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Special Section: The Adoption of Accrual Accounting in the Public Sector

Accrual Accounting in EU Local Governments: One Method, Several Approaches

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Abstract

This paper seeks to measure the degree of accrual implementation in EU local government accounting systems and also tries to give an answer to the question of why accrual accounting has overcome the resistance to other New Public Management (NPM) reforms in countries relatively suspicious of them. We carry out our analysis through a comparison of the implementation of accrual accounting (AC) in each country, using a set of indicators to measure the degree of implementation and legal framework. The results show that the implementation of AC is partially in line with the requirements of the NPM reforms, but it does not require the same level of demands as the traditional budgetary system. The implementation of AC is a necessary condition for administrative decision-making purposes.

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Notes

Although there is little agreement in the literature about how to define citizen trust in government or how it is gained and lost, most writers agree that it is an important determinant of public action and cooperation (Ruscio, [1996](#); Welch et al., [2004](#)).

‘... ignoring municipal accounting reforms is a rational act ...’ (Zimmerman, [1977](#), p. 111), or ‘... municipal accounting reforms will continue to be ignored until the reformers are able to specify changes in the institutional framework which provide different incentives for the public officials (or voters). The most obvious institutional change would be federal legislation ... The impact of such legislation is, ultimately, an empirical issue’ (Zimmerman, [1977](#), pp. 134–135).

Similar classifications can be found in studies about accrual accounting implementation in business accounting. Mueller et al. ([1994](#)) and Hung ([2001](#)) classify countries into four accounting clusters: British–American, Continental, South American and Mixed Economy.

Like Kickert ([1997](#)), we have included the Netherlands in the Nordic category because there are similarities in their administrative system models.

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government associations, as well as from relevant books related to the public sector accounting systems of local governments (see Olson et al., [1998](#); Caperchione and Mussari, [2000](#); Lüder and Jones, [2003](#); Guthrie et al., [2005](#)).

According to Hung ([2001](#)), an equal weighting method can be used because there is no well-defined theory for other weighting methods. He noted that the importance of an accounting standard varies across countries but sees no reason why the equal weighting will bias the results.

Pro-Fit is a technique closely related to multivariate regression analysis since it attempts to relate the position of an object in the configuration of variable values carried out by MDS. If a variable is related to the position of the object in the MDS configuration, there is a function which relates the variable value to its position in space (Serrano et al., [2003](#)).

Three different concepts of accrual accounting for the local level are currently being discussed and implemented in local pilot projects in different Länders: (i) 'New Local Budgeting, Accounting and Reporting System' (Neues Kommunales Haushalts- und Rechnungswesen – NKH/NKR) in the Länders of Baden-Württemberg and Lower Saxony; (ii) 'New Local Financial Management' (Neues Kommunales Finanzmanagement – NKF) in the Länder of North Rhine-Westphalia; (iii) 'New Local Accounting, Reporting and Steering System' (Neues Kommunales Rechnung und Steuerungssystem – NKRS) in the Länder of Hesse (see Budäus et al., [2003](#)). It should be highlighted that Dortmund is involved in a long-term project 'Projekt Verwaltung 2020' with the objective of improving all the administrative processes and of achieving greater customer focus – this includes not only accounting and budgeting but also other management processes of the local government.

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When applying the MDS with SPSS-14, the value of the Stress of Kruskal in six dimensions (the maximum allowed by SPSS) is 0.05784, which is considered by Kruskal ([1964](#)) as between 'good' and 'acceptable'. To visualize the map, it is necessary to work with projections of the map onto pairs of dimensions. [Figure 1](#) shows the projection of the map onto dimension 1 and dimension 2.

As Arabie et al. ([1987](#)) suggest, it is advisable to carry out a cluster analysis as a complementary test to the MDS.

At present, the IFAC, IMF and UN are working together to reduce the discrepancies between their accrual accounting systems.

See HM Treasury ([2000](#), [2001a](#), [2001b](#), [2001c](#), [2001d](#), [2002a](#), [2002b](#), [2002c](#), [2002d](#), [2002e](#), [2003a](#), [2003b](#), [2004](#)),

http://www.opsi.gov.uk/acts/acts2000/ukpga_20000020_en_1

Ministère du Budget, des Comptes public et de la Fonction Publique (Ministry of Budget, Public Accounts and Public Sector) ([2004a](#), [2004b](#)); Osservatorio per la Finanza e la Contabilità degli Enti Locali (Observatory for Local Entities Finances and Accounting) ([2002a](#), [2002b](#)); Ministerio de Economía y Hacienda (Ministry of Economy and Treasury) ([2004](#)).

See Derlien ([1996](#)), Alba ([1997](#)), Rouban ([1997](#)), Clark ([1998](#)), Fournier ([1999](#)), Guyomarch ([1999](#)), Lo Schiavo ([2000](#)), Hammerschmid and Meyer ([2003](#), [2005](#)) and Dent et al. ([2004](#)).

IASB's Exposure Draft: International Financial Reporting Standard for Small and Medium-Sized Entities (IFRS for SMEs) para. 2.1 (IASB, [2007](#)).

See Chan ([2003](#)).

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