

Towards a comparative-international understanding of budgeting and accounting reforms in national governments:

France, Germany, the UK and the US

Rowan Jones, University of Birmingham
Evelyne Lande, Poitiers University
Klaus Lüder, German University of Administrative Sciences Speyer
Marine Portal, Poitiers University

ABSTRACT

Our current understanding of the correlations and causal relationships between budgeting and accounting techniques in national governments, and the governments, and their societies, which have adopted or might adopt those techniques, is limited. This paper, based on analysis of primary and secondary sources plus interviews with Ministry of Finance officials, explores the technical aspects of actual and proposed budgeting and accounting reforms in France, Germany, the UK and the US.

There is no consensus among the four countries about the complete package of technical possibilities of reform that is most appropriate for all four. There is also no consensus among the four countries about each one of the technical possibilities of reform that is most appropriate for all four. However, there are (typically) pairs of countries that are agreed on each technical possibility, with the remainder providing clear, polar opposites. The agreements between any two, and the disagreements of the other two, might reflect and/or might be reflected by fundamental characteristics of the respective governments.

ACKNOWLEDGEMENTS

This paper resulted from a project entitled 'Foreign Countries' Government Accounting Management and Reform Experience [France, Germany, the UK and the US]', which was part of the 'Study of the Strategic Framework of China's Government Accounting Reform and Management' by the Treasury Department, Ministry of Finance of China, sponsored by the World Bank, January-July 2010. The material that explicitly draws on this project is with the authorization of the Treasury Department, Ministry of Finance of China. Thanks are due to Maurice Pendlebury (Cardiff University), who was a co-researcher on the UK study, and James Patton (University of Pittsburgh), who commented on the US study. The France and Germany country studies included interviews in March 2010 in their respective Ministries of Finance; in the Federal Ministry of Finance of Germany, specific thanks are due to Ministerialrat Wolfgang Suhr, Regierungsdirektorin Dr. Jutta Kalabuch and Ministerialrat Dr. Thomas Knoerzer. The UK country study benefitted from interviews in a government department. Rowan Jones benefitted from comments made at the project's associated seminar on 'Government Accounting Regulations', Jiayuguan, 26-28 May 2010.

Correspondence:

Rowan Jones
R.Jones@bham.ac.uk

To be presented at the *13th Biennial CIGAR Conference*, Ghent, June 9-10, 2011.

23 May 2011

INTRODUCTION

Our current understanding of the correlations and causal relationships between budgeting and accounting techniques in national governments, and the governments, and their societies, which have adopted or might adopt those techniques, is limited. This paper explores the technical aspects of actual and proposed budgeting and accounting reforms in France, Germany, the UK and the US. The next section explains the research method. In the subsequent section the technical aspects of the reforms are presented for each country alphabetically. In the fourth section, a comparative-international overview of those technical aspects is offered. The concluding remarks observe that there is no consensus among the four countries about the complete package of technical possibilities of reform that is most appropriate for all four. There is also no consensus among the four countries about each one of the technical possibilities of reform that is most appropriate for all four. However, there are typically pairs of countries that are agreed on each technical possibility, with the remainder providing clear, polar opposites. The agreements between any two, and the disagreements of the other two, seem to reflect and/or seem to be reflected by some fundamental characteristics of the respective governments.

RESEARCH METHOD

The empirical content was gathered from primary sources, mainly official government publications in the relevant native language and, in some cases, in the host government's official English translations, plus secondary sources. For France, Germany and the UK, these sources were supplemented by unstructured interviews in 2010 with Ministry of Finance officials. For the US, the sources were supplemented (in fact largely preceded) by interviews with officials in the Office of Management and Budget [OMB] (2 officials), the Federal Accounting Standards Advisory Board [FASAB] (1), (what is now) the Government Accountability Office (2), the Department of Defense (1), and the Treasury (1),

in 2001; these interviews were also conducted, and arranged by, a member of FASAB, and were supplemented by subsequent correspondence with an official in OMB.

This research was led by the same set of questions for each of the four countries, determined by the funders; the context of the questions was only national governments, not lower levels of government. Almost all of these questions were specific matters of budgeting and accounting technique but included a few questions about the process of reform. In addition, there were two questions asking for advice on accounting regulations for reform, which naturally provided the impetus for the research to understand the technical content and context in each country, then in comparative-international context.

BUDGETING AND ACCOUNTING TECHNIQUE IN THE FOUR COUNTRIES

France

The cash-based and commitment-based accounting system against the annual budget is longstanding. However, since 1998, there have been fundamental reforms in the budget and in the accounting, embodied in a fundamental law of 2001. These reforms are almost complete. Lande (2000) and Land and Scheid (2003) now require substantial modification.

The form of the annual budget (and therefore the cash-based accounting against the budget) has changed from being based on the organisational structure of departments, with highly detailed line items, to a structure of missions, programmes and actions, expressed at the lowest level in measurable outputs. The continuous cash-based accounting against this new form of budget has been retained.

