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WORKING PAPER

**Accounting and Management Reform in Local Authorities:
A Tool for Evaluating Empirically the Outcomes**

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ABSTRACT

Since the last years many governments have undergone an accounting and management reform, being strongly inspired by the New Public Management (NPM) philosophy. This research note provides a methodology to explain the success (if any) of such reforms, by examining the level of compliance with prescribed accounting and management legislation and regulations. To measure the level of adoption of a reform, two compliance indices are constructed. Furthermore, this research note reaches a method to explain the cross-sectional differences in the level of compliance based on factors derived from previous research. After the formulation and explanation of the research questions and the derived hypotheses, this note introduces the concept of the compliance indices in local governments and clarifies the purpose and construction of the accounting and management index. The next section is devoted to an explanation of the research methodology. Finally, the conclusion summarizes the main findings and further research possibilities.

1. INTRODUCTION

From the early eighties onwards we have witnessed a radical wave of financial, organizational and managerial reform in the public sector of many countries (Broadbent and Guthrie, 1992; Burkitt and Whyman, 1994; Pollitt and Bouckaert, 2000). The 'Next Steps' programme and the 'Citizen's Charter' programme in the UK, the Canadian 'Public Service 2000', the 'PMI project' in the Netherlands and the French 'Renewal of public service' are just a few examples of recent initiatives in reforming the public sector. One does not have to look far to find references claiming that 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 which, according to Hood, 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 (1995, p. 94)." In Belgium, the NPM philosophy made its entrance in the nineties in the local authorities. Initially, it was introduced by the municipalities, in 1995, being just a reform of traditional cameralistic/cash accounting towards business-like accrual accounting. The most far-reaching introduction of NPM in Belgium can be found in the Official Centres for Mutual Welfare (OCMWs¹) in Flanders², which 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 implementation of a new administrative organisation and several business-like management tools (administrative manual, long-range planning, accrual budgeting, cost accounting, management reporting,...).

One cannot deny that NPM has changed the public sector landscape radically. Reviewing the international literature concerning NPM, the various scientific research projects were mainly concentrated around three themes, namely (1) *descriptive studies* of the NPM-movement with its advantages and disadvantages (Hood, 1991; Stark, 2002), (2) *critical analyses of the consequences* of adopting NPM principles in different governmental organizations (Barberis, 1998; Cunningham, 2000), and (3) *studies focusing on the implementation* of the new philosophy in different countries and levels of the public sector (Pallot, 1999; Klinger, 2000). Although a growing number of authors stress the necessity of evaluating the reforms themselves (Broadbent and Laughlin, 1997; Guthrie and English, 2002; Pollitt, 1995; ter Bogt and van Helden, 2000; Olson *et al.*, 2001), little attention has been paid to the level of compliance between the actual adoption and implementation of the New Public Management

techniques and the requirements as stipulated by the government, and to explaining differences in adoption.

The objective of this contribution is to prepare a method to evaluate the extent to which NPM reforms are implemented in local authorities and to determine important factors for the cross-sectional differences in the level of adoption and implementation of the reforms. Previous research (Christiaens, 1999) indicated that several factors (e.g. skills staff, experience, financial means, size,...) are important within the *accounting* reform in municipalities. Worldwide, however, there is little empirical research that investigates the success of *management and organisational* reforms in the public sector and the factors that determine their success.

2. EVALUATION OF NPM REFORMS

According to Hood (1991), NPM is associated with approximately seven dimensions of change. Pollitt (1995) considers this as a ‘shopping basket’ for those who wish to modernize their public organization. Not every doctrine needs to be present in every reform and the specific reform elements may vary. In table 1 the context of the seven ‘doctrinal components’ is discussed and as an example applied for the recent reform in Flemish local authorities. Their reform is twofold: a first part refers to financial accounting aspects of NPM introducing accrual accounting. The second part belongs to the so-called ‘new managerialism’ (Pollitt, 1986; Guthrie and English, 1997; Painter, 1998) and gives rise to eight elements: administrative manual, long-range planning, budgeting, budget responsables, activity centres, cost accounting, management reporting and auditing (internal and external).

Insert table 1 about here

3. RESEARCH QUESTIONS AND HYPOTHESES

3.1 Research questions

Very often, researchers assume that the implementation of NPM-reforms happens immediately and completely. Consequently, a first goal of this research note is how to identify major areas of non-compliance in the accounting and management practices of reformed local authorities. This leads to the *first* research question:

RQ1 Do Local authorities comply with the new accounting and management regulations embodied in the corresponding legislation and regulations?

A *second* problem is the lack of empirical research attempting to explain cross-sectional differences in the adoption and implementation of new accounting and management practices. As discussed in table 2, the few international studies that have attempted to explain these differences only concentrate on reforms of the accounting system. Furthermore, those studies focus mainly on the specific issue of disclosure within these accounting reforms and do not pay attention to the broader concept of technical implementation (e.g. valuation, mechanical accuracy, cut-off, completeness, classification, ownership, disclosure,...). This broader concept has the advantage that it reflects more accurately the different facets of the success of an accounting reform leading to a *second* research question:

RQ2 Can the cross-sectional differences and problems be associated with explanatory factors derived from previous and current research?

