25 years? Does accrual accounting appear to be the key factor in modernizing and managing government or is it a bridge too far? Some studies argue that the trend towards accrual accounting is likely to continue over the next years (Lüder and Jones 2003). However, looking at the poor levels of adoption and sometimes even an aversion towards NPM and accrual accounting reforms, this study will demonstrate that the transition to accrual accounting in governments is not only just a matter of time, but it is even unlikely to succeed.

Although it is scientifically difficult to look in the future, this contribution asserts the following proposition: *accrual accounting will only succeed in the coming years in businesslike (parts of) governments*. In contrast to certain accounting research studies, which generate prescriptions, emphasize normative theories and debate the former, this contribution aims to understand the governmental financial accounting reforms and to look at the consequences in the near future.

This contribution does not aim to confirm an existing theory, it attempts to be a prediction of how governmental financial accounting reforms will evolve in the coming years. It is based on the technical characteristics of the accounting reforms governments are running into and on current real world evidence, as published in empirical studies. A number of characteristics and occurrences can be observed after about 25 years of NPM and accounting reforms. These may lead to a probable picture of the situation one could expect in, say, 2015.

After the introduction, this contribution proceeds with a discussion of some technical and political issues that have been underestimated in the development of the accounting reforms. Firstly, the imposed businesslike accounting framework is not in harmony with the governmental

context. Secondly, the issue of accrual budgeting as a consequence of accrual accounting is discussed, emphasizing technical deficiencies. The next section is devoted to the political dimension in which governments mostly operate. Next, to illustrate our proposition, we present the Belgian and Flemish experiences over a range of governments, since the beginning of the nineties. Finally, the conclusion summarizes the main findings and further intentions of this paper.

## CONCEPTUAL ACCOUNTING FRAMEWORK ISSUES

As will be demonstrated, the conceptual accounting framework for enterprises, which gives rise to accrual accounting, is inappropriate for governmental activities. Hereafter, a comparison is made between the governmental characteristics and needs on the one hand, implying cameralistic accounting and the accounting issues in a businesslike environment on the other.

### *Accounting objectives*

To be precise cameralistics covers more than just one concept. It is a particular type of administrative practice, a formal bookkeeping method and a material budgeting and bookkeeping system (Monsen 2002, p. 59). In the discussion further the focus is on this last perspective of cameralistic accounting. Cameralistic accounting principally satisfies the specific governmental settings, whereas accrual accounting being an interesting business tool is not appropriate in governments unless governments play (partially) the role of an enterprise (e.g. government business enterprises such as certain railroad companies, airports, parking facilities, a cafeteria within a museum, etc.). Indeed, if (segments of) governments act as enterprises, then their main activities are economic, not social or governmental anymore. Accordingly, the added value and the necessity of accrual accounting appear like in enterprises and accrual accounting is appropriate. The differing objectives of both the accounting systems are compared and shown in table 1 hereafter.

**Table 1**

Objectives Cameralistic accounting – Accrual accounting

Cameralistic accounting	Accrual accounting
Registration of appropriated and authorised budgets	No obligatory budgetary registration
Registration of the use of those authorised budgets driven by budgetary principles	No obligatory budgetary registration
	Recording of economic revenues and costs driven by general accounting principles aiming at reporting the yearly P/L and the financial position

Cameralistic accounting does not have the intention to provide either a portrayal of the financial position nor the financial performance as accountants commonly consider in business

environments (Christiaens 2001). Cameralistic accounting is concerned with the registration of authorised budgets and their use, driven by budgetary principles. This system expects to control the execution of the budget approved by the governmental decision makers. For centuries, this system has been an answer to the questions and needs of governments. However, it has not been sufficiently and adequately modernized, showing factual deficiencies (Barton 2004) and thus, it has become very fragile to prevent abandoning.