Two accounting systems have been added. First, there is now a continuous accrual-based accounting, with monthly reporting, from which an annual set of accrual-based financial statements for the government as a whole is produced.

Second, there is an annual accrual-based accounting (deriving from the continuous accrual-based system) against the missions, programmes and actions in the budget, called annual performance reports, which are produced first as targeted performance and then as actual performance.

The budget is structured according to missions, programmes and actions, expressed at the lowest level in measurable outputs (more than 1,200 in the 2008 Budget). Of the missions and programmes, 23 (70%) are within one department and 10 (30%) cut across departments (though they can be traced to the relevant departments). Detailed line items are not identified but salaries line items continue to be separately identified. There is no separate capital budget: within the budget, money can move freely between operating and capital purposes. The main limits on transferring from one budget heading to another are on transfers from a non-salaries budget into a salaries budget.

The budget authorises two separate kinds of 'spending' against each budget heading. First, it authorises the commitment of the budget, defined by the issuance of an official order to a supplier, or by a contract with a supplier, or in other ways, as the case may be. Since this commitment accounting is applied to all headings in the budget, some of these commitments, for example for salaries, are notional. Second, it authorises the subsequent cash payment. In any given budget, the authorisations can be for commitments and cash payments in specific future years.

For each budget heading, there are, therefore, two financial amounts, both of which are maximums. The continuous accounting system against the budget records these two parts of each transaction. Where there are invoices, these are also recorded but the receipt of goods or services is not recorded.

There is one account in the central bank for all cash flows into and out of the government. There are many IT systems (more than 300) in the government and each one is used by all government departments. Examples include: budget preparation and nomenclature; expenditure generally; payroll and pensions; tax

revenues; non-tax revenues; housing stock; debt management. A new ICT system is being developed to be used comprehensively across the government for all budgeting and accounting, which will allow the completion of the reform project. The project is known as CHORUS and is being implemented by SAP, which was awarded the project in 2006.

For the annual accrual-based financial statements, the chart of accounts (in the narrow sense of the detailed accounts of revenues, expenses, assets, liabilities and cash flows) is the same as the one for businesses, except that accounts that are not relevant to government activities are not used. The chart is not published in English but an indication of its structure is provided in Lande and Portal (2010, p.9).

The accrual accounting policies are established by a body within the Ministry of Finance (which does have members from outside the government, for example academics). The accrual accounting policies for businesses are also set by a body within the Ministry but a different one from that for government.

In addition to the specific accounting policies, there is a conceptual framework that sets out the scope of the accounting, its objectives and its limits. It includes accounting principles in the law for government (regularity, sincerity and fairness) and others from business accounting (materiality, going concern and consistency, and derived from the IASB, understandability, appropriateness and reliability) (Ministère du Budget des Comptes Publics et de la Fonction Publique, 2009).

There are 15 accounting standards (financial statements; expenses; sovereign revenues; operating and other revenues; intangible assets; tangible assets; financial assets; inventories; current assets; cash; financial liabilities; provisions; commitments; accounting policies; and events after the balance sheet date) (Ministère du Budget des Comptes Publics et de la Fonction Publique, 2009).

The general-purpose financial statements for the government as a whole include the balance sheet, income statement and cash flow statement (showing the current and the two preceding years). The balance sheet includes all assets and liabilities, and the difference between them (net assets). All of the government's tangible assets are recognised (including roads). The opening balance sheet (which was for January 1, 2006) required a major inventory and valuation of assets (at depreciated replacement cost).

There are detailed reconciliations, in theory and practice, between the budgetary accounting and the financial accounting (and when appropriate between national accounting) (see Lande and Portal, 2010, pp.37-42).

There is an accrual-based accounting (deriving from the continuous accrual-based system) against the missions, programmes and actions in the budget. This accounting is referred to in English as cost accounting. Annual performance reports to Parliament are produced, firstly, as targets (PAP) and then, after the financial year is ended, as actual performance (RAP). The performance reports detail the different programmes which are part of the same mission. The indicators follow the same structure as that of the budget.

Germany

The accounting system is longstanding (and, for example, Budäus, Behm and Adam, 2003, is still relevant, with a few changes). Since 2006, the Federal Ministry of Finance had a project to change the system (known as the MHR, 'Modernisation of the Budgeting and Accounting System') but the reform was abandoned in 2010 (see Jones and Lüder [2011], which also includes some, and provides more details, of what follows).

The accounting system is inseparable from the budget system: it is described in 'The Budget System of the Federal Republic of Germany' (Federal Ministry of Finance, 2008). All the requirements for the budget system are in the law: the

Basic Law; the Budgetary Principles Act; the Federal Budgetary Act; and the Federal Budgeting and Accounting Regulations.

