Implementing Reforms in Public Sector Accounting

Susana Jorge
Editor

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

Introduction

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

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

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

This paper will be organised into six further sections. The next one will provide the concept of accountability in the public sector and how it is discharged through the accounting system. The second section will explain the research question and the adopted methods. The third and the fourth sections will focus on a comparative analysis among European Continental and Anglo-Saxon countries' institutional features and accountability codes, and will enquire into the likely relationship between them. The fifth section will consider the available literature on the Italian local government accounting practices in order to assess the likely gap between them and the regulations. The final section will discuss, together with an assessment of the limitations, the results of the analysis and will draw some conclusions.

1. Public Sector accountability relationships and codes

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

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

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

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

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

Table 1 – Accountability codes and accounting tools

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

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

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

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

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

2. Research question and methods

The purpose of the paper is to analyse, through a comparative approach, the public management reform[1] effects on the local government accountability codes of some European continental countries – Italy, France and Germany –, and Anglo-Saxon ones – United States and United Kingdom.

The need for a revision of the local government accounting systems has come as a result of the NPFM reform. The success of the revision depends on the presence of some key factors that could influence the evolution of the reform process. These factors are represented for example by the legal system of a country and its administrative culture[2] – from now on called institutional features. The institutional features together with the public sector organisation, the renewal *stimuli*, the reform process approach and management, the specific objectives and the actual users of the public sector accounting system, are considered in this study as the countries' contextual features and they are used to explain why in each country the reform pace, tools, and achieved results are different (Brusca and Condor, 2002; Pollit and Bouckaert, 2000; Vela and Fuertes, 2000). The contextual features represent some of the most meaningful elements of Lüder's and Pollit and Bouckaert's models.

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

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

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

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

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

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

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

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

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

At last in all these countries there has been a devolution[3] process which has brought to a decentralized public sector organization and local governments have been the driving force for the accounting system reform (Budäus *et al.*, 2003; Chan, 2002; Lande and Scheid, 2003; Jones, 2003; Pollit and Bouckaert, 2000; Rebora, 1999).

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

In the European Continental countries budgeting and accounting are legal matters with strict rules; Italian local government accounting system is regulated by the Consolidation Act of Local Government[4] – Testo Unico Enti Locali, from now on called

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

[4] Legislative Decree n. 267/2000.

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

On the contrary in Anglo-Saxon countries, although public sector accounting is subjected to corresponding legislation, it is strongly influenced by the accounting professional bodies that issue some voluntary guidelines (Brusca and Condor, 2002). As regards the United States, Governmental Accounting Standards Board – GASB[5] – documents are usually chosen as a reference in state and local government accounting standards (Benito and Brusca, 2004; Brusca and Condor, 2002; Chan and Jianfa, 2005; Torres and Pina, 2003b). Even though each US state can enact its own accounting regulations, the American Institute of Chartered Public Accountants[6] – AICPA – recognizes GASB standard nation-wide applicability (Allen, 2002). In case of conflict between state and local government legal requirements and GASB principles, the latter prevails (Caperchione, 2000: 159; Chan and Jianfa, 2005: 19-20; Pozzoli, 2005: 204).

In the United Kingdom at local level the law still only provides a skeletal framework for accounting and financial reporting (Jones, 2003). The Chartered Institute of Public Finance and Accountancy – CIPFA[7] – and the Local Authority (Scotland) Accounts Advisory Committee – LASAAC – have jointly issued the "Code of Practice on Local Authority Accounting in the United Kingdom" which is recognized by the Accounting Standards Board – ASB[8] – as a "Statement of Recommended practice" – SORP[9] (Chan and Jianfa, 2005). Code prescriptions are in the form of recommendations that may not be followed.

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

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

[6] The AICPA is the professional association of US auditors.

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

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

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

3. Compared countries' contextual features

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

3.1. European Continental countries

3.1.1. Italy

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

The Italian institutional framework is composed of a central state, regions, provinces and municipalities; the latter two represent the forms of local governments. Albeit Italy is recognised as a unitary state, a reform has been undertaken in order to enhance devolution (Raimondi, 2003: 54). These process started in 1990 by means of law 142/90 and then was strengthened in 1997 by the so-called "Bassanini reform" and in 2001 by a constitutional reform[10]. The result was a radical reshaping of the institutional setting, though its final effects are still unclear; local governments were assigned enhanced powers and responsibilities (Anessi Pessina and Steccolini, 2005; Mussari, 2005; Ongaro, 2006). Their greater autonomy together with the direct election of the mayor and of the province president brought about a new concept of accountability (Pezzani, 2005). This is no longer intended as a mere compliance with rules and procedures – financial code – but as the need to give account to the citizenry, in the first place, of how results are achieved and resources are used – managerial code.

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

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

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

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

3.1.2. France

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

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

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

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

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

3.1.3. Germany

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

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

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

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

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

These reform ideas began to be tested, and tests are still ongoing, in medium and large size municipalities in the early 1990s. They carried out pilot projects under the experimentation clauses[11] provided by the Municipal Budgetary Acts (Lüder, 2002b: 232; Pollit and Bouckaert, 2000; Reichard, 2003: 349).

