

EURO PEAN

PUBLIC SECTOR ACCOUNTING

**PETER C. LORSON
SUSANA JORGE
ELLEN HAUSTEIN
(EDS.)**

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CHAPTER 2
HISTORY OF PUBLIC SECTOR ACCOUNTING
& ALTERNATIVES

Andy Wynne

University of Leicester, UK

amw48@le.ac.uk, andywynne@lineone.net

<https://orcid.org/0000-0001-9210-9983>

SUMMARY

Public sector accounting and financial reporting have had a long and varied history. Examples are provided from ancient civilizations in China, India, the Islamic States and then developments in Western Europe are considered. Public sector accounting was a tool for the accountability of feudal stewards to their overlords. This changed to the accountability of government ministries and public sector entities to parliament with the introduction of parliamentary democracy from the nineteenth century. Finally there was a change of emphasis from control to efficiency with the move to New Public Management and especially the accrual basis of accounting from the very end of the last century.

KEYWORDS

accountability, accounting year, assurance, auditor, budgetary control, budget out-turn report, internal control, public sector accounting, treasurer, treasury, taxation

1. Introduction

The aim of this chapter is to indicate the long and varied history of public sector accounting (PSA) and to indicate some of the key developments. PSA has developed in all states that had a reasonably sophisticated taxation system, so we have many examples of different approaches. These public sector approaches to accounting may have been passed from one state to another or developed independently by individual governments.

PSA first developed as a charge-discharge system to allow feudal kings, lords etc to control and monitor the financial management of their stewards. It was designed to provide assurance that all feudal dues had been collected, adequately accounted for and, as necessary, paid into the Treasury.

Budgetary accounting developed from the 19th century with the move to democratic accountability and parliamentary democracy. This originated in Western Europe and then spread to other countries especially across the European colonies. Finally we had a change of emphasis, in some countries, from financial control to efficiency with the move to New Public Management and the adoption of accrual accounting from the end of the last century.

This chapter indicates the long history of PSA, from the Western Zhou dynasty of China, originating around three millennia ago, through India, the Islamic States and finally Western Europe. This chapter also provides an introduction to the three different approaches to PSA that developed in England, France and the Germanic countries.

We will emphasise the importance of financial control and adherence to rules and regulations rather than the recent attempts to improve efficiency or performance management as part of New Public Management and specifically accrual accounting.

This chapter should also provide an understanding of the objectives of PSA and the change from:

- accountability of stewards to feudal overlords (charge-discharge); to

- budgetary control by democratic parliaments and
- the more recent change of emphasis from compliance to efficiency.

We will also emphasise the importance of not using current objectives of public financial management to assess earlier accounting systems. When the objectives have changed, previous approaches should not be criticised for not being able to achieve current objectives.

2. The long history of PSA

PSA originated in ancient civilisations including, for example:

- China from around from nearly 10,000 years ago;
- Mesopotamia (current day Iraq) around 5000 BCE (Before the Current Era);
- Ancient Egyptian civilisations 3000 to 300 BCE;
- India nearly 2,500 years ago;
- Ancient Greek civilisation also nearly 2,500 years ago;
- Islamic States 700 to 1200 CE.

PSA later spread to or was developed in Western Europe. Here three main approaches were developed and evolved over time. More recently the common approach of the IPSAS is being promulgated, although the level of adoption of such standards still remains relatively limited.

2.1. Western Zhou Dynasty of China

The earliest form of PSA, at least that we have documentation for, originated in central China in the city of Xian during the Southern Song Dynasty around 7000 BCE. The kingdom was divided into territories and each was governed by officials appointed by the king.¹

¹ Liu (2017).

The Western Zhou Dynasty of China (1046–771 BCE) was the longest-lasting dynasty in Chinese history. The Rites of Zhou, written during this period, describe annual, monthly, and 10-day accounts. These accounts were used to assess the official's performance.² These procedures also include the “Shangji” [grand calculation]. This was a summary assessment undertaken every three years, which decided the official's promotion, demotion, or dismissal.

