Implementing Reforms in Public Sector Accounting

Susana Jorge
Editor

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

Introduction

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

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

As a result of this situation, financial accounts and performance accounts have been prepared in the governmental and business sectors, respectively. The term *financial accounts* refers to an accounting model focusing on the total cash effect of the revenues and expenditures (i.e., immediate cash inflows and later cash inflows (accounts receivable) as well as immediate cash outflows and later cash outflows (liabilities). When focusing only on the immediate cash effect of the revenues and expenditures, the term *cash accounts* will be used. Moreover, the revenues and expenditures may also have another effect, namely a possible performance result effect. The revenues will have a positive effect on the performance result of the accounting period in question, if they are earned during the period (revenues earned). If not, they represent revenues deferred. The expenditures will have a negative effect on the performance result of the accounting period in question if they are incurred during this period (expenses incurred). If not, they represent deferred expenses/capitalized expenditures. An accounting model focusing on the performance result effect of the revenues and expenditures is referred to by the term *performance accounts*.

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

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

Another international comparative study (Brusca and Candor, 2000) concludes that it is especially in Anglo-Saxon countries where the accrual criterion predominates in public sector accounting, while Continental European countries still are in the process of converting to accrual accounting. Typically, the latter countries have so far adopted modifed cash or modified accrual systems instead of complete or full accrual systems. There may be various reasons for this situation, including the following ones: First, Continental European countries can be classifed as ‘civil law countries’ as opposed to Anglo-Saxon-countries, which generally belong to the group of ‘common law countries’ (see e.g. Lünder, 1990). In the former group of countries, the law system plays a much more important role than in the latter group of countries. Hence, law regulations and concepts in Continental European countries have a stronger influence on public sector accounting systems and concepts, than what the case is in Anglo-Saxon countries. Second, in Continental European countries the budget with its focus on the financial development (revenues and expenditures) has always been very important, resulting in a very strong link between budgeting and accounting (see the discussion about cameral accounting below). This situation with a strong money focus in the budget, combined with a strong law tradition, probably helps to explain why Continental European countries have so far not replaced their financial accounts (focusing on revenues and expenditures) with full acrual or performance acccounts (focusing on revenues earned and expenses incurred). On the other hand, in Anglo-Saxon countries (common law countries), where the law and budgetary systems have not been so strong as in in Continental European countries (civil law countries), it has been easier to change the accounting system, introducing full accrrual accounting. In fact, in some of these countries, the accounting system has influenced the budgetary system, and not vice versa (Brusca and Condor, 2002).

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

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

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

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

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

1. Commercial vs cameral accounting

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

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

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

Ijiri (1967) focuses on two other dimensions of the double-entry bookkeeping method instead of the dual result presentation (via the payment and activity sides): the essence of double-entry is that every increment is causally related to a decrement[1],

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

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

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

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

As opposed to commercial accrual accounting, which uses the principle of double--entry bookkeeping, cameral accounting uses the principle of single-entry bookkeeping. In fact, administrative cameralistics use a developed version of single-entry bookkeeping, which can be referred to as *the single-entry bookkeeping method of administrative cameralistics*. While the merchant's single-entry bookkeeping forms the basis of cash accounts, showing immediate cash inflows and outflows, the single-entry bookkeeping of administrative cameralistics forms the basis of financial accounts, showing total revenues and expenditures (i.e., immediate cash inflows and outflows as well as later cash inflows (accounts receivable) and later cash outflows (liabilities)) (see Monsen, 2002, for further details).

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

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

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

2. National Government accounting in Finland

2.1. Historical development until 1998

When Finland still was a Grand Dutchy of the Russian empire with her own legislative body, a statute was given on the 3. May 1899, expressing that state accounting entities must arrange their bookkeeping according to a double-entry Italian bookkeeping method and that the book closure of the state must include the balances of funds, the revenues and expenditures according to the budget and some appendices, including the position of state cash reserves, authorized deferral budget revenues and deferral budget expenditures and a list of transferable appropriations (§48). The bookkeeping was cash based, but it also included financial accounts like accounts receivable and accounts payable. Authorized deferral budget revenues and deferral budget expenditures were registered so that a budget revenue entry was carried out for the budget year although the cash inflow came during the following year and a budget expenditure entry was caried out for the budget year although the cash outflow happened during the following year. These entries were allowed only for rigorous transactions authorized in the budget and these future revenues and expenses had to be followed with special deferral accounts.

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

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

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

In summary, the main objectives of National Government accounting in Finland have from the start been money management, control of public money and budget implementation in the accountable budget entities. Furthermore, the principle of double-entry bookkeeping has always been used in Finnish National Government accounting, and the particular bookkeeping method used can be referred to as 'Finnish administrative double-entry bookkeeping' (*hallinnollinen kirjanpito*).