3.2 Hypotheses

Based on previous research and taking as an example the factual situation of Flemish local authorities, a number of related hypotheses can be formulated. These hypotheses are just presented in the form of an enumeration without being exhaustive.

The *first* research question can be hypothesized as follows:

H₁ Local authorities experience structural implementation problems in complying with the new accounting and management legislation and regulations.

Apart from the problems caused by implementing new instruments that lack tradition in the local governmental context, this hypothesis is additionally supported by the following arguments, which are drawn on an explorative study of the accounting reform in Flemish local authorities (Christiaens and Vanhee, 2003). *Firstly*, application of private sector techniques can come into conflict with traditional public sector values or specific attributes of their activities and aggravate the implementation problems. *In addition*, insufficient professional guidance and understaffing may also interfere with the implementation of the reform. For instance by maintaining a “hands off” stance to IT, the resulting diversity in software usage and related problems may be considerable. *Finally*, the lack of a well-defined conceptual framework built on clearly determined user needs and principles can cause mixture and confusion over presumed objectives of the new accounting and management system.

With respect to the *second* research question a number of hypotheses are formulated and grouped into one of the following categories: *human*, *organisational* or *financial* resources. Additionally, *situational* factors are added with related hypotheses. Figure 1 shows the research framework and the hypotheses with their assumed association with the level of compliance.

Insert figure 1 about here

Human resources

In managing change and implementing reform, the importance of knowledge and abilities of the executive and their staff is extensively documented in the NPM literature (e.g. Lapsley and Pettigrew, 1994; Hepworth, 2003). Therefore this research note includes the professionalism of the executive and their management staff and assumes that their level of professionalism is positively associated with the level of compliance. Furthermore, the study takes into account whether the local authority has attracted additional staff or not.

H₂₁ The level of professionalism of the local government’s management staff positively affects the level of compliance.

In this research note the professionalism of the management staff is split up by the level of education (general professionalism) and the gathered relevant experience (specific professionalism). The level of education has never been incorporated in other referenced governmental studies except by Evans and Patton (1983) and can be surrogated by the compound average level of finished studies and the average level of advanced public administration studies. The level of specific professionalism refers to the relevant experience the management staff has gathered by training related to the reforms, the communications about the content and the intentions of the reforms, the business experience and the experience with the reforms.

H₂₂ The level of professionalism of the local government's executive positively affects the level of compliance.

Apart from the professionalism of the management staff, the study also includes the professionalism of the executive; i.e. the professionalism of the secretary and the treasurer. The research note assumes that the level of education, the business experience, the received training related to the reforms and the active involvement in the reforms of the executive can be associated with the level of compliance.

H₂₃ Hiring additional staff positively affects the level of compliance.

Implementing the reform brings a lot of new and additional tasks along for the administration and especially management. Therefore, it is assumed that contracting additional personnel, that supports administration and management in their tasks, will positively affect the level of compliance.

Organisational resources

The research note focuses upon the (in)formal contacts of the local government with other organizations having experience with accrual accounting and/or business-like management tools. Local authorities having formal or informal contacts with such organizations are supposed to show a higher level of compliance. Next, it is assumed that good project leadership positively affects the level of compliance. Therefore the note also takes into account whether the organisation has assigned a projectleader or not.

H₂₄ Having (in)formal contacts with organizations with accrual accounting and/or management experience/expertise positively affects the level of compliance.

In a former study (Christiaens 1999), investigating the accounting compliance of Flemish municipalities, the support of consultants was an important positive factor in explaining the compliance differences. In this study, this professional support is enlarged to other organizations with like experience or expertise such as business enterprises, organizations the local authority is responsible for and already have pursued a like reform (such as hospitals, day-care centres,...) and consultants.

H₂₅ Good project leadership positively affects the level of compliance.

Numerous studies in NPM and other reform literature suggest the importance of leadership in bringing about successful change (Housden, 2000; Newman *et al.*, 2001; Stewart and Kringas, 2003, Van Wart, 2003). Despite their considerable agreement that leadership plays a major role in the success or failure of a reform, there is a widespread diversity of definitions and interpretations of the leadership concept. Following Hartley and Allison (2000) in this paper good project leadership is seen as a combination of an assigned projectleader in the executive position (secretary or treasurer), which provides visible, accountable and communicative leadership.

Financial resources

In this paragraph the research note focuses on the financial resources of the local authorities and assumes that the reliance on debt/subsidies and the wealth of the organisation is positively associated with a higher level of compliance.

H₂₆ Reliance of the local government on debt/subsidies positively affects the implementation and compliance.

The reasoning behind the following hypothesis is based on the “agency theory”, namely the tendency to improve management style and disclosure when a governmental entity is confronted with a higher level of debt/subsidies.