“The grand Treasurer (dafu) was the highest ranking officer in the Treasury. The auditor of the National Treasury was labelled as the zaifu.”³

So even at this time, the distinction between these two essential roles in PSA had been recognised. The grand Treasurer, or accountant, prepared the accounts and an independent auditor checked and confirmed the accuracy of these accounts. The central importance of budgeting for PSA was similarly recognised in these times:

“Every year the court decided its budgeted expenditure according to its budgeted revenues.”⁴

Chinese bookkeepers did not use paper (which was later invented in China around 100 BCE), but engraved their accounts on bones and on wooden boards⁵.

Confucius (551–479 BCE) the famous Chinese philosopher started his working career as a frontline official responsible for stores accounting.⁶

² Previts; Walton and Wolnizer (2011).

³ Chatfield (2014), p. 122.

⁴ Chatfield (2014), p. 122.

⁵ Chatfield (2014).

⁶ Liu (2017).

2.2. Mesopotamia (current day Iraq)

City states developed in this region around 5000 BCE with an associated approach to PSA. The financial officials used clay tablets with pictographic characters to record financial transactions.

“Far from being a rudimentary, accounting practices in both ancient civilisations [Egypt & Mesopotamia] displayed remarkable levels of detail.”⁷

The details provided with these records and the sophistication of systems increased over time.

2.3. Ancient Egypt

Various civilisations developed in Egypt over a long period from 3000 to 300 BCE. These civilisations provided great innovations, but also amazing (from our stand point) stability. So, for example, the daily pay for workers remained essentially the same over the whole of the third millennium BCE. This period also demonstrated the significant influence of the public sector as the major sector of the time:

“The royal palace and the temples constituted two influential institutions in the economy of ancient Egypt.”⁸

These civilisations also indicated the importance of accounting for taxation:

“Once tax was assessed and collected, it was transported to the state granaries, and this process was organised and documented carefully by the scribes.”⁹

⁷ Salvador and Mahmoud (2007), p. 196.

⁸ Salvador and Mahmoud (2007), p. 189.

⁹ Salvador and Mahmoud (2007), p. 192.

2.4. Kautilya – The Arthashastra

Kautilya, an Indian teacher, described public sector administration, including PSA, in a book. The title was *The Arthashastra* and was written nearly 2,500 years ago¹⁰.

As with Chinese PSA, there were two separate offices, but their responsibilities differed from the previous example (and current practices):

- the Treasurer managed the assets;
- the Comptroller-Auditor maintained the records, compiled the rules, audited, and presented financial reports to the king.

Kautilya also recognised the significance of corruption saying:

“just as it is impossible not to taste the honey or poison on the tip of your tongue, so it is impossible for someone dealing with government funds not to taste at least a little bit of the king’s wealth.”

Kautilya proposed three conditions for efficiency and compliance:

- citizens (including government officials) have to be informed of the laws;
- organizational structures should reduce the scope for conflicts of interest;
- comprehensive schemes of rewards and punishments are needed to increase compliance.

He also provided considerable details on the accounting rules to be followed, for example:

“The Closing Day for the Accounting Year shall be the full moon day of the month of Asadha [June/July]”

and

¹⁰ Sihag (2004).

“Day-to-day accounts [to be submitted once a month] shall be presented before the end of the following month and late submission shall be penalized.”¹¹

Thus Kautilya, writing nearly two and a half millennia ago, made contributions on systematic record keeping, periodic accounting, budgeting, and independent auditing. These remain core aspects of PSA to this day.

2.5. Ancient Greece – Aristotle

Aristotle (384–322 BCE) wrote *The Politics*. This book described the Greek approach to governance, including PSA.¹² Public officers presented their accounts 10 times a year to the Assembly of the Citizens and also at the end of their term of office. Accounts were also posted in different wards (comparable to our online publication).¹³

The English word ‘audit’ is derived from the Latin word ‘audire’, which means ‘to hear’. Ten auditors were selected by lot from members of Council and they heard explanations of how public money had been spent by the accountant.