Cameralistic accounting is also called ‘governmental budgetary accounting’ or ‘budgetary accounting’ just like that. It is often misinterpreted and assigned too low a value to. It is all too often considered in a simple way, as merely being cash accounting, recording receipts and expenditures without anything else. One could argue that this kind of underestimation unfortunately creates much misunderstanding in the often-polarised discussion of governmental accounting vs. accrual accounting. The lack of understanding of cameralistic accounting, compared with the well-known business accounting, is probably favouring accrual accounting. The core of cameralistic accounting is its authorization function, not only its being recorded in terms of cash. The aim of cameralistic accounting is to provide a tool to record authorised budgets and most of all, to record the spending of the different budgets in order to enable a politically driven follow-up of this spending in respect of their previously authorised budgets.

#### *Accounting systems*

To facilitate the financial management (i.e. follow-up of authorised spending), cameralistic accounting recognizes different stages. In accrual accounting these stages have no meaning. Focusing on the purchasing cycle (Parry 2005, p. 63) the following comparison can be presented.

**Table 2**

Comparison of accounting systems: different stages in purchasing

Stages	Cash accounting	Cameralistic accounting	Accrual accounting
Stage 1		<ul style="list-style-type: none"> <li>• Budget approved</li> </ul>	
Stage 2		<ul style="list-style-type: none"> <li>• Funds warranted</li> </ul>	
<i>Stage a</i>			<ul style="list-style-type: none"> <li>• <i>Invoice</i></li> </ul>
Stage 3		<ul style="list-style-type: none"> <li>• Recognition of invoice</li> </ul>	
Stage 4 = <i>Stage b</i>	<ul style="list-style-type: none"> <li>• Cash payment</li> </ul>	<ul style="list-style-type: none"> <li>• Cash payment</li> </ul>	<ul style="list-style-type: none"> <li>• <i>Cash payment</i></li> </ul>

Looking at the accounting consequences in the purchasing cycle, it is clear that the simple cash accounting system only records cash movements and nothing else. In a businesslike accrual accounting system, one should start recording the economic transaction influencing the assets, liabilities and the P/L independent of the corresponding payment. In practice, the accountant will record purchases at the time he receives the invoice, instead of respecting precisely the date of realising the charges as it should be. This approach is only for reasons of easiness and therefore the accountant will periodically record 'end of the period adjustments' in order to comply with the accounting principle of realisation. Thus, from a practical point of view the invoice is posted at its receiving date followed by cut-off adjustments when drawing up the annual accounts.

One can notice that the final stage in cameralistic accounting being cash payment, is the same as in the other systems. However, in this system the invoice is not posted at the time of receiving it, nor at the time of realising the charges as in accrual accounting, but mostly at the time of recognising the invoice in budgetary terms. The recognition of the invoice means that the government agrees to charge the amount of the invoice to the corresponding budget. This need not to be recorded at the time of the invoice, it can be delayed e.g. because the budgetary resources are not sufficient anymore and the budget of next year is to be charged disregarding the fact the cost was realised in the current year. In cameralistic accounting, one is not interested in the correct effect on P/L on the moment of realisation, but only on the acceptance in respect of the budget.

A second important technical difference between cameralistic and accrual accounting in the perspective of the purchasing cycle is that contrary to accrual accounting, the cameralistic system pays much attention to the preceding budgetary stages. The first stage is the budget approval often based on a preceding political process and leading to a strict form of registration. The second stage that needs to be recorded in the cameralistic accounting system could be called "funds warranted". It represents a kind of delegation of authority to spend. It is introduced to enable the control over the ongoing spending and most of all to strictly prevent overspending. The first two stages have no meaning in a business context and thus are not applied in accrual accounting.

In summary, table 2 indicates that cameralistic accounting that governments are used to, differs substantially from accrual accounting, in that more and other stages are kept into view for reasons of budgetary control. Thus, for governments accrual accounting is not an answer to their needs, which are a means to register budgetary appropriations vs. budgetary spending. Finally, the principle of recognition in the two systems is completely different. In accrual accounting costs are recorded when they are realised (= earned) whereas budgetary spending is recorded when they are approved to be charged on the budget, which happens in other conditions and at another time.

As shown in table 3 in the revenue cycle (e.g. taxes, etc...) the differences are less important since the recognition of revenue normally occurs at the same time in cameralistic and in accrual accounting. This does not prevent the accounting systems to be different in terms of objectives and context.

