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

Vicente Pina , Lourdes Torres & Ana Yetano

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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 the comparison of the accrual accounting legal requirements in force in each country, and the published financial statements, taking the IPSASs of the IFAC as a benchmark. The results show different degrees of accrual accounting implementation and legal compliance. The reason of accrual accounting dissemination lies partially in that the dual systems implemented in European Continental countries do not require the introduction of deep organizational changes and answer the democratic demands of citizens for higher responsiveness, transparency and accountability, while traditional

budgetary statements are maintained for monitoring compliance with legality and 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.

We have analyzed the annual accounts for 2005 for the majority of cities. When the 2005 information was not available we have used the annual accounts of 2004 (see [Table 1](#)).

We looked for the annual accounts and the related legislations on the websites of the local governments studied. When they were no available on the Web, we obtained them

directly from the Financial Departments of each local government. In addition, we have obtained references about specific legislation from the websites of national local 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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As can also be seen in [Table 2](#).

It tests the hypothesis that the GPFS items belong to the same group. When the p-values show scores above 0.05, the hypothesis that there is no statistical difference between the public administration styles studied cannot be rejected.

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](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](#)).

These legislations have been studied in the different Länders.

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