The budget (a book [Orange] of approximately 2,700 pages) is an aggregate budget for the whole of the federal government, most of which is made up of departmental budgets. These departmental budgets mostly correspond to the organisational structure of the federal government.

The departmental budgets are divided into chapters, mostly corresponding to organisational sub-entities of the department. Each of the chapters then identifies the maximum amounts that can be spent on each line item (describing inputs) for the budget year (with corresponding amounts for the previous year's budget and the second previous year's actual). These line items are 'binding' on the government department, meaning that parliament sets every one as a maximum. In addition, it usually contains non-binding explanatory notes specifying the appropriated amount. The parliament, however, may declare an explanatory note as binding.

The annual accounting against this budget is 98% of a separate [Green] budget-to-actual book of approximately 1,500 pages. The basis for this accounting against the budget is cash.

The other 2% of the Orange budget book and the Green budget-to-actual book provides details of some financial assets (investments) and some financial liabilities (debt), including liabilities for federal civil servants' pensions (on a present value basis). These details of financial assets and liabilities do not include accounts receivable or accounts payable, and do not include contingent liabilities. Relating only to financial assets, they do not include values of land (size in hectares is included), buildings or property, plant and equipment.

There is one IT system for the accounting against the budget, which naturally includes the annual budget itself (and all of its relevant detail) and the continuous cash accounting throughout the year against the annual budget. It is accessible by all relevant officers throughout the federal government but the

system itself is primarily run by one office of the Federal Ministry of Finance (Competence Centre for Federal Cash Management and Accounting, based in Bonn) and four subordinate offices. These four offices are in different places in Germany but the responsibilities of each are related to specific government departments and their respective parts of the IT system (that is, the responsibilities of each office are not distributed geographically). The actual cash receipts and payments (almost all of which are effected by electronic transfer) are received by and paid from one of the federal government's bank accounts. Those accounts exist with Germany's central bank, but also with privately or publicly owned banks.

The government departments access the IT system. They authorise cash to be collected, and cash to be paid. They do this directly in the IT system but this only provides the departmental authorisation. The relevant one of the four offices then checks the authorisation and the associated details in the budget before the cash flow is recorded in the accounting against the budget.

For some line items, in accounting against the budget there is an accounting entry before the recording of the cash flow. This occurs when a commitment is incurred (for example, when an official order is issued to receive goods or services). For such line items, the accounting against the budget identifies the uncommitted balance as well as the cash remaining to be spent. This accounting for commitments is not comprehensive and is not used, for example, for civil servants' pay.

There is another sense of 'commitment' that is included in the budget and in the accounting against the budget. A government department is only allowed to commit itself in the current budget to payment of cash from future fiscal years' budgets if a line item is included in the current budget, identifying the upper limits of the commitment for each future fiscal year.

The 2006, proposed reform is known as the MHR, the acronym in German for the 'Modernisation of the Budgeting and Accounting System'. It was produced

by the federal Ministry of Finance; discussions with the Federal Court of Audit, as well as with the International Monetary Fund, confirmed that the MHR was “the right overall approach and...suited to bring about the modernisation that is needed” (Federal Ministry of Finance, 2009, p1). The approach explicitly rejected a full accrual basis of budgeting and accounting.

The concept of the MHR retained the existing system’s focus on the budget for the whole of the federal government, and on accounting against that budget.

There were three sets of proposed changes to the existing system. The first set related to those parts of the budget that would be binding. The second set related to those parts of the budget that might not be binding. The third set related to additional accounting information provided at the federal level and in the departments.

The first set of changes was:

- at the upper tier, the budget would remain structured according to the departments (which reflect the organisational structure). The chapters, however, would be replaced with one or more ‘products’, with a maximum of 1000 products for the whole of the federal government (the current equivalent is approximately 4,000 line items). The budgets for every product would be binding. For each product there would be non-financial output measures. [It is interesting to note that this use of the term ‘products’ has long been common in Germany, in their English translation of the German equivalent. The closest translation in UK English would be ‘programmes’ or in US English ‘programs’. However, the preferred term in Germany incorporates a stronger sense that government services can in essence be taken to be the same as commercial services];
- within each product, there would be highly aggregated line items. These line items would be binding but transfers between some or all of them might be permitted;

- accounting against the binding budgets, and within them the line items, would be cash-based.

The second set of changes was:

- alongside the cash-based accounting of the binding budgets, there would be a non-binding accrual-based accounting, reconciling the cash payments to expenses (or receipts to revenues, as the case might be).

These two sets of changes would relate to the 98% of the budget book and the budget-actual book.