**Table 3**

Comparison of accounting systems: different stages in revenues

Stages	Cash accounting	Cameralistic accounting	Accrual accounting
Stage 1		<ul style="list-style-type: none"> <li>• Budget approved</li> </ul>	
Stage 2= <i>Stage a</i>		<ul style="list-style-type: none"> <li>• Funds warranted = recognition of budgetary means</li> </ul>	<ul style="list-style-type: none"> <li>• <i>Revenues</i></li> </ul>
Stage 3 = <i>Stage b</i>	<ul style="list-style-type: none"> <li>• Cash receipt</li> </ul>	<ul style="list-style-type: none"> <li>• Cash receipt</li> </ul>	<ul style="list-style-type: none"> <li>• <i>Cash receipt</i></li> </ul>

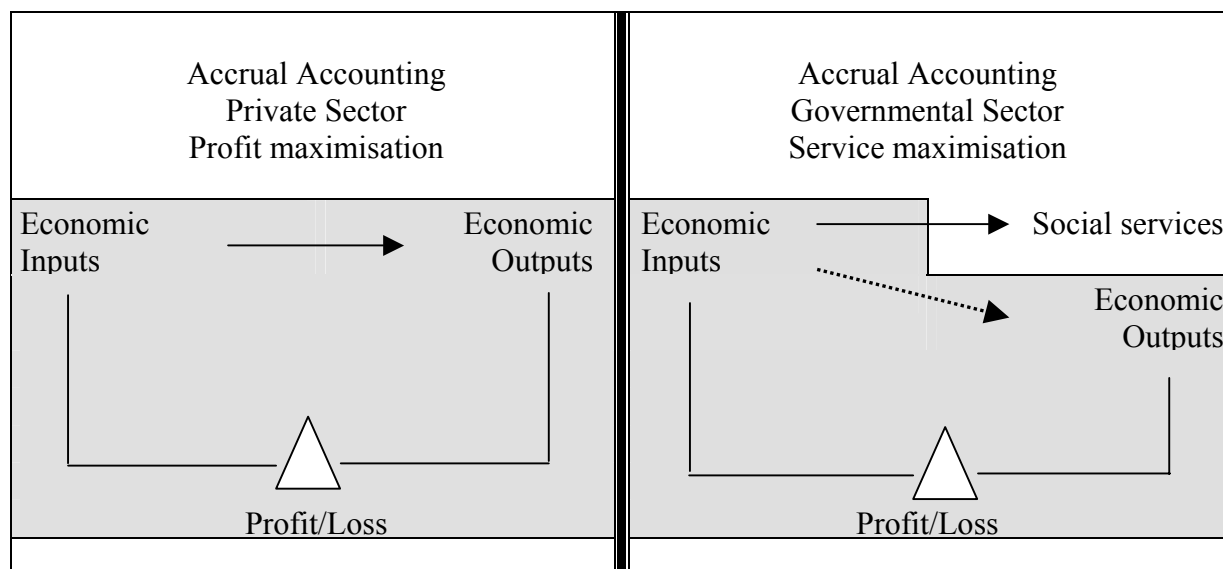
*Reporting results*

Applying accrual accounting in governments seems to lead to a P/L, but that P/L does not actually measure the results of government unless for their businesslike activities. A *first* motivation is that there is no concept of government profit. Cash inflows and cash outflows are not directly related, there can be no concept of profit (Parry, 2005, p. 62). Enterprises are established with the pursuit of economic results and therefore they offer inputs in order to gain revenues so that the difference being the profit can be maximised. Governments on the other hand do not offer inputs to gain revenues; they obtain resources to be spent in order to provide services. One could posit that the higher their profit, the lower their provided services since certain amounts of resources are still to be transferred into services. Therefore, it would be controversial to evaluate a government in terms of its P/L.

*Secondly*, contrary to enterprises, governments should not be judged on the difference between their revenues and their costs since their revenues are not their real outcomes. Their revenues are resources to be spent, leading to the targeted outcomes such as safety, health care, education, justice, etc. As shown in Figure 1 the adoption of accrual accounting in governments seems to result in a P/L. However, the real outcomes being social services are not considered in terms of accrual accounting.

