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Implementing public sector accruals in OECD member states: Major issues and challenges

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ABSTRACT

Drawing on extended new institutional theory, this paper has striven to make heard the voices of accountants, budget officers, and policy makers involved in implementing public sector accruals in different OECD member states. Such voices of the organisational actors and the challenges that they are encountering in the process of implementing accrual accounting and budgeting in their specific settings are missing in the existing public sector accruals literature. The empirical findings of the study demonstrate that the political and technical ambiguities in implementing public sector accruals across countries are much broader than outlined in the academic work and presented in the reports and studies of the proponents. Such challenges, when cascaded down to the organisational level, have brought about vast uncertainty and confusion amongst most of the budget and treasury officers who deal with public sector accruals in their specific jurisdictions, threatening the legitimacy at the organisational level. More communication and collaboration amongst the actors at institutional, organisational-field and organisational levels are therefore needed to build a coherent body of knowledge in facilitating public sector accruals reforms across countries.

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1. Introduction

The aim of this paper is to explore the major challenges involved in implementing public sector accruals in Organisation for Economic Co-operation and Development (OECD) member countries. We look at the concerns of key organisational actors of OECD member states, the majority of whom are senior accountants from treasuries and budget officers, as well as policy makers from ministries or governmental bodies directly involved in developing or implementing accrual accounting and budgeting reforms in their respective jurisdictions. The OECD represents a propitious research setting of accrual accounting experiences since the vast majority of its members are developed countries, EU members and the major adopters of accrual accounting and budgeting at a global level (Blöndal, 2003). The organisation is perhaps the best representative of a global trend in public sector accruals.

Implementing accrual accounting in OECD member states has become a key part of realising public sector financial reforms, which are collectively referred to as New Public Management (NPM) and New Public Financial Management (NPFM) reforms (Guthrie, Olson, & Humphrey, 1999; Hood, 1995). As part of improving public sector governance (Almquist, Grossi, van Helden, & Reichard, 2013), the OECD has advocated the adoption of accrual accounting for its member countries

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(Blöndal, 2003, 2004). Member states' attempts at replacing their cash accounting with accrual accounting are considered to be inevitable, particularly in the evolving sovereign debt crisis. Such efforts are hailed as major achievements in managing public expenditures more effectively and efficiently (Lapsley, Mussari, & Paulsson, 2009; Pollanen & Loiseau-Lapointe, 2012). Similar assertions relating to the supremacy of accrual accounting to budgetary accounting in terms of improving transparency in resource allocation, identifying full costs of governments' activities, and engendering high quality statistics, i.e. the Government Finance Statistics (GFS) and the European System of Accounts (ESA), which are crucial for fiscal and spending decisions, have been made by international organisations [e.g. the International Monetary Fund (IMF) and the World Bank], regional policy makers [e.g. the European Commission (EC)], international accounting and auditing standards setters [e.g. the International Federation of Accountants (IFAC) and the EUROSTAT], and professional accounting associations and accounting firms [e.g. the Federation of European Accountants (FEE), the Chartered Institute of Public Finance & Accountancy (CIPFA), Ernst & Young and PricewaterhouseCoopers (PwC)], all of which are considered to be major proponents of public sector accruals (see e.g. FEE, 2007; IFAC, 2011; PWC, 2013).