The third set of changes related to the other 2% of the budget book and the budget-actual book and to the systems within each government department:

- the existing selected details of financial assets and liabilities in the 2% of the budget book and the budget-actual book would be expanded to provide two comprehensive lists, one of (non-financial and financial) assets and one of liabilities, of the federal government. The difference between the aggregates of these two, namely net assets, would not be shown. [There would be no operating statement, and no management report, for the federal government as a whole.];
- the data for these assets and liabilities would not be held by the Federal Ministry of Finance but would be derived from accrual-based accounting systems in each department;
- the accrual-based accounting systems in each department would be comprehensive systems but with the cash flow data being provided by the existing federal IT system of cash accounting against the budget. There would therefore be a technical IT link between the federal IT cash system and each department's accrual-based system;
- these accrual-based accounting systems in each department would provide two sets of accrual-based data: first, the data for the assets and

liabilities in the two budget books (thereby expanding the existing 2%); second, the data for the expenses and revenues in those books (relating to the existing 98%). They would all use one chart of accounts (different from the structure of products and line items in the budget) that would be based on the chart of accounts for business accounting. This accrual-based accounting uses historic cost (not fair values).

The accrual-based accounting in each department is usually referred to in English translation as cost accounting. It would be part of an Enterprise Resource Planning (ERP) ICT package in each department but each one would be based on one ERP package developed by/for the Federal Ministry of Finance.

Either as part of an ERP system or not, some departments have used such accrual-based systems since 1998, under a guideline for standardised cost accounting. However, use was partial, with some expenses, revenues, assets and liabilities not being recorded. In addition, there were no accrual-based accounting standards and no standard-setting body.

The accrual-based accounting in the MHR would be standardised across the federal government. It would include a mandatory 'basic form' that is comprehensively used by all departments, and an 'extended form' that would allow each department to increase the detail and complexity of the accounting (for example, in a departmental unit that prices goods or services for sale) as each saw fit.

In 2009, a law was passed that requires a body to be set up by the federal and state governments to ensure a standardised approach and a uniform data base for the federal and all of the state governments applying performance budgeting and/or accrual accounting systems (Article 1, No.22, Haushaltsgrundsatzmodernisierungsgesetz). This body was specifically

charged with producing the first set of standards for the accrual-based and performance-based systems by January 1, 2010.

UK

The current accrual-based budgeting and accounting system was introduced in 1999-2000. One part of the system, relating to the Whole of Government Accounts, has not yet been published. Effective for 2009-10, the accrual aspects of the system were changed to refer to International Financial Reporting Standards (instead of the Financial Reporting Standards of the UK's Accounting Standards Board). Though the law requires reference to business accounting, it does not require compliance.

Budgeting and accounting are not separate but there are separate elements to each. All budgeting and accounting requirements of the system are set by the Treasury, in three linked publications. *Managing Public Money* (HM Treasury, 2007) sets out the fundamentals of money in central government, including the role of the Treasury. An important fundamental relating to budgeting and accounting is that all commitments by government to spend money in future, for which there is no budget, should be approved by the Treasury in advance of making the commitment. The Treasury also states that it is "best practice" for specific legal authority to be obtained (*Managing Public Money*, para. 5.4). The publication that deals mainly with budgeting is called 'Consolidated budgeting guidance from 2009-10 (IFRS updated)' (HM Treasury, 2009). The one that deals mainly with financial accounting is called the Government Financial Reporting Manual (FReM) (HM Treasury, 2010-11).

On the relation between the accounting in the financial statements and budgeting, FReM states:

"Accounting policies are generally common to both accounting and budgeting. In selecting relevant accounting policies, entities should have regard to budgetary and control requirements, but should give paramount

importance to the need for financial statements to give a true and fair view (FReM, para. 1.3.1).”

“Preparers of financial statements need to consult with the relevant authority...before changing significant accounting policies and estimation techniques where it appears that there could be a potential impact on budgets and on the National Accounts (FReM, para. 1.3.2).”

The structure of the budgets is, first, by government department and then, within each department, by programme (though these can be the same as by function, e.g. salaries). This is not called a chart of accounts and, being primarily by programme, is not uniform across departments.

The budgets for each department are in two parts: those parts that are deemed to be under the direct control of the department (and are therefore targets for spending) and those that are not (and are therefore forecasts of the spending that will be incurred).

The annual financial statements provide (in the notes) reconciliations to budgets, at a high level of aggregation; these reconciliations are also shown in the budgets.

The Treasury has a database (known as COINS) which gathers budgeting and accounting data from across the government departments (HM Treasury, 2010c).

There are different kinds of audited financial statements for central government:

- For central government as a whole, the Consolidated Fund, National Loans Fund and Contingency Fund. These are bank accounts at the central bank but a set of financial statements is produced for each of them. The National Insurance Fund is cash-based;
- For each government department (or other reporting entity), its consolidated financial statements. These are accrual-based;
- For each other kind of reporting entity, its financial statements. These are accrual-based. Some major pension schemes are examples.