H₂₇ Wealthier local governments are superior in the level of compliance.

Ingram’s study (1984) assumed that the factor ‘State Wealth’ was positively associated with an increased disclosure because of the signals of management quality, which provide benefits to the individual politicians. Robbins and Austin (1986) and Cheng (1992) replicated a similar approach. In this note a wealthy organisation is also supposed to have a management incentive on being more in compliance.

Situational factors

Whereas the previous categories look inwardly to the resources of an organisation (Makhija, 2003), the contingency model emphasises the importance of situational influences on the management and the organisation in question (Zeithaml *et al.*; 1988). In this paper the effect of the situational factors - size, support of local politics and quality of external audit - are considered on the level of compliance.

H₂₈ Larger local governments are superior in the level of compliance

Different studies, trying to find out the effect of the factor size on the level of compliance, indicated all possible relationships. Some studies observed a significant positive effect (Magann, 1983; Christiaens, 1999), while others found no significant relationship (Evans and Patton, 1983; Robbins and Austin, 1986; Ingram and DeJong, 1987), or even a negative (Evans and Patton, 1987), or an assumed negative relationship (Lüder *et al.*, 1990). Nevertheless, this research note assumes a positive relationship, as larger local authorities normally have a more extensive staff and resources at their disposal. This enables them to train specialists in the different accounting and management aspects of their organisation.

H₂₉ Local political support positively affects the level of compliance.

Different studies (Rosenbloom, 1993; Pallot, 1996; Newman *et al.*, 2001; Hepworth, 2003) recognize the importance of politicians accepting the need and benefits of the reform and having the technical capacity to understand the implications. Without their political willingness to follow-up and use the ‘better’ information there is little use in implementing a new system. Furthermore the executives of local authorities are also accountable to a council; which is composed of local political representatives. Without the approval of the council further actions cannot be taken by the executives (e.g. appointing budget responsables, defining activity centres, making certain investments,...). Hence, this research paper assumes that local political support positively affects the level of compliance.

H_{2.10} The level of external audit quality positively affects the level of compliance.

Previous research (Christiaens, 2003) indicated that there still remain some qualitative problems with the internal as well as external audit of Flemish local authorities. Furthermore, the introduction of external audit by the legislator, implies that the external auditors will need to have the ability and understanding to assess the impact of the change towards accrual accounting and management reporting (Hepworth, 2003). Hence, it is assumed that the quality of the financial audits (adequate feedback and guidance in financial issues) positively influences the level of compliance.

4. EVALUATION REFORM: ACCOUNTING AND MANAGEMENT INDEX

4.1 Origin of the compliance indices

For the accounting issues the research note constructs the *accounting index* (Christiaens 1999, Christiaens and Vanhee 2003). This concept was originally based on Ingram's *disclosure index* (1984), which has been an important example and has directly or in a modified way been used in a great number of similar accounting studies (Robbins and Austin 1986; Ingram and Robbins 1987; Ingram and de Jong 1987; Banker *et al.* 1989, Giroux 1989; Cheng 1992; Volmer 1992; Allen and Sanders 1994; Coy *et al.* 1994). Based on this accounting index, the current study constructs the *management index* for the evaluation of the introduction of the new administrative organization and management tools. This index is also inspired on the so-called Index Construction Methodology (Coy *et al.*,1993), whose approach broke new ground in governmental accounting research. The Index Construction Method is an umbrella term used by Coy *et al.* (1993) to bring together “instruments designed to measure a series of items which, when aggregated, gives a surrogate score indicative of the level of compliance, disclosure, accountability, etc... in the specific context for which the index was devised (1993, p. 122).” Table 2 represents an overview of public sector accounting studies using the index construction method.

Insert table 2 about here

4.2 Construction of the compliance indices

The compliance indices measure the level of *compliance* with the requirements stipulated in the accounting and management legislation of Flemish local authorities and consider this to be a proxy of the success of implementing the NPM-reform. The concept ‘compliance’ includes notions of *explicit* requirements (prescribed by the legislation and regulations) as well as *implicit* recommendations put forward in related studies of governments. With this last notion the research note wants to make sure the compliance indices go beyond the ‘symbolic compliance’ (Tooley and Guthrie, 2003); that is compliance with the legislation just for the sake of satisfying supervising bodies and without any further use for the governments themselves. In the NPM literature the (non) compliance with the requirements is also referred to as ‘The Implementation Gap’ or ‘The Usage Gap’. The Implementation Gap is a term used by Boston who defines it as ‘the extent to which the reform as actually implemented differs from those that were intended (2000, p. 34)’. Ter Bogt and van Helden define the Usage Gap as ‘the difference between the developed (accounting) instruments and their usage in practice (2000, p. 274)’. It can be stated that both terms formulate what this paper tries to measure. But whereas the mentioned studies approaches the problem theoretically, this research note tries to capture the ‘gap’ empirically with the help of the Index Construction Methodology.