“To prevent the exchequer from being defrauded, let all public money be delivered out openly in the face of the whole city and let copies of the accounts be deposited in the different wards, tribes and divisions.”¹⁴

2.6. Islamic States

“[F]or five centuries, from 700 to 1200 Islam led the world in power, organization, and extent of government”.¹⁵

¹¹ Sihag (2004), p. 143.

¹² Aristotle (384 BCE – 322 BCE).

¹³ Gustavsson (2013).

¹⁴ Aristotle, Book V chapter V111.

¹⁵ Zaid (2000), p. 153.

Pacioli (Italy 1494), who wrote the earliest accounting manual, may have learnt about the concept of double entry book-keeping from the Islamic States (they also preserved much knowledge from the ancient Greeks for later Western European societies).

The Zakat (religious levy) and increasing responsibilities of the Islamic State led to the development of accounting processes, these then spread to the private sector (a reversal of current ideas):

“the successful application of accounting systems by government authorities promoted the adoption of similar procedures among private entrepreneurs”.¹⁶

“Annual reports prepared by Al-Kateb (the accountant) were reviewed (audited) and compared with prior year reports.”¹⁷

“Budgeting also featured in the accounting systems and was used as an internal control procedure as well as being a tool for analysing and interpreting the monthly and yearly financial statements. Auditing was practiced in the Islamic state and was mandatory.”¹⁸

2.7. Other civilisations with tax collection

There were many other states throughout history that developed their own approaches to PSA. For example, there were several states in West Africa that had well-developed taxation systems whose accounting systems are not known in any detail due to the destruction of the records, the feeling that we had nothing to learn from such administrations and so the lack of detailed research:

- Benin Empire (1440–1897): in the south of modern Nigeria, developed an impressive bronze technology;
- Ashanti Empire (1701–1894): in what is now Ghana, had a gold based treasury and inheritance tax.

¹⁶ Zaid (2000), p. 158.

¹⁷ Zaid (2000), p. 158.

¹⁸ Zaid (2000), p. 168.

- Sokoto Caliphate (1804–1903): an Islamic empire in northern Nigeria, one of the most powerful empires in sub-Saharan Africa prior to European conquest.

Detailed research of the accounting systems of such civilisations may provide alternative approaches to PSA that could be a source of inspiration to solving some of our modern day problems.

3. Historical Traditions of PSA in Europe

3.1. Introduction

The significance of state finances has hugely increased in the last century or so. So, for example, in France, over the century to 1913, state expenditure increased fivefold. So it was five times higher at the end of the century compared with the start of the century.¹⁹ Similarly, the value of European public spending increased a thousand fold from 1866 to 1950. In the early years of 20th century public sector expenditure was only around 15% of Gross Domestic Product (GDP). This increased to around 35% by the late 1940s, having peaked at around 55% and 70% of GDP during the two world wars. From around 1980 it stabilised at above 40% of GDP despite the adoption of neoliberal principals of privatisation and out-sourcing.²⁰

At least three different approaches to PSA and audit developed in the modern era in Western Europe, these included the following:

- England – pipe rolls from around 1100 CE;
- France – dual system (instruction and payment);
- Germany – cameral accounting.

¹⁹ <https://oll.libertyfund.org/pages/budget1848>

²⁰ Tanzi and Schuknecht (2000); Ortiz-Ospina and Roser (2019).

Modern public sector financial reporting is, at its core, budget accounting – a comparison of actual spending and receipts with the previously agreed budget. Parliament agrees the budget for the year and the accountability cycle is completed through the presentation of a budget out-turn report indicating the extent to which the original authorisations were complied with during the year:

“The importance of the budget for accountability was that it provided quite precise standards by which to judge the annual accounts”.²¹

The budget provides a way of assessing under or over spending and to high-light these problem areas. The audit report in turn identifies any spending that is not in-line with the budget or did not follow the Financial Regulations.