- For central government as a whole, the Whole of Government Accounts that consolidate the financial statements for each government department or other reporting entity. They are accrual-based. Whole of Government Accounts are currently prepared, and so the accounts and standards have been established, but the Whole of Government Accounts have not yet been published (HM Treasury, 2010b).

Focusing on the audited financial statements for each government department, each government department uses self-contained double-entry bookkeeping, and each has its own bank accounts, in some cases with the central bank, in other cases with commercial banks. Each can adopt its own chart of accounts subject to the overall requirements of the Treasury.

The Government Financial Reporting Manual (FReM) is the “technical accounting guide to the preparation of financial statements” (FReM, para 1.1.1) for each government department’s consolidated financial statements. It also refers to Whole of Government Accounts. FReM is updated for each fiscal year (though it is possible to update it within a fiscal year). It is produced by the Treasury. The Treasury takes advice from the Financial Reporting Advisory Board on accounting standards for government (from 2010-11 including for local government). Some of the Board’s members are from the private sector. The accounting policies in FReM are taken from accounting in the private sector (termed Generally Accepted Accounting Practice [GAAP]) “to the extent that it is meaningful and appropriate in the public sector context” (FReM, para. 2.1.1). This GAAP has four main sources: the law for companies; the law and accounting recommendations (made by a government agency) for non-profit entities (known specifically as charities); and ‘EU adopted IFRS’. GAAP can also include “the body of accumulated knowledge built up over time and promulgated in (for example) textbooks, technical journals and research papers” (FReM, para. 2.1.1).

The accounting policies and specific disclosure requirements of FReM do not need to be applied if the information would not be material; this also explicitly means that any policies and disclosure requirements in a standard that does not apply to the circumstances of a particular set of financial statements do not have to be applied.

FReM does not require the same form and content for all sets of financial statements. These can vary according to the relevant authority (for example, in Scotland). The Treasury is the relevant authority for the central government departments and the form and content of these financial statements are uniform. FReM (para. 2.3.4) expects the accounting policies within each set of consolidated departmental financial statements to be uniform but allows that there might be some differences (for example, in the selection of useful economic lives of depreciable assets). However, FReM (para. 2.3.5) states that there will be “sufficient convergence of accounting policies” for the production of Whole of Government Accounts.

All accrual-based financial statements under FReM “should give a true and fair view of the state of affairs of the reporting entity...at the end of the financial year and of the results for the years” (para. 2.2.6).

A charge was made, in the budgets and the financial statements, for the opportunity cost of capital. If a department’s net assets were wholly financed by debt, this would equate to the cost of that debt. This charge for the opportunity cost of capital is only made in business accounting for the cost of debt not the cost of equity. The percentage is fixed by the Treasury (currently 3.5% in real terms) and is applied to an average of net assets during the year. Although this charge has been retained in the financial statements, it was withdrawn from all budgets in 2010 (HM Treasury 2010a, p.3).

As for the accounting policies, the overall statement of accounting policies for each set of financial statements is that they are “prepared under the historical cost convention, modified by the revaluation of fixed assets, and, where

material, current asset investments and stocks [inventories] to fair value” (FReM, para. 2.1.4).

All tangible fixed assets are at fair value (the historical cost option, and the option to value only certain classes of assets, of IAS 16 are not applicable), with some exceptions. Fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm’s length transaction. It is determined by professional valuers (not accountants). In some cases, market values are not appropriate and depreciated replacement cost of a modern equivalent is used.

US

The obligation-based and cash-based budgeting system is longstanding. The federal government has actively discussed accrual accounting since 1948 and has had a formal accrual accounting system since 1990. Since 1995, there has been continual discussion of accrual budgeting (see Jones, 2010).

Budgeting and accounting are not separate but there are separate elements to each. The budget is obligation-based and cash-based, as determined by law and its implementation overseen by the Office of Management and Budget (OMB). The financial statements are accrual-based but include reconciliations to the obligation-based and cash-based budget.

The Treasury is the central agency for collecting receipts and making payments. It maintains the government-wide bookkeeping system (but not the financial management systems of each department). The Treasury accounts use funds, which in different forms largely correspond with the budgets. There are so-called federal funds (general fund, special funds, and revolving funds) and trust funds. Federal funds comprise the larger group. Among the trust funds, social insurance programs (such as social security and unemployment compensation) have the largest amount of funds and federal employee programs (such as retirement and health benefits) the second largest; together these make up about

90 percent of all trust fund receipts. Other trust funds include excise tax financed programs for highway construction, airports and airway operations, and other public works.

The Treasury maintains the Standard General Ledger (Treasury, 2009), which includes a uniform chart of accounts for use across the government. This Standard General Ledger includes so-called ‘crosswalks’ between the ledger and specific aspects of accounting against the budget and financial reporting. It also maintains a government-wide database: the Governmentwide Financial Report System (Treasury, 2006).