The official rhetoric of governmental NPM-reforms often emphasizes issues of increased economy, efficiency, effectiveness, quality, accountability, decentralization and output-orientation. In order to determine if a certain reform programme is reaching those objectives, this research note is premised on the assumption that the implementation of the core reform elements is the key to realizing those goals. Choosing the appropriate items is one of the greatest problems facing evaluators (Boston, 2000). The selection presents both great opportunities and great dangers (Fitz-Gibbon, 2002) and is considered to be a crucial step in the construction of the compliance indices. So, what this research note is concerned for here is building a strong foundation for the evaluation (Pollitt, 1995).

Accounting index

Inspired by the framework of assertions (Christiaens 1999) as used in an audit-environment a number of elements (i.e. Timeliness, Completeness, Cut-off, Classification, Compensation, Mechanical accuracy, Disclosure, Formalistic requirements, Adequacy & Usefulness) of the accounting index and their method of measurement can be developed. Most elements are measured dichotomously with a score 1 if they are in compliance and a score 0 if not. Some of the elements are measured qualitatively (Ql) or quantitatively (Qt). The source documents, necessary to measure the index items, are mainly the annual accounts, consisting of a balance sheet, a profit and loss account and the notes. However, for some items, more in-dept information is required coming from the trial balance, the first balance sheets; and in some cases the data can only be collected through a questionnaire. Looking at previous research the accounting index can consist of more than 50 elements. As an example, based on an exploratory study for measuring the accounting reform in Flemish local governments, table 3 presents an overview of the 9 categories of the accounting index, the underlying elements and their method of measurement.

Insert table 3 about here

Management index

Determination of the relevant categories of the management index and its elements takes place in two steps. The *first* step is a thorough examination of the relevant legislation and related reports and studies. Based on this step a first draft list of possible categories and items is set up. The main source, through which to collect the necessary data for the management index, is a postal questionnaire. Therefore, in the *second* step, the questionnaire compiled from the draft list of categories and items is submitted to practitioners in an in-dept interview. In contrast to the accounting index, the management index consists of eight categories, each representing an NPM-reform element: Administrative manual, Long-range planning, Budgeting, Budget responsible, Activity centres, Cost accounting, Management reporting, Internal Audit. One should notice that External audit is not included as a category in the index. The reason for this is that the external audit of Flemish local authorities is organized by supervising bodies (the provinces) and as such the (non) compliance with external audit cannot be attributed to the local authorities themselves. Inspired by an exploratory study in Flemish local governments, it is likely that the resulting management index will consist of more than 40 elements. Most elements are measured qualitatively and dichotomously. Some of the elements are measured quantitatively. As an example table 4 presents an overview of the elements of the management index and their method of measurement.

Insert table 4 about here

Validation of the compliance indices

Both the compliance indices can be defined as a simple index, which means that the different elements forming the index have an equal, fixed weight on the index (Ingram 1984). In order to capture the performance better, some studies enlarged the simple index with a variable weighting the underlying elements resulting in a compound index (Robbins and Austin 1986; Ingram and de Jong 1987). However, these studies both revealed no significant different

results between the two types of indices. Therefore, this research note prefers to apply the simple index approach (Christiaens (1999); Christiaens and Vanhee (2003)).

In order to tackle possible validity threats several principles have to be kept in mind when selecting the items. *Firstly*, each item has to be equally applicable in all the examined organisations (see also: Robbins and Austin 1986; Christiaens, 1999). An important consequence is that this principle might reduce the number of possible items in the index. However, studies that did not respect this principle (Volmer, 1992; Coy et al., 1994) were confronted with adjustments and related validity threats. *Secondly*, the items have to represent explicit or important implicit requirements of compliance with the NPM-reform. The explicit requirements are easy to find as they are mentioned in the legislation. But on what notion(s) should the implicit requirements be judged? To deal with this problem the research note uses the criterion set up by Robbins and Austin (1986) and only includes ‘frequently’ mentioned items in the accounting and management index. That is, when several sources of information (circular letters, reports, studies and/or interviews) acknowledge the importance of a certain item. *Thirdly*, a special problem confronting the management index, in particular, is that almost all the information has to be collected by a postal questionnaire. Therefore special attention has to be paid to the construction of good and valid questions. *Finally*, overlap and repetition of items have to be avoided or reduced (Coy and Dixon, 2002).

4.3 Advantages and limitations of the compliance indices

Advantages

According to Coy *et al.* (1993), the index-methodology allows you to capture the diverse set of reforms into an easily understood indicator. Because NPM reform programmes are mainly multi-faceted, the management index makes it possible to capture the diversity of the reform in a way that it tackles the difficulty of interpreting different items. As a consequence this method avoids the problem of setting up evaluation programmes for each reform-facet of the NPM-reform. Additionally, the index methodology tackles several difficulties that “objective evaluation” is confronted with. According to Pollitt (1995), the most common approach to measure the effects of a reform programme is to compare it with the stated objectives or goals. However, besides the fact that it is too soon to determine if a NPM-reform programme has reached the intended goals, objective evaluation (Chen *et al.*, 2001) has several drawbacks, such as “objective evaluation is considered to be a black box approach”, “objective evaluation undergoes the absence of reliable benchmarks”, etc. The current research note can conclude that the compliance index is a method that allows to open the black box and tackles the problem of the absence of clear benchmarks.