3.2. Adoption of double entry book-keeping

The argument for the adoption of private sector practices by the public sector, including accrual accounting, has had a long and disputed history. An example of this is the very slow adoption of commercial style double entry book-keeping by governments across Europe. This reform took over 500 years to spread from its origins in the city state of Genoa (before Pacioli’s famous publication) to the Norwegian government. People can walk faster than this reform spread! The dates of adoption of this approach are:

- Local government of Genoa in 1340²²;
- Spanish central government – 1592;
- Portuguese Royal Treasury – 1761;
- France – 1815 (initially introduced in 1716);
- Britain: – 1829, but

²¹ Normanton (1966), p. 6.

²² Miley and Read (2017).

“As late as 1857 the Select Committee on Public Monies was still urging the merits of the double-entry system of book-keeping.”²³;

- Norway – 1879²⁴.

The problem was clearly not that public officials were not aware of such approaches, but perhaps they did not feel these reforms were necessary nor generally relevant for the public sector. Here accounting is largely the analysis of payments and receipts in line with the agreed annual budget rather than calculating the annual profit earned by a merchant. Luca Pacioli’s approach to book-keeping, published in 1494, was designed to assist these private sector merchants.

3.3. England – Exchequer audit of sheriffs

From the 12th century the local sheriffs of each county of England “were audited by the great nobles sitting in the Exchequer.”²⁵ The Exchequer met twice a year, at Easter and Michaelmas (29 September). This court of law could discharge the sheriff (with the Latin words “et quietus est”) or rule an amount that was owed to be paid by the sheriff into the Treasury. Irregular visits were also made to the individual counties by the Justices in Eyre to confirm the accuracy of the sheriff’s accounts (a possible early form of internal audit).

These procedures originated in France and were brought to England with the Norman invasion of 1066. The English system then followed its own evolutionary path and differences with the French approach gradually increased.

The Pipe Rolls (the financial records for each county) were written on sheep skin in Latin (until 1733) using Roman numerals (I, II, IV, XI etc).

²³ Chubb (1952), p. 15.

²⁴ Parry and Hughes (2019).

²⁵ Normanton (1966), p. 14.

Treasury receipts were wooden tallies (stock and foil) and were used until the nineteenth century as receipts by the king's treasury.

This process ensured the accountability of county sheriffs to the king for their revenue collection and local expenses. It was not an open or public process. It was a Charge-Discharge system – the objective was to calculate and record the sums owed to the king by the sheriff of each county.

“[T]he Steward was charged with the sums for which he was responsible (opening balance, plus receipts), and discharged of his legitimate payments; the end balance showed what he must handover to his lord.”²⁶

“The upper exchequer was responsible for the audit function, the purpose of which was the detection of fraud or dishonesty of individual officials within specified areas of responsibility.”²⁷

“This approach to government accounting persisted for some 700 years until the abolition of tallies in 1826, followed by sheriffs in 1833 and the exchequer in 1834.”²⁸

The Pipe Rolls (financial records) for each county had the following format:

<i>Net sum due and payable by the sheriff</i> (being the result of the following calculation):	XXX
Gross value of the farm (estates managed by the sheriff)	XXX
Less any profers (payments on account) paid at Easter (or Michaelmas)	XXX
Less specific deductions allowed	XXX
Less Terrae datae (lands alienated/gifted to others by the king)	XXX
Less casual payments made, based on a king's writ	XXX
	XXX
Plus other income due to the king (including income from boroughs – towns)	XXX

²⁶ Cooper; Funnell and Lee (2012), p. 198.

²⁷ Cooper; Funnell and Lee (2012), p. 199.

²⁸ Cooper; Funnell and Lee (2012), p. 203.

3.4. Parliamentary control of finances

The principle of “no taxation without consent” was established under the Magna Carta (1215). This ensured that the king was accountable (to a certain extent) to the feudal lords. During the seventeenth century, the House of Commons struggled to gain control over the executive and so to control the government’s expenditure. The more detailed principle developed of “no expenditure except in amounts and ways approved by Parliament”. A system of control based on these two principles has been progressively refined in the modern era.”²⁹