**Figure 1**

Comparison Profit/Loss account private vs. governmental sector



A *third* serious difficulty in governmental accrual accounting is the characteristic of so-called non-exchange transactions (Monsen 2002, p. 47; IPSASB 2004). In these transactions there is no direct causal relationship between certain received amounts and their corresponding costs. Examples are taxes, subsidies, donations, grants, etc. Also, Barton (2004, p. 284) emphasizes this lack of direct matching for most of government's activities. The government provides services on a collective basis, made by the collective decision to pay for them collectively through taxation. Government plays the role of an "agent" here. In enterprises, the profit potential is the driving force in management decision making. Hence, their financial statements based on accrual accounting, measuring the financial performance and financial position become relevant whereas governments are not concerned with profit measurement.

In case of separate businesslike agencies in governments as a consequence of privatisation or Public-Private-Partnership the relevance of a P/L returns. This is quite logical, since such business units take care of economic activities instead of focusing on social service providing.

### *Reporting financial position*

One could criticize cameralistic accounting in that it does not provide a view of the financial position of an entity. However, Hepworth (2003) argues that a balance sheet merely has an effect on the budgetary process. Other authors are also convinced that a balance sheet is not a must in governments since it does not function as a steering mechanism in public administration (Kruijf 2005, p. 8).

Moreover, an important number of governmental assets are very difficult to value and up

till now even IPSAS standards have no solution how to account for heritage assets, collections, infrastructure, natural resources, military equipment. Such capital goods are not acquired in order to gain economic profits as is the case in enterprises. On the contrary they serve governmental services such as defence, education, health care, culture, etc. Thus, their economic value and their economic profits have no meaning since that information does not contribute to evaluate their financial performance. What counts are the social benefits they provide. Only in case the government or its businesslike part(s) itself is responsible (Kruijf 2005) for earning its own funds (e.g. municipal parking facilities using tickets), valuation and disclosure becomes relevant similarly as in enterprises.

Furthermore, one should not forget that governments often do not own assets from a proprietor point of view, but act as an agent in a fiduciary way in respect of many capital goods. They are the agent responsible for maintaining capital goods, in order to have them used by the community, but without having proprietary rights of selling, getting the economic benefits, destructing. For assets held in “agency” governments can hardly be economically responsible. That is one of the reasons why GASB 34 developed a so-called fund accounting system as a distinguished accounting approach for assets belonging to governmental funds, rather than for assets part of proprietary funds. The former are the “agency assets” for which a modified accrual accounting system is applicable. The latter are assets kept similarly as in enterprises and they are subject to full accrual accounting. The main difference is that in governmental funds capital assets are only recognised in terms of cash, they are not disclosed in the balance sheet nor depreciated. Most of the other balance sheet items are treated and disclosed as in accrual accounting. The reason behind this approach is that the government is not the real proprietor for such assets and should not be accountable for the economic consequences. Capital assets in proprietary funds are held with almost the same economic objective as in enterprises and thus in those funds accrual accounting is the appropriate method. It should be noticed that the two kinds of capital assets are discussed here rather dichotomously, for reasons of clarity. However, one can imagine that in practice there are many situations of mixture of the two kinds and for which one has to choose. An example is a prison where the premises could be called hybrid goods since they are partly governmental assets without economic goals. Those buildings can also be seen as proprietary assets because prisoners there can function in businesslike production units, e.g. to make clothes.