Limitations of the compliance indices

While constructing the compliance indices the study constantly has to be aware of possible limitations of the indices and try to overcome or limit the impact of those constraints. *Firstly*, according to Andrews (2002) ‘pure’ legal and instrumental compliance has the disadvantage that this method tends to exaggerate the success of a reform. Legal and instrumental compliance does not examine if instruments really take root in the (financial) management of the organization and thus change the behaviour in the organization. To overcome this problem the concept ‘compliance’ includes explicit notions of regulation, as well as *implicit* recommendations put forward in related studies of local authorities or international literature. *Secondly*, one could argue that the compliance indices do not cover the factor ‘success’ completely. However, being in compliance with the reformed accounting and management regulations is at least a strict need for achieving a successful reform. *Finally*, another critique

or limitation may be the fact that the conceptual idea of the accounting and management index is transferable to another context but the specific framework of the index is not. But, on the other hand, we cannot speak of *the* NPM or NPM as being a uniform global movement and fail to give significant attention to the typical attributes of the organizational and national contexts in which the NPM-reform is being pursued (Olson *et al.*, 1998; Hooks *et al.*, 2002; Coy and Dixon, 2002).

5. RESEARCH METHODOLOGY

The present research study is not set up to explain the reasons of the accounting and management reforms, neither is it an analysis or an appraisal of the impulses or incentives behind the reform. It aims at discussing a tool to explore, describe and compare in an objective way the actual adoption and implementation of accrual accounting and new public management techniques in local authorities. The focus of the instrument is on finding out, through a cross-sectional study, who, when, how much and to what extent the compliance succeeds. It provides a means to examine the occurred empirical differences in implementation and to consider and test the cross-sectional differences on assumed associations with previously identified factors.

In this research project two major types of data will be used. The accounting index mainly uses *archival data*. More specifically a copy of the annual report, the trial balance and the first balance sheet serve as the main sources. The management index mainly uses data acquired by means of *survey* in order to capture the most accurate information in a timely way. Here for a postal questionnaire will be sent to the executive of the local authority (e.g. the treasurer). Following the above-mentioned approach it is likely that a number of data are gathered twice. This should not be seen as redundancy as the combination of several data resources will constitute a test of the convergence of the data, which may improve the validity of the study (“triangulation”).

The results of the compliance indices can be analysed from a descriptive and explorative point of view. The analysis is mainly concentrating on the frequencies of the different findings and on characteristics of the local authorities. Apart from the descriptive statistics, significance tests will additionally be performed. In order to test the possible reasons and associations regarding the varying accounting and management practices, an ordinary least squares regression analysis is used. The different determinants are defined and described earlier and the predicted signs are all positive.

6. CONCLUSIONS

Very few studies have empirically examined the adoption and implementation problems of governmental *accounting* reforms, its problems and difficulties in the ‘real world’ and the reasons for the different outcomes. The research objective in this research note is an attempt to reach a methodology for measuring the reform outcomes from an accounting perspective as well as from a managerial perspective with the help of the Index Construction Methodology. Two indices are constructed. The first index being the *accounting index* is analogous to previous studies in Belgian governments and measures the level of adoption of the governmental accounting reform. In the second part attention is paid to the construction of a new index, the *management index*. This index intends to measure the success of the organisational and managerial reform in governments.

As this research study is devoted to the construction phase of compliance indices, it is likely that certain elements of the indices as well as certain hypothesized explaining factors might be adapted in further empirical studies. The research study's intention is to fill the void of evaluative activities in governmental reform and to create a new perspective on evaluation. Furthermore, the research study will hopefully lead to a number of improvements and spin-offs. First of all, the study aims to provide insights relevant to practice. A better understanding of the practical adoption problems and results can be used as feedback to standard-setters, which cope with other ongoing or forthcoming accounting and management reforms in governmental and non-profit organisations. Secondly, the study will hopefully facilitate an appraisal of the usefulness of the reform to users. Their needs (education, training, follow-up, assistance, internal audit,...) in the accounting and management system will hopefully become clearer. This study will try to offer a contribution in the ongoing to open up new horizons in the user perspective.

Notes

¹ An OCMW (*Official Centre for Mutual Welfare*) is a governmental entity providing a number of additional municipal services such as health care, care for the elderly, social support, etc. Each 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.

² Belgium counts 589 OCMWs, of which 308 in the Flemish District, 19 in the Brussels' Capital District and 262 in the Walloon District. Contrary to municipal accounting legislation being of federal matter, the NPM and accounting reform of OCMWs are regulated completely differently by the three Belgian Districts: Flanders, Wallonie and Brussels' Capital District.