The OMB oversees the implementation of the President’s budget once authorised by Congress (Schick, 2007, p100). The two main instruments of this are Circular A-11: Preparation, Submission, and Execution of the Budget (OMB, 2010), focusing mainly on the budget itself, and Circular A-136: Financial Reporting Requirements (OMB, 2009), focusing mainly on the departments’ and the government-wide financial statements. Both Circulars include regulations about the reconciliation of obligation-based, cash-based budgets with accrual-based financial statements. OMB also has a cash management role in budgeting in that it releases authority for the departments to enter into obligations in the so-called ‘apportionments’ at stages (usually quarters) during the fiscal year.

The structure of most of the budgets is, first, by government department (or other unit within the organizational structure) and then, within each department, by program (though these can be the same as by inputs, e.g. salaries). Each of the main elements of the budget is called an ‘appropriation’. The structure of appropriations is not called a chart of accounts and, being primarily by programme, at the highest level is not uniform across departments. Each appropriation, however, is also presented using a classification of detailed inputs that is standard across the federal government.

Each appropriation has an accounting that accounts for obligations and outlays of that appropriation. This accounting for any one fiscal year refers to many fiscal years because a current budget can authorise obligations for many years beyond the current fiscal year (even indefinitely), and because outlays of a fiscal year can be liquidating obligations incurred in previous fiscal years. There is a standard chart of accounts for this accounting, determined by OMB.

A government department produces a Statement of Budgetary Resources, which sets out the amounts that were available to be obligated (and spent), including amounts carried forward from previous years, the obligations incurred during the year and the balances, and outlays.

A department also produces a Statement of Financing, which reconciles budgetary information to the accrual-based net operating cost. In the government-wide financial statements, a different form of reconciliation is provided, categorised by organisational structure.

A statement of changes in net position (net assets) (for departments or agencies, as well as government-wide) is produced. There is also a Statement of Program Performance Measures.

As to accounting standards for the financial statements, the Federal Accounting Standards Advisory Board (FASAB, 2004, p1) promulgates “standards and principles for the federal government, after considering the financial and budgetary information needs” of congress, executive agencies [of federal government] and other users of federal financial information.

It was established in 1990. Its ‘sponsors’ are the Treasury, the Office of Management and Budget (both of the executive) and the Government Accountability Office (in the legislative branch). The board of FASAB (2004, p1287) has 10 members: one from each of the 3 sponsors, 1 from the Congressional Budget Office, and 6 non-federal members “from the general financial community, the accounting and auditing community, and academia”.

FASAB's standards have no explicit relation to those of the Governmental Accounting Standards Board (GASB, which promulgates standards for state and local government) or of the Financial Accounting Standards Board (FASB, which promulgates standards for business), though these are referred to in a few places. Moreover, FASAB is explicit that its standards consider the needs of internal users of the federal government, as well as external users.

FASAB considers this different from GASB and FASB, both of which "do not need to weigh heavily managers' information needs" (FASAB, 2004, p14) because those managers have direct access to information about their own entities. In contrast, in the federal government, officials may not have access, partly because of the "size and complexity of the government, the rapid turnover among senior political executives compared with the time required to install information systems in large bureaucracies, and the division of authority in the federal government" (FASAB, 2004, p14). Put another way, FASAB considers GASB and FASB to be primarily concerned with external financial reporting, not with internal financial accounting.

Although the federal government had long considered adopting accrual accounting (explicitly since 1950 and had experimented with prototype consolidated financial statements since 1976, for example [Treasury, 1977]), FASAB has produced the accounting standards that underpin the federal government's accrual accounting.

The sets of accrual-based financial statements in the federal government have two distinct focuses: the consolidated financial statements for each government department or agency; and the financial statements for the federal government as a whole. FASAB's standards were initially concerned mainly with the consolidated financial statements for each government department or agency. Subsequently, FASAB issued a standard (SFFAS 24, in 2003) that comprehensively addressed the financial statements for the federal government as a whole.

FASAB's standards need not be applied to immaterial items. They are, for the most part, historic cost based.

COMPARATIVE-INTERNATIONAL OVERVIEW

France, Germany, the UK and the US have all introduced accrual-based reforms (in Germany, most of the reforms were in the planning stage when they were - possibly temporarily - abandoned) during the past twenty years. The reforms have started from different positions, at different times and are currently at different stages. In a few clear senses, each government has seen the accrual-based reforms differently.

In all four cases, the reforms are radical. However, in all four cases, the traditional, longstanding, cash-based budgeting and cash-based budgetary accounting systems remain at the heart of government budgeting and accounting.