### *Combining cameralistic and accrual accounting*

More and more authors express the opinion that businesslike accrual accounting to an important extent is inappropriate to account for the activities of governments (Christiaens 2001; Barton 2004; Kruijf 2005; GASB 34). Notwithstanding, one should not forget that, in the real world there is often a range of hybrid governments that are partly pure governmental but also conduct businesslike activities. Well-known examples are a prison having also a production unit or a municipality with parking facilities that are exploited economically. Therefore, this contribution makes a difference in governments and their businesslike parts for which the businesslike accrual accounting is more suitable. The debate about which system should prevail and the assumed dominance of accrual accounting could be avoided if one would accept the fact that both systems are answers to different conceptual accounting frameworks. The conceptual accounting framework for enterprises provides answers to stakeholders who are interested in economic

figures and who want to get an economic portrayal of most of all the economic results (P/L). This framework should not be considered as the unique framework (Barton 2004, p. 286) in terms of a “one size fits all”. There is also the framework of cameralistic accounting, which serves other needs and which is a traditional answer to (political) questions about budgets and budgetary spending mostly to prevent budgetary overspending.

The adoption of accrual accounting is not an answer to the existing needs and procedures in governments. Therefore, it is obvious that the adoption of accrual accounting will be difficult in governments, where cameralistic accounting has always been a habit, unless the government in question can be regarded as a kind of an enterprise. On the other hand, more or less driven by NPM, governments could become interested in an extension of their accountability and management tools by adopting certain forms of accrual accounting. Hence, they could modernise their financial management by using balance sheet information, particularly liquidity and solvency ratios and assess their borrowing capacity. Cost accounting information could also be an advantage of accrual accounting, although many governments are used to manage functional budgetary information. Anyway, despite a number of accrual accounting advantages many governments are of such a kind that at least cameralistic accounting remains necessary. Literature attempts to provide solutions to this problem. One example is the so-called “Mega G/L” in which the different accounting systems are combined respecting their own characteristics (Christiaens and Vanhee 2002). There are also other examples of introducing accrual accounting in existing governmental systems and making exceptions for very specific accounting issues such as heritage assets (Paulsson 2006).

#### CAMERALISTIC BUDGETING VS ACCRUAL BUDGETING

A major weakness of accrual accounting in governments is its implication of accrual budgeting. In this section, it will be argued that accrual budgeting, as implied by accrual accounting does not fit in a governmental context. Therefore, the need for cameralistic budgeting remains, from a theoretical point as well as in practice.

Referring to the cameralistic accounting system the budgeting stage is principally cash based. After this cash budget is approved, it becomes a kind of agreement that the executives have to respect strictly. They must certainly not exceed the agreed amounts of budgeted resources and expenditures.

For the last years one has been interested in examining (e.g. Guthrie 1998; Hepworth 2003, Smith and Cheng 2005; Kruijf 2005) the transition of this traditional kind of cash budgeting towards an accrual budget in which results in terms of P/L can be foreseen in order to create a monitoring tool. However, budgets in governments are not just a foreseen stream of amounts, it is essential in most governments that the budget is also an agreement according to which managers are allowed to spend certain amounts of money for strictly predefined purposes. Within the government, politicians and officials agree rather strictly on the amounts to be received and spent the next year. This agreement is necessary because the allocation of means across different possible applications and services does not speak for itself. In enterprises there is principally no such problem of allocation since efforts being costs are strongly and often directly linked to revenues to be realised (Kruijf 2005). Moreover, according to Zimmerman (1977), a

wrong allocation of means together with poor decisions, will lead fairly quickly to a poor P/L in enterprises, whilst this effect will almost not become apparent in governments. This is an important reason why governmental budgets need to be followed in a strict way. Furthermore, enterprises accept more easily the uncertainty considering allocation than governments do (Zimmerman 1977). The probable reason is that enterprises, in the end, are appraised in terms of “profitability”. Government on the contrary are appraised looking at their “accountability”, namely “what have you done with our money” and thus, they cannot afford this uncertainty.

As an agreement is often based on a politically driven process, it is undoubtedly very hard to get everybody convinced and agreed on budgeted revenues and budgeted costs. Contrary to expenditures, costs are very difficult to agree on and certainly in a political context. Costs consist also of arbitrary estimates and allocations of depreciations, writing-off's, overhead and other indirect items, making them very difficult to monitor (Guthrie 1998). These accrued amounts cannot easily be controlled because of the absence of related measurable outputs. This is also confirmed in previous research (Mol and De Kruif 2004) indicating that, in many governments, traditional budgetary control mechanisms, concentrating on cash receipts and payments, remain necessary. Looking at financial reports and communicating with officials shows that after several years of accrual accounting reform in Flemish local authorities, the traditional cameralistic system is still predominant. As a matter of fact, in practice, several reports only consider the budget and the budgetary account, without paying any attention to accrual accounting statements. Even in the Flemish municipal councils those statements are not a matter of discussion anymore contrary to budgetary statements, which remain.