Despite this support, many of these proponents have also cautioned the implementation of accrual accounting in the public sector, given its technical ambiguities and the amount of resources and expertise that the countries should make available to address them (FEE, 2007; IFAC, 2011; IMF, 2009). For instance, professional associations, standards setters and firms of auditors or accountants have expressed several reservations with regard to the adoption of accrual accounting and International Public Sector Accounting Standards (IPSASs) by the EU member states (European Commission, 2012). Within the academic community, the move towards accrual accounting has been a debated reform trajectory (Broadbent & Guthrie, 2008; Carlin, 2005). Whilst some academics are apparently convinced of the benefits of accrual accounting (see e.g. Anessi-Pessina & Steccolini, 2007; Ball, 2012; Bergmann, 2012; Caperchione, 2006; Chan, 2003; Likierman, 2003; Lüder & Jones, 2003), others have raised concerns over the pertinence of business-like accrual accounting in public entities, which have different objectives and contexts (see e.g. Becker, Jagalla, & Skærbæk, 2014; Carlin, 2005; Connolly & Hyndman, 2006; Ezzamel, Hyndman, Johnsen, & Lapsley, 2014; Guthrie, 1998; Mellett, 2002; Monsen, 2002). The latter group is of the view that the implementation of accrual accounting is driven more by legitimacy than efficiency reasons and that the benefits of accrual accounting are overstated.

The arguments for and against the implementation of public sector accruals – uttered by international organisations, policy makers, standards setters, professional accountants and academics – are claimed to be normative and lacking empirical evidence (Jagalla, Becker, & Weber, 2011; Lapsley et al., 2009). For example, there is apparently a gap between what is normatively expected from accrual accounting and what has been achieved in its implementation at different organisational levels in practice (Guthrie, 1998). This is evident in countries such as Australia and the UK – the early adopters of accrual accounting and budgeting – given the time and resources consumed in the implementation (Connolly & Hyndman, 2006; Guthrie, 1998; Hyndman & Connolly, 2011). Missing from the public sector accrual literature, however, are the voices of actors at the organisational level, primarily government accountants, budget officers and policy makers, who are actually involved in implementing accrual accounting. Questions that are yet to be answered in the public sector accrual literature include how such organisational actors are advancing public sector accruals reforms in their specific settings, the strategies and mechanisms they are deploying and the specific challenges that they are encountering in the implementation process.

This paper strives to fill this knowledge gap in the public sector accrual literature. We seek to make heard the voices of accountants, budget officers, and policy makers involved in implementing various aspects of accrual accounting and budgeting in different OECD member states. This is approached through the extended version of neo-institutional theory, also referred to as new institutionalism (Carruthers, 1995; DiMaggio & Powell, 1983), particularly the version that acknowledges the role of intra-organisational actors in the institutionalisation process. Some aspects of a framework proposed by Dillard, Rigsby, and Goodman (2004) have been adopted. This angle allows us to delineate how the public sector accrual ideas and practices cascade down through different levels, in particular the economic and political level (i.e. the OECD), the organisational-field level (i.e. OECD member states), and the organisational level (i.e. actors in different OECD member states), prior to their adoption in particular contexts.

The remainder of the paper is organised as follows. The ideas of new institutionalism, which provide a sensitising lens for this study, are presented in Section 2. The research method is outlined thereafter. Section 4 presents the views and experiences of OECD member states with regard to public sector accruals and the challenges they have encountered in implementing different elements of accrual accounting, budgeting and IPSASs in their specific contexts. The final section analyses the implementation of public sector accruals in the member states in the light of the theory, and offers some concluding remarks.

2. Theoretical framework: extended new institutionalism

Public sector accounting scholars have striven to theorise accounting changes using varied sociological approaches (see e.g. Goddard, 2010; Jacobs, 2012; Van Helden, Johnsen, & Vakkuri, 2008). For instance, several pieces of research have drawn on the ideas of actor network theory, in particular the concept of translation (see e.g. Callon, 1986; Latour, 1987) to analyse how accounting changes (see e.g. Justensen & Mouritsen, 2011) and the ways in which innovations, through a network of human and non-human allies, have taken place in the health care sector (Chua, 1995; Lowe, 2000; Preston, Cooper, & Coombs, 1992) as well as in other public sector settings (Christensen & Skærbæk, 2007, 2010; Lukka & Vinnari, 2014). The widespread adoption of accrual accounting in the public sector has nevertheless been predominantly associated with the ideas of new institutionalism (Jacobs, 2012; Modell, 2013). Many theoretical perspectives have failed to explain accounting changes with

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