³ Unbundling of the organizations into units organized by product or service.

⁴ Internal markets and contracting as a key to lower costs and explicit performance standards.

⁵ Clear assignments of responsibilities.

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**Accounting and Management Reform in Local Authorities:
a Tool for Evaluating Empirically the Outcomes**

Tables and figures

Table 1: A comparison between NPM and the Flemish local government reform

<i>Local government reform elements</i>	<i>NPM doctrines</i>						
	<i>Divisionalization³</i>	<i>Competitive Attitude⁴</i>	<i>Private-sector management styles</i>	<i>Discipline in resource use</i>	<i>Visible hands-on management⁵</i>	<i>Measurable standards and measures of performance and success</i>	<i>Greater stress on results</i>
<p>Accrual accounting: a move away from cash-based accounting to ‘business-like’ accrual accounting.</p> <p>Administrative manual: mapping the administrative organisation (departments, functions, guidelines and procedures) to optimise the administrative organisation and the internal control system.</p> <p>Long-range planning: consists of a strategic and financial note over a time span of minimum 3 to maximum 6 years.</p> <p>Budgeting: from incremental budgeting to zero-based budgeting.</p> <p>Budget responsible: the possibility to delegate the authority to civil servants to manage an output-oriented budget</p> <p>Activity centres: business units or economic entities responsible for internal services. Each activity centre has to produce a separate balance sheet and P/L account.</p> <p>Cost accounting: more stress on identifying costs and understanding cost structures of activity centres or departments.</p> <p>Management reporting: responsibilities and output-oriented budgets are monitored by means of quarterly reports.</p> <p>Internal and external audit: internal audit consists of legality- and VFM-audit. External audit is limited to financial audit.</p>			✓	✓			✓
	✓	✓		✓	✓	✓	✓