It was not until the middle of the 19th century that the British parliament was able to hold ministers to account for sums spent by their ministries. Before that, financial control was achieved by the Comptroller General’s role of controlling releases of funds from the Treasury (combined with the role of the Auditor General). Or putting it another way, financial control had been through budgetary release – rather than a review of financial statements. The Treasury was only a small department at this stage still only having 35 staff by the middle of the 18th century.³⁰

From the perspective of the strict process of budgetary control that had developed by the mid 20th century:

“[G]overnment accounting... was gravely deficient until well into the nineteenth century. The departments themselves kept embryonic records.”³¹

“in 1782 great accounts twenty and thirty years old were still open”.³²

“from 1780 demands for returns of accounts were frequent as the House of Commons sought to implement the new responsibility it was beginning to feel. Yet it was not until 1802 that annual ‘Finance Accounts’ were presented, and 1822 that balanced accounts appeared.”³³

²⁹ Pallot (1992), p. 3.

³⁰ Roseveare (1969), p. 102.

³¹ Chubb (1952), p. 15.

³² Chubb (1952), p. 15.

³³ Chubb (1952), p. 19.

Ordinary government expenses were generally just funded from particular sources or types of tax – rather than by the amount budgeted. Specific types of tax were allocated to individual ministries (or the king’s household) rather than the amounts actually raised by these taxes.

Annual budgets were voted for armed services from the late 17th century (in total), but these were not supported by detailed estimates for many years. Detailed budgets or estimates were introduced in the 19th century and made universal with the Exchequer and Audit Departments Act of 1866.³⁴

The modern English or Westminster approach is based on two funds, the Consolidated Revenue Fund that should receive all income that has been collected and the Capital Development Fund that allocates all funds for capital expenditure. The allocations of monies to individual ministries are then made from each of the two funds as indicated in the figure below:

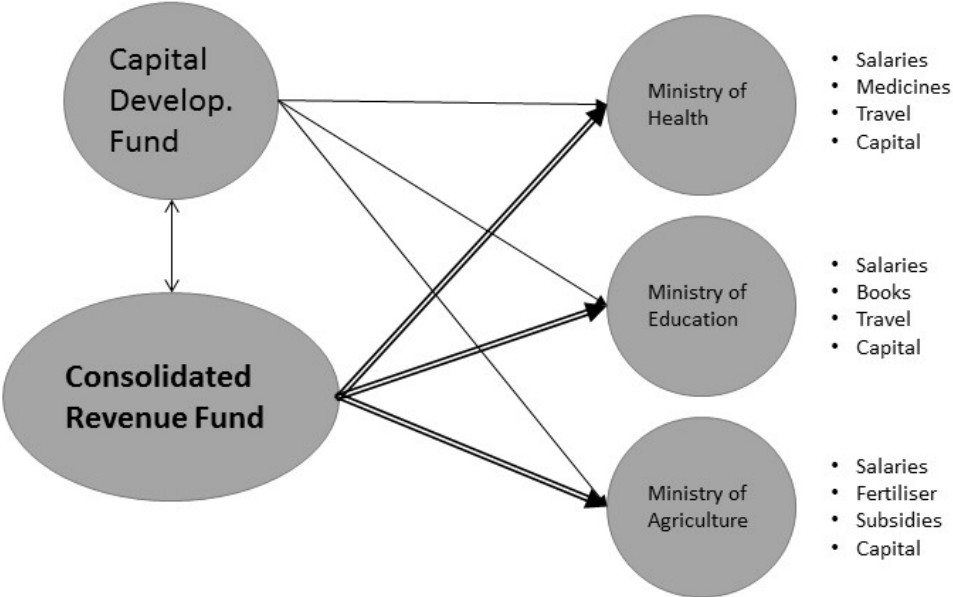


Figure 2.1: Structure of public accounts

³⁴ Chubb (1952), p. 11.