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

3.2. Anglo-Saxon countries

3.2.1. United Kingdom

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

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

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

The United Kingdom has been regarded as a leading reformer for the past two decades, and the introduction of NPM principles was as relevant at local level as elsewhere in the public sector (Pollit and Bouckaert, 2000; Goddard, 2005). In the early 1980s the Local Government Finance Act gave the Audit Commission the power to control local governments and to promote studies about what is know colloquially as "*value for money*". It is a system for measuring and improving local authorities economy, efficiency and effectiveness – the well-known three E's – through benchmarking technique. The approach to performance management began in 1991, during the Conservative governments, through the Citizen's Charter which provided standards for customer service and required local authorities to measure their performance. In 1992 the Audit Commission was granted to produce annually a standard set of performance indicators and to give instructions about the publication of information for facilitating standards performance comparisons (Giroux *et al.*, 2002; OECD, 1997; Sanderson, 2001). The election of a Labour government in 1997 produced broader proposals for 'modernizing government' through the introduction of the Best Value Regime which came into operation for all local authorities in April 2000 (Chow *et al.*, 2005; Sanderson, 2001). It required councils to prepare and publish annual performance plans – BVPP – reporting past and future targets in terms of local performance indicators – PIs – (Wollmann, 2004: Boyne, 2000; Martin, 2000).

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

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

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

3.2.2. United States

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

The United States of America consists of 50 states with a significant administrative and financial autonomy (Chan, 2002). Three different governing bodies can be identified: the federal government, the state, and the local government. Local governments, in turn, are divided into county government, city government or municipalities, township and village government, other local governments[12] (U.S. Department of Commerce Economics and Statistics Administration, 2005). The city directly serves the needs of the people, providing everything from police and fire protection to sanitary codes, health regulations, education, public transportation, and housing (Giroux *et al.*, 2002).

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

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

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

A major role during this stage was played by the GASB[13] whose standards represent the core of US GAAP – Generally Accepted Accounting Principles – for state and local governments even though they are not explicitly recognized by governments, as it is the case for the standards issued for the private sector by the Financial Accounting Standards Boards – FASB (Ruppel, 2001).

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

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

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

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

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

3.3. A summary of the compared countries' contextual features

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

[13] See footnote 5.

Table 2 – The contextual features

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

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

* Only for the BVPP introduction.

4. Local government accountability codes in the analysed countries

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

4.1. European continental countries

4.1.1. Italy

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

– to a service-based one – managerial code. Such a change began in 1995 through the legislative decree 77/95 later incorporated in the TUEL, and now supported by the accounting standards issued by the Commission for local government finance and accounting[14].

Italian local governments adopt a budgeting and accounting system on an obligation basis. The annual budget has a central role and has both political and authorizing functions. As it classifies expenditures by services – accounting unit corresponding to organizational unit – it fulfils also an organisational function. Expenditures are also classified by programs[15] in an apposite summarizing section.

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

In order to define the clearer demarcation between responsibilities for policy making and management, a planning document has been introduced, namely the Executive Management Plan – PEG[17]. In this plan, drawn up before the beginning of the new fiscal year by the cabinet, the management objectives are set and assigned together with the resources needed. These objectives represent the agreement between the political body and the organizational counterpart. The PEG is therefore an executives' accountability instrument.

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

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

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

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

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

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

[16] Relazione Previsionale e Programmatica.

[17] Piano Esecutivo di gestione.

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

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

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

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

4.1.2. France

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

In 1990, on the initiative of the central government, a committee of modernization was created to draw up a local government accounting system reform project that involved a lot of small municipalities which tested the chart of accounts between 1993 and 1996. In 1994 the legislator adopted the M14 – *Instruction budgètaire et comptable* – that established the new compulsory accounting system rules for all municipalities beginning from 1 January 1997[18].

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

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

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

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

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

- a single budget and accounting classification;
- execution is based on accrual accounting. However local government budget will not be completely comparable to accrual-based budget since accruals is only recognized at the year-end;
- depreciations and provisions are taken into account either in the budget or in the accounting statements; depreciations and provisions must be first recorded in budget documents to authorize their registration in accounting statements[19];
- debt is included in the budget presentation in order to identify its amount and increase[20].

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

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

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

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

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

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

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

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

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

Through the M14 municipalities have improved their financial information because financial statements provide information about the public net assets and their changes during a period of time, about the level, composition and dynamics of debts and financial assets, and about the respect of intergenerational equity principle. This last kind of information is produced through the obligation to record provisions for deferred loan repayments either in the budget and in the accounting statements[21].

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

According to the law ATR 1992[22] municipalities with more than 3,500 inhabitants are obliged to make their budget available to citizens fifteen days after their approval. As regards the accounting information less attention is paid to external users who are mainly auditors (Caperchione, 2000; 96). Current financial information is determined by legal aspects rather than by economic or financial ones. Thus it is not relevant for external users such as creditors (Lande and Scheid, 2003: 263).