Figure 1: Research framework

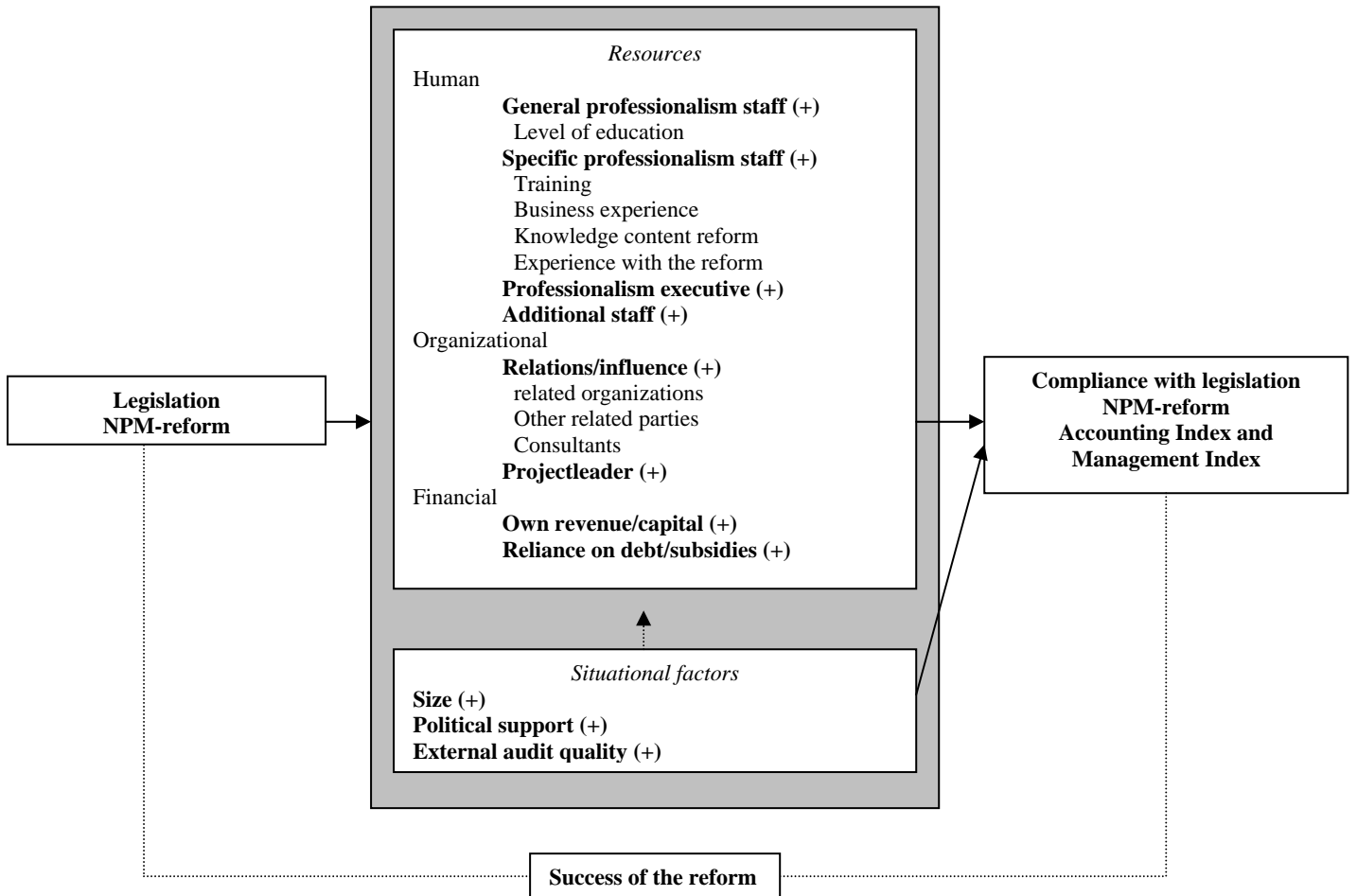


Table 2

Measurement objectives of index construction methods in government studies

Goal	Studies
Disclosure index Concentrating on what is shown and how it is shown	* Robins & Austin (1986) * Giroux (1989)
Disclosure index Which accounting practice is used and thus disclosed	* Ingram (1984) * Banker et al. (1989) * Cheng (1992) * Allen and Sanders (1994)
Accountability index Index that measures the quality of an annual report from a public accountability perspective	* Dixon, Coy & Tower (1991) * Coy, Tower & Dixon (1993) * Coy, Tower & Dixon (1994) * Coy & Dixon (2002)
Conformance indicator Meeting GAAP or GAAFR requirements	* Evans & Patton (1983) * Evans & Patton (1987) * Baber & Sen (1984)
Compliance index (Accounting index) Meeting the governmental accounting legislation as a means to measure the success of reform programmes	* Christiaens (1999) * Christiaens & Vanhee (2003) * Current research note
Extension Compliance index (Management index) Meeting the organizational and managerial legislation as a means to measure the success of reform programmes	* Current research note

Table 3 : Elements of the Accounting Index

Components	Code	Measure	Source
1. Timeliness	TIME	Qt	Query
Completeness			
2. Stocks disclosed	STOCK	Ql	Balance sheet
3. Doubtful debtors recorded	DOUBDEB	Ql	Trial Balance
4. Provisions disclosed	PROVIS	Ql	Balance sheet
5. Non recorded rights and obligations	0-ACCOUNTS	D	Trial Balance
6. Vacation salary	VACATION	Ql	Trial Balance
7. Internal C/A in consolidated accounts	INC/A-CONSOL	D	P/L account
8. Internal C/A in activity centres	INC/A-ACTIVITY	D	P/L account
Cut-off			
9. Deferred charges disclosed	DEFCHAR	D	Trial Balance
10. Deferred income disclosed	DEFINCOM	D	Trial Balance
11. Accrued charges disclosed	ACCRCHAR	D	Trial Balance
12. Accrued income disclosed	ACCRINCOM	D	Trial Balance
13. Recording date	RECORDDATE	D	Query
Classification			
14. Sign assets correct	SIGNASSET	D	Balance sheet
15. Sign liabilities correct	SIGNLIABIL	D	Balance sheet
16. Sign Profit/Loss account correct	SIGNPRO/LOSS	D	P/L Account
17. Classification of subsidies	CLASSUB	D	P/L Account
18. Software	SOFTWARE	Ql	Trial Balance
Compensation			
19. Amounts receivable within one year	40/41	D	Trial Balance
20. Debts falling due within one year	42	D	Trial Balance
21. Financial debts	43	D	Trial Balance
22. Trade creditors	44	D	Trial Balance
23. Taxation, salaries and social security	45	D	Trial Balance
24. Other amounts payable	46/48	D	Trial Balance
25. Accruals/deferrals	49	D	Trial Balance
26. Capital out of the first balance	1000	D	Trial Balance
27. Positive and negative result	693-793	D	P/L account
Mechanical accuracy			
28. Internal current accounts	INTERNAL C/A	D	Trial Balance
29. Reconciliation results	RECRESU	D	Trial Balance
30. Investment subsidies and gifts	INVESTSUB	D	Trial Balance
31. Accumulated depreciation	ACCDEP	D	Trial Balance
32. Suspense accounts	499	Ql	Trial Balance
33. Cumulated results and municipal contribution in first balance sheet	CUMRES-MUNCON	D	1st balance sheet
34. Reconciliation municipal contribution	RECMUNCON	D	Balance sheet
35. Activity centres' balance sheet in balance	BALINBALANCE	D	Annual accounts
36. P/L account versus annual account	P/L-ANNACC	D	Annual accounts
Disclosure			
37. Valuation rules disclosed 1 st balance sheet	VALRUL	Ql	Notes