All revenue (taxes etc) should be paid into the Consolidated Revenue Fund. Transfers are then made to the Capital Development Fund (and then from this fund on to individual ministries) and to individual ministries for their recurrent spending. So each ministry receives monies for recurrent spending from the Consolidated Revenue Fund and monies for capital spending from the Capital Development Fund. At the year end, accounts are produced for both the Consolidated Revenue Fund, the Capital Development Fund and each individual ministry. At their simplest, these accounts would be budget out-turn reports as indicated below:

Ministry of Health	Budget	Actual	Variance
	€	€	€
Wages & salaries	225	220	5
Medicines	75	70	5
Stationary	13	12	1
Telephone	5	3	2
Travel	12	8	4
Rent	12	10	2
Other goods & services	8	10	(2)
Capital spending	100	150	(50)
TOTAL	450	483	(33)

Figure 2.2: Budget out-turn report

Thus there is one budget line for each type of expenditure in each ministry and the financial statements highlight the differences between the budget and the actual expenditure (variance).

3.5. Early experiments with accrual accounting

Birmingham City Council adopted accrual accounting from around 1850 as its main role was to provide public utilities like a private sector company. However, a century later, the House of Commons (parliament) *Committee on the Form of Government Accounts* rejected moves to accrual accounting in government ministries. Accrual based financial statements had been produced for six years by the British

war ministry in the early 1920s, but according to the Committee:

“the experiment had not led to commensurate economies in administration and seemed unlikely ever to do so”³⁵

and so the committee concluded that:

“no practical advantage would be secured from the adoption of [an accrual]... basis of accounting”.³⁶

Accrual based financial statements were finally introduced for central government ministries from the 2001/02 financial year (after the more general adoption of New Public Management).

4. France – objective is control

The French system of PSA evolved into a sophisticated system whose main objective was control. That is to ensure that payments were made accurately and the accountants could account for all the payments that they had made. The French system was copied by the Italian Government in 1877 and Portugal had emulated the French approach in 1761.³⁷

4.1. Two sets of accounts

The French system of PSA is based around two sets of accounts which are maintained by two sets of independent officials:

1. *Comptes administratifs* – accounts of the *ordonnateurs* who raise orders and provide payment instructions to the comptable public.

³⁵ Committee on the Form of Government Accounts (1950), p. 70.

³⁶ Committee on the Form of Government Accounts (1950), p. 21.

³⁷ Parry and Hughes (2018).

2. *Comptes de gestion* – accounts of *comptable public* (cashier/accountant) who, like the sheriffs of old England are given ‘quitus’ by the auditors if their accounts are considered to be adequate and legal.

The *Cour des comptes* (court of accounts = auditors) certifies the accounts of the *comptable public* (accountants), but not necessarily every year. The auditors also certify the consistency of the above two sets of accounts. The Auditors report any other significant findings to the President and National Assembly. So the role of the French public sector Auditors are significantly different from those in England (and of course their colleagues in the private sector).

The *Loi de règlement* (budget out-turn report) records the financial out-turns for revenue and expenditure and compares these with the budget estimates.

The Government of the old regime (Ancien Régime – before the revolution of 1789) did not have centralised accounts and government revenue collection and management of expenses could be outsourced to private managers (‘tax farmers’).

Taxes were introduced in France in the 12th century to pay for the crusades.

“A decree of Philippe V in 1319 gave some precise form to the *Chambre des Comptes* of Paris... from this foundation the present French state audit body traces an almost direct descent.”³⁸

But there were also local audit courts – 13 by the time of the French revolution (1789).

Reforms were attempted in the 1680s and again from 1781, but the modern approach only really started with the French revolution in 1789. The chaotic state of the public accounts may in fact have contributed to this event³⁹.

³⁸ Normanton (1966), p. 15.

³⁹ Parry and Hughes (2018).

4.2. French revolution and Napoleon

After the revolution of 1789, the French Constitution stated:

“all citizens have the right to see – for themselves or through their representatives – the necessity of the public contribution, the right to consent to it freely and to check on the use made of it”.

This led to the creation of a single central account allowing the production of a balance sheet (1792).