2.2. Accounting reform of 1998

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

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

According to the official documents, the commercial accrual bookkeeping reform was proposed because the administrative double-entry bookkeeping model did not give enough information for the new steering and budgeting model. According to the *Talousarviosäädöstyöryhmä* (the Budget Act Committee established by the Ministry of Finance in 1992), commercial accrual accounting and new financial statements are needed to give information about the financial performance of the budget entities. Linked to this was also a change in the charging policy that required more cost accounting information for prising government goods sold. Commercial accrual accounting, which registers all assets and calculates depreciation cost of long-term assets, gives information for management accounting and enhances cost consciousness in using fixed assets. One argument was also better comparability of government accounting entities with local government and private sectors (VM 1993, 17-19.). Also, the annual report was renewed to fit the steering and budgeting by the result model. Before 1998 the reports were too heterogeneous and lacked a stable and uniform way of reporting how the accountable government entities had performed (VM 1994, Liite 2).

2.3. Current Finnish National accounting system

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

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

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

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

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

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

3. National Government accounting in Norway

3.1. Development until 1924

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

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

3.2. *Statens Budgett - og Regnskapskomite av 1924*

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

The committee starts explaining the national government accounting system by referring to the budget. It ascertains that there is a strong link between the budget and the accounts, because the budgetary appropriations are to be controlled by help of the accounts. Furthermore, SBR1924 refers to the introduction of double-entry bookkeeping in national government accounting in 1879, but ascertains that the use of this principle deviates from its use within commercial accrual accounting. In the latter case, revenues earned and expenses incurred are entered in the accounts, and an income statement account with an integrated comprehensive balance sheet account is prepared (i.e., performance accounts are prepared). On the other hand, national government accounting in Norway represents financial (cash) accounts, without an integrated comprehensive balance sheet account.

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

3.3. Appropriation guidelines

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

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

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

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

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

3.4. Current accounting system

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

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

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

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

3.5. Reform process in progress

By an Order in Counil of 14. September 2001, a committee was appointed to evaluate the bookkeeping principles used in national government budgeting and accounting. The report of the committee was presented in 2003 (NOU 2003:06), arguing that national government accounting in Norway in the future should be based on the principle of accrual accounting, as opposed to continued use of the cash principle. In particular, the motivation for this is the fact that expenses of the governmental activity would be reported, and the balance sheet would give a more systematic and more comprehensive overview of assets and liabilities than the case is when using the principle of cash accounting. Moreover, an overview of cash inflows and outflows would be available in a cash flow statement. Such a statement is to be prepared in addition to the income and balance sheet statements, which are the two financial statements prepared within commercial accrual accounting.

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

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

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

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

4. Discussion

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

In such a situation, it is no surprise that pressures for change are positively regarded. And if this pressure is international, being supported by the international accounting profession, changes are even more likely to occur. It is therefore very demanding to argue against such a worldwide international development towards commercial accrual accounting, and especially if you lack another theoretical accounting framework to base your argumentation on. In particular, a special committee of IFAC, the global organization of the accountancy profession, The International Public Sector Accounting Standards Board (IPSASB) started in the beginning of 2000 to prepare accounting standards for the public sector. Many standards have already been released (standards are available from IFAC's home page, http://www.ifac.org/PublicSector/), and they were translated to the public sector from the IAS/IFRS commercial accrual based standards for business companies. This development can bee regarded as a pressure for national governments to move from cash based and other government accounting systems to so-called full accrual accounting. During 2005 and 2006, the Government Accounting Board (*Valtion kirjanpitolautkakunta*) in Finland considered these IPSAS standards, but the Board's preliminary conclusion is to be very critical towards these standards, because a proper framework taking into consideration the special reporting and information requirements of governmental organizations is lacking. Furthermore, in Norway, a pilot project has recently been started, entering on the road towards commercial accrual accounting, even though it is underlined that the management of the financial resources of the government still should be based on a financial budget and not be based on the new commercial accrual based financial statements.

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

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

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

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

Conclusions

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

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

Our studies of Finland and Norway indicate that there is still a strong need for financial (money) information and budget outturn information in governmental organizations. At the same time, however, there is a strong international pressure for changing from a money focus to a performance focus in the form of commercial accrual accounting. This may shape in an appropriate way budgetary models and presentation of budgetary information at the least from the point of view of Continental European tradition, which so far has emphasized that budgetary information needs should influence accounting and not vice versa. Stopping such a strong trend – or at least not joining in – requires good argumentation, like the possibility of referring to a financial (money) accounting theory as an alternative to a performance (accrual) accounting theory. We therefore want to offer the financial cameral accounting theory (administrative cameralistics) for use in the discussions about how to improve governmental accounting. The fact that cameral accounting in its developed version (enterprise cameralistics) allows the preparation of accrual accounting information as a supplement to financial (money) accounting information, is another argument for also considering using cameral accounting as a framework in governmental organizations. Also, a governmental double-entry bookkeeping model could be developed, which co-opt more to the cameral framework than to the commercial accrual accounting framework developed for listed business companies. The current Finnish and Norwegian national governmental accounting models are examples hereof.

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