38. Details formation expenses	DETFORMEXP	D	Notes
39. Details intangible fixed assets	DETINTANG	D	Notes
40. Details material fixed assets	DETMATFIXASS	D	Notes
41. Details financial fixed assets	DETFINFIXASS	D	Notes
42. Details amounts receivable	DETRECEIV	D	Notes
43. Details investments	DETINVEST	D	Notes
44. Details transitory accounts	DETTRANSIT	D	Notes
45. Details investmentsubsidies and gifts with a specific goal	DETSUBS/GIFT	D	Notes
46. Details provisions	DETPROV	D	Notes
47. Details long term debts	DETDEBT	D	Notes
48. Details other revenues	DETOTHREV	D	Notes
49. Details staff costs	DETSTAF COST	D	Notes
50. Details impairments	DETIMPAIRM	D	Notes
51. Details other operational costs	DETOPERCOST	D	Notes
52. Details other financial revenues	DETFINREV	D	Notes
53. Details exceptional results	DETEXCEPRES	D	Notes
54. Details O-Accounts	DET O	D	Notes
55. Summary valuation rules	SUMVALRUL	D	Notes
56. Previous year figures	PREVYEAR	D	Annual accounts
57. Balance sheet - P/L account per activity centre	ACTIVITYCEN	QI	Annual accounts
Formalistic requirements			
58. Annual report: general	ANNREPGEN	D	Annual report
59. Annual report: descriptive	ANNREPDES	D	Annual report
60. Annual report: financial	ANNREPFIN	D	Annual report
61. Scheme of financial flows	FINFLOWS	D	Annual accounts
62. Scheme balance and P/L account	SCHEME B-P/L	D	Annual accounts
63. Minimum chart of accounts	MINSYSACC	D	Trial balance
64. Classification activity centres	CLASACTIVITY	D	Annual accounts
Adequacy and usefulness			
65. Pictorial, graphical presentation	GRAFICS	D	Annual accounts
66. Different colours	COLOURS	D	Annual accounts
67. Pages consecutively numbered	PAGENUMBER	QI	Annual accounts
68. Bounded annual account	BOUNDED	QI	Annual accounts
69. Trial balance	TRIALBAL	D	Annual accounts

Table 4: Elements of the Management Index

Components	Code	Measure	Source
A. Administrative manual			
1. Development phase	DEVELOPAM		
Developed parts		Ql	Query
Adm procedures		Ql	Query
Flowcharts		Ql	Query
2. Approach to development	APPROACHAM		
Phased approach		Ql	Query
3. Assistance development	ASSISAM		
Internal assistance		D	Query
4. Realistic - Actualisation - Improvement	RAI-AM		
Formal procedure		Ql	Query
5. Accessibility	ACCESSAM		
Hard-copy		Ql	Query
Intranet		Ql	Query
Explanation		Ql	Query
B. Long-range plan			
6. Time span	TIMELRP		
Time span most recent long-range plan		D	Query
7. Actualisation	ACTUALLRP		
Frequency actualisation long-range plan		Ql	Query
Content actualisation		Ql	Query
8. Swot-analysis	SWOTLRP		
Approach budgeting		Ql	Query
9. Completeness strategic note	COMPLSN		
Content mission		Ql	Query
10. Completeness financial note	COMPLFN		
Developed parts		Ql	Query
Compliance schedules		D	Query
C. Budgeting			
11. Completeness	COMPLBUD		
Developed parts		Ql	Query
Investment budget		Ql	Query
Compliance schedules		D	Query
12. Participation	PARTICIPBUD		
Participation predesign		D	Query
Budget commission		D	Query
D. Budget responsible			
13. Number of vertical budget responsables	VERBUD		
Vertical budgetresponsibles		Qn	Query
12. Number of civil servant budget responsables	CIVILBUD		
Civil servant budgetresponsibles		Qn	Query
14. Function description	FUNCTBUD		
Content function description		Ql	Query
Insertion in other documents		Ql	Query
15. Individual task agreement/accountability	AGREEBUD		
Individual task agreement		D	Query
Evaluation task agreement		D	Query
E. Cost calculation + Activity centres			
16. Analytical accounting and AC	ANALAC		

Number of AC		D	Balance sheet
Internal facturation		D	Trial balance
Clarification in notes		D	Notes
17. Calculation of costs	CALCOST		
Calculation of costs		Ql	Query
F. Management reporting			
18. Completeness reporting	COMPLREP		
Completeness reporting		Ql	Query
19. Recipients of (written and/or oral) reports	RECIPIENTREP		
Recipients written reports		Ql	Query
Recipients oral reports		Ql	Query
20. Focus of reporting	FOCUSREP		
Output vs. input orientation		Ql	Query
G. Internal audit			
21. Frequency internal audit	FREQIA		
Frequency legality audit		D	Query
Frequency VFM audit		D	Query
22. Completeness internal audit	COMPLIA		
Financial internal audit		Ql	Query
Completeness VFM audit		D	Query
23. Independency internal auditor(s)	INDEPIA		
Internal assistance legality audit		D	Query
Internal audit commission		D	Query
Internal assistance VFM audit		D	Query
24. Best practices	BESTPRACIA		
Reporting internal audit		Ql	Query
Auditcharter		Ql	Query
Budget internal audit		Ql	Query
Sensibilisation internal audit		Ql	Query