Also in all four cases, the pre-reform recording of commitments – whatever that form took – has been retained. Each of the four countries represents a distinctly different form, depending on whether the budget is commitment-based and whether commitments are recorded comprehensively. In the US, the accounting against the budget, and the budget itself, are comprehensively commitment-based (as well as cash-based); the term used in the US federal government is 'obligation-based'. In France, the budget is cash-based but the accounting, in addition to being cash-based, is comprehensively commitment-based. In Germany, the budget and the accounting are cash-based but the budget includes a partial use of commitments and, to a greater extent, the accounting is also partially commitment-based. In the UK, commitments are not recorded even partially in the published budgeting or accounting system, but departments can have commitment-based internal accounting sub-systems and do, for categories of expense that are incurred by ordering large numbers of supplies.

As for the use of accruals in the budgeting and/or the budgetary accounting, in Germany the MHR proposals included supplementation of the cash-based budgetary accounting with accrual-based equivalents. In the UK, both the cash-based budget and the cash-based budgetary accounting are supplemented with accrual-based equivalents.

In all four cases, output measures are included in the budgeting and accounting reforms. In France (Germany's MHR included the same), a fundamental part of the reform was the re-structuring of the budget from one based on the organisational structure and detailed line-items (of inputs) to one based on outputs, including quite detailed non-financial output measures, with the associated financial inputs measured on an accrual basis. Non-financial output measures pervade the governments in the UK and the US but the direct link between these measures and the comprehensive budgeting and accounting system is less clear.

In France, Germany and the UK, the Ministries of Finance implement the budgetary accounting regulations. In France and Germany, these regulations are matters of law; in the UK, they have the effect of law but are, for the most part, made by the Treasury. In the US, with their separation of powers, the Office of Management and Budget implements the budgetary accounting regulations. There are fundamental differences between the four countries in their approach to accrual-based financial accounting, even as all four (counting Germany's MHR) recognise the usefulness of such information as an addition to the budgetary accounting systems. The US produces accrual-based financial statements for each government department, as well as one set for the federal government as a whole. The UK produces accrual-based financial statements for each government department; it has also recognised the usefulness of one set of accrual-based financial statements for the government as a whole (including local government) but, although the law that required accrual-based information

explicitly also required one set for the government as a whole, such a set has not yet been published.

In France, accrual-based financial statements for each government department are not produced, whereas one set for the government as a whole is. In

Germany, the MHR proposal was also not to produce accrual-based financial statements for each government department; for the federal government as a whole, the proposal was to produce a comprehensive list of assets and a comprehensive list of liabilities but not to strike the balance of net assets.

The accrual accounting bases, however the accrual information is used, are different in the four countries. In France, Germany and the US, the valuation basis is essentially historic cost; in the UK, it is essentially current value (now fair value). In all countries, opening balance sheets required extensive use of estimation in producing opening balances for non-financial assets (because records of transactions were not available).

In France, Germany and the UK, the accrual accounting policies are made by the respective Ministry of Finance and, while each set does not wholly comply with business accounting policies, each set is explicitly based on business accounting. In France and Germany, the business accounting policies are not those of the IASB; in the UK, they were not those of the IASB but they are now. In none of those three cases are the policies explicitly based on those of IPSASB. The US policies are made by an advisory body within the federal government and are not explicitly based on business accounting policies. In France and the US, there is an explicit conceptual framework for government accounting in each case.

In all four cases, there remain difficulties in establishing accrual accounting policies for pensions and other forms of social security, and for taxation.

In all four cases, the budgetary accounting databases are government-wide and require each government department to use and conform to them. In the UK and the US (the proposal in Germany's MHR was the same), each government

department can have, and often does have, a different accrual-based accounting system, using a comprehensive ICT package. However, each departmental system has to be capable of producing the information required for government-wide budgeting and budgetary accounting.

In all of the reforms, ICT packages were fundamental. The main providers' packages were originally written for businesses.

In the four countries, the System of National Accounts is separate from government accounting but, in Europe particularly, it can directly affect government accounting. For example, in the UK in recent years the government set two overall budgeting rules, based on Eurozone criteria and relating to the purpose and amount of public debt, both of which rules are measured using the System of National Accounts not government accounting.

DISCUSSION AND CONCLUDING REMARKS

Budgetary accounting regulations, since they are part of the longstanding systems that all four countries have retained, are the product of many decades, even a century or two, of theory and practice. In obvious cases, for example when constitutional law is explicit, the 'conceptual framework' is known but usually the detailed concepts have emerged from practice over many decades. For accrual-based information, logically a conceptual framework should precede the development of financial accounting regulations and standards. In practice, governments have either not produced one or produced it in conjunction with regulations and standards. It seems inevitable that much of the accrual-based policies will either derive from, or be defined in contrast to, business accounting policies.

Probably the most difficult problem with accrual-based information is in its conflict with traditional budgetary accounting systems. In France, Germany and the US, this potential conflict has been resolved by separating the budgetary accounting from the financial accounting, albeit with reconciliations. In the UK,

the separation is only partial, in that the cash-based and accrual-based numbers are alongside each other (as they were in Germany's MHR); this partial separation is still useful in resolving potential conflicts.