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

4.1.3. Germany

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

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

[22] Law n. 92 125 1992 of the Amministration Territoriale de la République.

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

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

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

The local government financial statements are:

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

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

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

However in order to introduce NSM ideas since the 1990s local governments are experimenting an output and accrual based budgeting and accounting system – NKF. The reform driver was an "epistemic community" that mainly consist of scholars, the KGSt[24], consulting enterprises and a few practitioners. They all requested a new reporting model including a complete balance sheet, an operating statement and a cash flow statement (Budäus *et al.*, 2003; Lüder,2005).

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

[24] See § 4.1.3.

The co-ordination of the different reform approaches has been up to a Sub-committee on local government budget law which was set up by the Standing Conference of the *Land* Interior Ministers in 1998. The committee was charged with elaborating mandatory guidelines for the necessary amendments of *Land* budgeting and accounting law. To prepare legislation some German states – Hessen, Northrhine-Westfalia, Lower Saxony – arranged pilot projects aimed at evaluating the new accrual concepts[25]. These states have already started the law-making process, the others will soon or later follow, even though they are not obliged to amend their law.

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

4.2. Anglo-Saxon countries

4.2.1. United Kingdom

Even before the recent devolution processes United Kingdom allowed its local governments considerable autonomy in the accounting (Chan and Jianfa, 2005). It is difficult to generalize about UK local government budgeting and accounting; the law does not provide a fully-articulated set of principles. In contrast to central level, local governments have a professional accounting body, the CIPFA – that has taken an extensive role in making accounting policy. As it has been said above[26] CIPFA and LASAAC have jointly issued the SORP[27] which is a Code of Recommended Practice. This Code adopts, with suitable adjustments, the ASB's pronouncements; thus government accounting standards are adaptations of business ones. CIPFA requires its members to comply with relevant recommendations that are not mandatory. In fact if specific local authority statutory provisions required departures from the SORP, legislative requirements should be followed (CIPFA, 2004; Giroux *et al.*, 2002; Jones, 2003). However SORP is used in this study as local government accounting standards.

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

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

[26] See §3.

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

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

Each local government can determine how detailed its own budget should be; whether budget should be based on responsibility centres or on programmes; whether budget should be only in terms of input or in terms of inputs and outputs. Budget approval by politicians occurs typically in February[28]. As at the local level there is no separation of legislative and executive powers, budget has not an authorizing function and its numbers are 'memorandum' items (Jones, 2003). However it is a tool to carry out the central government financial limits to local management. According to tax payers' information perspective local authorities are required to publish the Council Tax Leaflet which is a budget summary.

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

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

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

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

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

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

The financial statements' producing and publishing for each local government as a whole have become a legal requirement since 1974. The law determines the statement form but almost nothing about measurement and disclosure issues that are accounting profession matters. In 1982 the local government auditor was required to issue a positive opinion on the annual statement of accounts[29].

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

According to the SORP and to the Accounts and Audit Regulations 2003 the main documents included in the state of accounts are[30]:

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

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

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

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

[29] Previously only exceptions to a clean opinion were reported.

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

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

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

4.2.2. United States

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

The GASB 34 establishes only financial reporting standards. Budget standards are local government regulation matters, but the National Council on Governmental Accounting and the National Advisory Council on State and Local Budgeting[31] issued some generally accepted budgeting principles – respectively the NCGA n. 10, State e Local Government Budgetary Reporting and the NACSLB Recommended Budget Practices.

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

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

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

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

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

The financial reporting documents are:

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

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

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

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

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

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

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

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

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

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

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

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

Thus the former local government information system seems to be mostly directed towards the comparison between actual financial results with the legally adopted budget. The budgetary statement is the most important financial statement and is prepared to comply with the very detailed legal requirements. It is mainly directed to internal stakeholders. The latter gives priority to the balance sheet and the operating statement since the information system aims at presenting a true and fair view of the economic result and financial position. Moreover the use of performance indicators is becoming a common practice in order to demonstrate to citizens the effectiveness and the outcomes of public administration actions.

Table 3 – European Continental countries' accountability codes

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

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

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

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

With reference to the administrative culture, the less flexible European Continental *Rechtsstaat* model was expected to be less conducive to the reform or at least to slow the reform process down (Lüder, 2002; Pollit and Bouckaert, 2000) in comparison with the Anglo-Saxon public interest model. In particular, in the first the top civil servants' juridical education can influence the pace and costs of the reform process. A lack of business accounting skills may not only delay the implementation of the reforms but also lead to an increased level of resistance.

Table 4 – Anglo-Saxon countries' accountability codes

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

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

(2) See § 5.2.1.

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

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

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

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

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

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

Conclusions

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

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

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

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

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

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

Additional research which provides empirical evidence would represent a useful 'test' of the validity of this study findings. In order to progress, in future studies we would need to build a research network, so that local practices could be analysed by local researchers.

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