Smith and Cheng (2005) consider accrual budgeting as performance budgeting and they conclude that performance measures are not useful for the legislative problem of allocating resources among different services, but they are useful for improving the quality and reducing the cost of providing services. They continue by indicating that the budgeting process is very important since it determines the allocation of resources whereas the accounting system and financial statements are mostly ignored by politicians, citizens and officials.

## POLITICAL USEFULNESS

Many of the NPM reforms aim to introduce private sector management techniques into the public sector (Hood 1995). However, the public sector has a certain distinctiveness, which separates it from the private sector (Haque 2001). The political environment is an important factor when introducing NPM. NPM reforms may ignore this distinctiveness if the private sector techniques are merely copied into the public sector, thereby claiming that reforms are not about politics but only about efficiency. By pretending as if there were no difference between the two, NPM tends to ‘forget politics’ (Rosenbloom 1993, p. 219). Reforms are largely a matter of ‘econocrats’ fostering a business ideology that praises the private sector as an example of efficient management (Hood 1995, p. 94).

Similarly, one could argue that proponents of accrual accounting have forgotten politics, for several reasons. Firstly, the pressure for changing towards accrual accounting often comes from accounting professionals (Brorström 1998; Guthrie 1998). For these professionals, the current established practices have too many shortcomings when compared

to a private sector model. According to Brorström (1998, p. 329) the principles and practices of accrual accounting in Sweden were established mainly on professional grounds. Politicians seem to have no standing in this decision. They did not argue against it because they were simply not involved. The development of accrual accounting 'was essentially a professional question. Politics and politicians had very little influence on this development'. However, despite attempts of NPM-reforms to keep them apart from politics, they are still inherently political decisions. They are not neutral because they still involve allocation decisions that will be politically determined. The alleged depoliticisation of NPM is therefore a myth (Lynn 1996; Kaboolian 1998; Lenkowsky and Perry 2000). In a similar vein, Guthrie (1998) argues that accrual accounting reforms are not merely technical, politically neutral or disinterested activities but reflect a shift towards market-based values and ideals.

A second reason why proponents may have forgotten politics is that accrual accounting uses very specialized terms, methods and ratios whereas politicians are no accounting experts. They prefer everyday language instead of analyzing accrual accounting based financial statements and technical accounting figures (Brorström 1998; Paulsson 2006).

A third argument is that the information that accrual accounting provides, does not correspond to the user needs of politicians. Guthrie (1998) argues that much of this information is not relevant for politicians. The financial ratios would only be relevant if the public sector is to be solely concerned with notions of 'profitability', 'financial position' or 'return on assets'. However, since such notions are not relevant for politicians and they are not interested in, the so-called benefits of businesslike accounting are not evident for government programmes.

Fourthly, politicians follow their own particular logic, in which a focus on efficiency is not their greatest concern. They may be more concerned with ensuring responsibility and responsiveness to them (Curristine 1999). Therefore, they may wish to retain the traditional system, which provides them with a more extensive control. Moreover, they want hard, simple and understandable facts. Cash flows serve this best, as they are mostly undisputed, whereas accrual accounting information involves allocation decisions and estimates (e.g. indirect costs). According to Brorström (1998), politicians cannot handle such estimated items. He concludes that this political logic will result in the replacement of accrual accounting by a politically relevant accounting system, which ensures their needs of responsiveness and certainty.

For these reasons, accrual accounting reforms require heavy adaptations of politicians, who would have to give up their traditional instruments in favour of a focus on cost control and financial criteria as opposed to traditional criteria of performance. Since accrual accounting does not take this political dimension into account, it is questionable whether politicians can and will adapt to these new requirements.