The French revolution introduced formal annual accountability. As part of this process,

“From 1815, strict budgeting has spread through European States.”⁴⁰

4.3. French reforms of the 19th and 20th centuries

The 1822 Ordinance outlined the principles of public finance and accounting:

- the different roles of the orderer (*ordonnateur*) and public accountant (*comptable public*) – each with their own set of accounts;
- *Universality* ensures that revenue and expense are shown gross, with no netting-off;
- *Specialization* determines the level of items authorized within the whole budget;
- *Equilibrium* of revenue and expense may be achieved by approving expenditures; and then voting adequate taxes, or vice-versa;
- *Annuality* of the budget process agreed by the legislature;
- *Unity* – budget in a single document.

The decree of 1862 governed budgeting and control. By 1872 the Cour des comptes was responsible for the audit of over 1,000 public

⁴⁰ Forrester (1990), p. 311.

accountants.⁴¹ However, the process of regulating the control of commitments of public expenditure was only effective by the end of the First World War.

The Constitution of 1958 and the 1959 Ordonnance reduced the direct parliamentary control of finances.

It was only after 1967 that the requirement to submit the audited accounts to Parliament by the end of the following year was achieved.⁴²

4.4. Programme budgeting & accrual accounting

La loi organique loi de finance [Organic Finance Law] (2006) – was the major law introducing the ideas of New Public Management in France. It aimed to allow parliament and citizens to monitor budget performance via management of budget programmes and accrual accounting. It is generally considered to have been successful. However, ten years after its introduction the French public sector auditors (Accounts Court) concluded that:

“to date, the contributions of accrual accounting do not appear to correspond to the resources devoted by the administration to its establishment”.⁴³

5. Germany – cameral accounting

Cameral accounting developed to achieve following aspects of control:

- Payment – separation of instruction and payment functions (as with the French system);
- Budgetary – is the budget implemented as agreed?;
- Cash/money – accounts to provide running total of cash balances;
- Result reporting – overall budget balance.

⁴¹ Bottin (1997).

⁴² Department of International Economic and Social Affairs (1978), p. 8.

⁴³ Cour des comptes (2016), p. 69.

Cameral accounting has been used since the beginning of the 14th century in German speaking countries (Germany, Austria, Switzerland) and influenced accounting in Nordic countries, Netherlands, Belgium, Hungary and northern Italy.⁴⁴ It was also used in Russia from the early 18th century until the 20th century.⁴⁵

5.1. Developments in cameral accounting

Devised as an internal auditing aid for royal financial administration (charge & discharge).

Developed in four phases:

- First Phase (ca. 1500-1750)
Simple Cameral bookkeeping or cash receipts and payments recorded in a day book;
- Second Phase (ca. 1750-1810)
Introduction of current dues accounting – allowing payment instructions to be recorded;
- Third Phase (from ca. 1810)
Separation of result-affecting items from non-result-affecting;
- Fourth Phase (from ca. 1910)
Development of Enterprise Cameralistics for government enterprises, especially municipal enterprises.⁴⁶

Ernst Walb wrote one of the classic books about cameral accounting in German. It was entitled *Die Erfolgsrechnung privater und öffentlicher Betriebe* (1926) (Performance Result Accounting for Private and Public

⁴⁴ Monson (2002).

⁴⁵ Nazarov and Sidorova (2016); Forrester (1990).

⁴⁶ Monsen (2002).

Organisations).⁴⁷ The Norwegian academic, Norvald Monsen, has also published a series of articles in English describing cameral accounting.

Chairs in administrative or cameral science were established across Germany, in the Austro-Hungarian Empire and in Sweden by the early 18th century. This included studies of cameral accounting which had developed into a well controlled and sophisticated approach, so that:

“By 1689, data flowed through the Prussian Hofkammer so reliably and comprehensively that a general account, an audit and a budget for the coming year were possible”.⁴⁸

5.2. Cameral book-keeping

The main cameral ledger has two sides, one for revenues and a similar one for expenditures, as indicated below:

	Revenues/Expenditures			
	Balances or residual dues b/f (BD)	Current dues (CD)	Actuals (A)	Balances or residual dues c/f (B)
Description of transaction (character or type)				

BD – balances unpaid in the previous period & brought forward
 CD – payment or receipts instructions made in the current period
 A – payments (or receipts) made in the current period
 B – balances unpaid (or not received) and carried forward to the next accounting period

⁴⁷ Monsen (2002), p. 40.