## EXPERIENCES FROM THE FIELD

In Belgium, the NPM philosophy and the transition to accrual accounting made its entrance at the end of the eighties and, up till now, more than 30 kinds of governmental organisations

have been reformed or are currently undergoing a reform. These reforms are prescribed by legislation that is different across the kinds of governments. They are all in the perspective of NPM and at least consider the accounting system. Examples are different kinds of local governments, education institutions, universities, provinces, agencies, health care organisations, departments of federal government, church fabrics, etc. One of the first reforms took place in the period 1990-1995 in the Belgian municipalities consisting of an important reform of traditional cameralistic accounting towards businesslike accrual accounting. To be more precise, their former cameralistic accounting system was not abandoned. They just added separately accrual accounting whereby most of the budgetary accounting principles were maintained and even dominated the accrual accounting system (Christiaens 2001). Their imposed but unbalanced technical combining of cameralistic and accrual accounting created a conflicting situation and implied many difficulties. Empirical findings (Christiaens 1999, 2000) revealed the disapproval of municipal accrual accounting and reporting by officials and political decision-makers. The municipal councils appear to ignore the reporting of the balance sheet and the P/L statement; they are only interested in their budgets and budgetary reporting. Even after a number of years there is not any stakeholder interested in accrual accounting reports.

The most far-reaching introduction of NPM in Belgium can be found in the Official Centres for Mutual Welfare (OCMWs<sup>1</sup> hereafter) in Flanders at the end of the nineties. OCMWs represent local authorities next to municipalities. Apart from the replacement of their budgetary accounting system with an accrual accounting system, they were also confronted with the adoption of a new administrative organisation and several businesslike management tools such as an administrative manual, long-range planning, accrual budgeting, cost accounting, management reporting, etc. One might expect that such a rather “complete” NPM reform would have become a merit after a couple of years. However, this important reform of OCMWs does not appear to be a success in practice, on the contrary. Previous research (Christiaens and Vanslebrouck 2005) as well as an ongoing empirical study, reveal that the accrual accounting aspects as well as the managerial reorientation prescribed by the reformed legislation are implemented very poorly due to inherent defects in accrual accounting. For example, the first balance sheet when adopting accrual accounting is incomplete, provisions are unrecorded, a number of assets are recognised in one organisation, but not in other, etc. Accrual accounting does not appear to be used as a management tool. Instead, the former system of cameralistics seems to revive. Interviews and contacts with officials and politicians show that the level of interest in the new possibilities of accrual accounting is decreasing and that their former cameralistic way of thinking and reporting is maintained.

For the moment the legislators in Belgium are considering the reform of the higher governments (Districts, Communities and Federal State) partly in terms of NPM and certainly moving in the direction of accrual accounting. However, the so-called “Copernicus-reform” for the Federal State as well as the “Better Governmental Governance Reform”<sup>2</sup> for Flanders have been stopped since the last years, due to resistance, disagreement and adoption difficulties. One could conclude that both of them including accrual accounting are put on hold and it is likely that they will not succeed.

All these Belgian and Flemish governmental reforms appear to content conceptual accounting problems and lead to a poor implementation or to a reform of the reform again.

One could argue that these problems of implementation and heterogeneity are due to the fact that such a reform was only applied for the first time and that over the coming years this situation will automatically be resolved. However, examining local governments (Christiaens 2001) showed that even experienced governments, which started the adoption before the final date, have the same problems. An ongoing longitudinal study regarding another kind of governments leads to the same conclusion: time does not heal automatically the implementation problems.

Because of the same focus to accrual accounting as it is known and applied in businesses, one might expect a rather unique and homogeneous adoption leading to convergence. The tendency of convergence of reforms driven by financial management purposes, can also be noticed in many other countries, e.g. in Great Britain and in Australia (Guthrie and Humphrey 1996, p. 290). However, over the last years the outcomes of reforms appear to be drifting apart seriously (Christiaens 2001). This conclusion is corroborated by previous research in other countries indicating that different contextual factors (e.g. historical and cultural traditions) lead to different accounting reforms (Mellemvik and Monsen 1995, p. 188; Hood 1995, p. 99-100; Chan et al. 1996, p. 11). Based on exploratory empirical research, a number of authors indicate that governmental accounting is an uncoordinated and extremely complicated “chimera” (Jones 1995 p. 39). It is not the intention of this paper to study meticulously the why and the how of those diverging reforms for which there is referred to Christiaens (2001). But in many respects this phenomenon of diverging convergence goes at least along with inadequacies in the concept and the implementation of accrual accounting in governments.

To what extent the recently developed IPSAS might be an answer to stop the further heterogeneity still remains a problem. On the one hand, IPSAS could be seen as a means to harmonise the new kind of accounting thinking. On the other hand, IPSAS themselves remain sometimes vague in respect of certain governmental accounting issues such as the problem of how to deal with heritage assets, non-exchange transactions, entity problem, etc. Much has to do with a lack of a real governmental conceptual accounting framework IPSAS is dealing with (Chan 2005). Their current framework is a business accounting framework because it is copied from IAS/IFRS.

## CONCLUSIONS

This article focused on the future prospects of accrual accounting in governments by the year 2015. Although accrual accounting is promoted by the NPM reform wave, the article argues that there will be no uniform or unstoppable trend towards accruals, for several reasons. *Firstly*, some technical issues concerning the use of accrual accounting instead of cameralistic accounting have been raised. When comparing these two systems, it becomes evident that both have their own strengths and weaknesses. However, cameralistic accounting is often misunderstood and underestimated. Its main strength as a tool to accurately control the spending of the budget cannot be realised by accrual accounting. The reason for this is that cameralistic accounting considers more and other stages in the e.g. purchasing cycle. It has also been argued that accrual accounting raises many unresolved problems. Governments should not be evaluated in terms of the P/L and issues such as the valuation of capital assets are still largely unexplored.

*Secondly*, the advantages of cameralistic accounting are especially relevant for political decision-makers. Although they are somewhat ignored in the debate over accrual accounting, politicians are important users of the accounting system. The additional information that accruals accounting provides does not correspond to the user needs of politicians.

*Thirdly*, Regarding accrual budgeting as implied by a transition to accrual accounting, it is argued that certain expenses in the governmental context are very hard to agree upon and thus to budget. Instead, politicians will prefer to retain substantial control. This goal is best served through cameralistic accounting. Moreover, cameralistic accounting was just developed for such a governmental context.

*Lastly*, the analysis of the Belgian and the Flemish experiences with accrual accounting suggests different problems related to the adoption and implementation. Although local governments have been confronted with a plethora of reforms since the end of the eighties, these reforms have proven to be highly inconsistent. Reforms differ substantially across the various levels of government. Moreover, recently governments experienced reforms of their previous reform, indicating that the results of the initial reform were disappointing. Several explanations for this phenomenon have been put forward, the most important ones being the lack of a clear governmental conceptual accounting framework underlying the reforms and the disappointments of officials and politicians regarding accrual accounting.

One should admit that there is not a single best accounting system. Although cameralistic accounting is more useful for most governmental activities, it is less useful for activities in which business aspects play a role. For businesslike activities, the economic information provided by accrual accounting becomes relevant. It is therefore argued that, by the year 2015, accrual accounting will only survive in businesslike (parts of) governments.

#### LIST OF ABBREVIATIONS USED

CIGAR	Comparative International Governmental Accounting Research
GASB	Governmental Accounting Standards Board (USA)
G/L	General Ledger
IAS/IFRS	International Accounting Standards / International Financial Reporting Standards
IPSAS	International Public Standard Accounting Standards
NPM	New Public Management
P/L	Profit and Loss

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<sup>1</sup> An OCMW (*Official Centre for Mutual Welfare*) is a governmental non-profit entity providing a number of additional municipal services such as health care, care for the elderly, social support, etc. Each municipality is related to just one OCMW and vice versa, both providing well-defined municipal services. In Belgium, OCMWs are juridically separated from the municipality, whereas in other countries their services are for the most part rendered by the municipality itself.

<sup>2</sup> In Dutch it is called "Beter Bestuurlijk Beleid".