⁴⁸ Dorward (1953), p. 117; Forrester (1990), p. 310.

Cameral book-keeping is a single entry system as entries are made either on the revenues or the expenditures side of the cameral account. It has two rules, that:

- (1) no payment can be carried out without an earlier or a simultaneous instruction
- (2) balances carried forward = balances brought forward + current dues – actuals.

Cameral accounting could be extended to allow budgetary control for democratic control of public sector spending – by comparing current dues with the relevant budget. Monsen commented that:

“cameral bookkeeping method for centuries has been used in the public sector, as opposed to the commercial bookkeeping method. It has also been pointed out that attempts to replace the former with the latter method, has failed every time”.⁴⁹

Until the end of the 1990s local governments and States in Germany were required to produce cameral based financial statements – Hausshaltsgrundsätzesetz (HGrG).⁵⁰ The State of Hessen agreed to adopt an accrual based approach to financial reporting in 1998. This was followed by two other of the sixteen states and many local governments have adopted a broadly similar approach, especially in these three states.

6. Move to accountability to parliament

Parliamentary accountability is now accepted as being essential to a modern democracy, but this was not always the case. The development of parliamentary accountability and parliamentary control of the budget

⁴⁹ Monsen (2002), p. 45.

⁵⁰ Filios (1983).

process took hundreds of years to achieve in England, France and Germany.

6.1. Originally accountability of officers/stewards to the king

There was a gradual move to the idea of the accountability of the king/queen and his/her government to Parliament.

The separation of powers between the executive and parliament was documented by Montesquieu in *De l'Esprit des Loix* (1748).

The American constitution required that no money should be spent by the government except as agreed in the budget and a regular *Account of Receipts and Expenditures* was to be published from time to time (Article 1; Section 9, 1789)

“The French Revolution [1789] went much further and proclaimed a doctrine of popular sovereignty over finance”.⁵¹

From 1866 the British Comptroller and Auditor-General was to work “on behalf of the House of Commons” rather than the auditor working for the king/queen.

6.2. Extension of the right to vote in England

Parliamentary democracy (as one person one vote) developed initially in the 19th Century in England.

In 1800 only 8% of men (and no women) had the vote and parliaments were still effectively controlled by landowners and business people. The new cities of Manchester, Birmingham and Glasgow had no members of Parliament at this time.

⁵¹ Normanton (1966), p. 5.

The Reform Acts of 1832, 1867 and 1884 each doubled the numbers of people allowed to vote, so that two thirds of men could vote by the end of the 19th century. In 1918 and 1928 the right to vote was extended to all people aged 21 years or above, including women.

With the Parliament Act of 1911: the House of Lords could no longer reject bills; it could only amend or delay legislation; elections were to be held every five years; and payment for Member of Parliament's was introduced. An approach to parliamentary democracy working on behalf of all citizens including financial accountability of the government had developed.

7. Conclusion

PSA arises in all civilisations, so history provides us with a wide variety of different approaches and objectives. We should remember that ancient accountants were as intelligent as our current 'experts'. So relatively sophisticated systems of PSA developed, although the purposes and objectives varied from time to time. Until around the 19th century accounting was mainly for the public sector as the state was by far largest economic entity, except perhaps the church.

There was a move away from the feudal charge-discharge system as parliamentary accountability developed, initially in the 19th century.⁵² From this period, PSA was originally budgetary accounting with the main objectives being control and accountability. This changed in the late 20th century with the adoption of New Public Management and its emphasis on efficiency.

⁵² Miley and Read (2017).

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Discussion topics

- Using one or two examples from this chapter, consider some of the similarities to PSA across different societies.
- Describe the different objectives of PSA from the examples described in this chapter.
- Why do you think that different societies in history have developed their own approaches to PSA?
- Why do you think that the complementary roles of accountant and auditor have developed in most cases of PSA (and in the private sector)?
- Why do you think budgeting developed as a key aspect of PSA?
- Why do you think the public sector expanded so quickly in the hundred years from 1850?