Accrual-based financial statements for the government as a whole remain difficult. So far, the UK has resolved the problem by not publishing them. In the US, where they are published, their reliability remains a problem; for example, for 2009, the auditors there disclaimed an opinion on them. Germany has extracted parts of a complete set of government-wide statements and rejected others. In all cases, the relationship between these financial statements and those produced by the System of National Accounts remains difficult.

Only one of the four (UK) has adopted what could be termed a comprehensive use of current values; the other three are primarily historic cost based. Given the radical nature of accrual-based information in traditional government systems, the preference for historic cost is, at least, justified on pragmatic grounds: a step-by-step reform. The most obvious disadvantage with the historic cost basis is in that it cannot provide very relevant information for accrual-based costing of non-financial outputs. But in all forms of accrual-based information, the debate between historic cost and current value bases remains controversial.

The seemingly inevitable influence of business accounting on government accounting has a particular dimension to it now that business accounting is so dominated by independent standard-setting bodies. In the business accounting context, the standards of these bodies are typically controversial and often contested and changed. The four governments have, though by differing means, significantly insulated themselves from this turbulence, while continually learning from business accounting.

ICT systems and extensive education of government accountants and managers are pre-requisites for accrual-based accounting reform. Since accrual accounting is by its nature complicated, the needs of those who are not financial experts,

especially of politicians and the wider public, remains a problem. A characteristic of most reforms is complication.

We can infer from the practices in the four countries that the most important part any reform is to retain the longstanding cash-based systems, including the commitment basis when it is already in place. It is clear from the UK case that, in the absence of a commitment-based budgetary system, there has to be another way of controlling government departments' commitments, which is done by the Treasury itself, using its own regulations.

It is clear that there are fundamentally different aspects of accrual-based information in the four governments (counting Germany's MHR).

Governments, at national level especially, are complicated entities, with different political, economic, social and legal contexts. We can, therefore, be less categorical in offering reasons for these different aspects.

For government-wide financial statements, the emphasis is on external transparency of the government, to the legislators and then to the public, and perhaps to lenders. However, this has to be judged against the competing ways of ensuring overall transparency. Given that government-wide financial statements cannot yet be said to be generally accepted, their relevance and reliability remain a concern.

The primary role of accrual-based financial information for each government department, whether published as such or not, appears to be to improve management, by providing economically useful measures of cost (and, of course, of revenues, assets, liabilities and cash flows) in conjunction with non-financial output measures. These can also have an important role in external accountability, obviously so in France and under the MHR proposals in Germany.

The obvious lacuna in this study is levels of government lower than the national level, however they are defined in each of the four countries. This absence begs the question that budgeting and accounting at national level can be usefully

treated separately from lower levels. The debate that would probably suffer most from this absence would be between governmental budgeting and accounting, on the one hand, and the system of national accounts, on the other. In the relations between the national level and lower levels, it is notable in the two federal governments that in the US the individual states and local governments use the same set of accounting standards, different from the federal level, while in Germany it is the federal and state governments that have the same basic system, different from the local governments' systems. The UK is currently involved in significant convergence between the central and local government systems.

REFERENCES

- Budäus, D., Behm, C. and Adam, B. (2003), 'Germany', in Lüder and Jones (2003a), *op. cit.*, pp.273–388.
- Federal Accounting Standards Advisory Board (2004 and on), *Statements of Federal Financial Accounting Concepts and Standards*.
- Federal Ministry of Finance (2008), *The Budget System of the Federal Republic of Germany*, (Berlin).
- Federal Ministry of Finance (2009), *Summary: Modernization of the Budgeting and Accounting System*, (Berlin).
- HM Treasury [of the UK] (2007), *Managing Public Money*.
- HM Treasury (2009), *Consolidated budgeting guidance from 2009-10 (IFRS updated)*.
- HM Treasury (2010-11), *Government Financial Reporting Manual (FReM)*.
- HM Treasury (2010a), *Consolidated Budgeting Guidance from 2010-11*.
- HM Treasury (2010b), *Guidance to the Whole of Government Accounts*.
- HM Treasury (2010c), *Understanding the COINS data*.
- Jones, Rowan (2010), 'Budgetary accounting in national governments: Anglo versus American accounting', unpublished paper.
- Jones, Rowan (ed.) (2011), *Public sector accounting*, Sage Library in Accounting and Finance, 4 Volumes.

Jones, Rowan and Klaus Lüder (2011), 'The Federal Government of Germany's circumspection concerning accrual budgeting and accounting', *Public Money and Management*, 31(4), July, pp.265-270.

Lande, Evelyne (2000), 'Macro-Accounting and Micro-Accounting relationships in France', *Financial Accountability & Management*, 16(2), May, pp.151-165.

Lande, Evelyne and Jean-Claude Scheid (2003), 'France', in Lüder and Jones (2003a), *op.cit.*, pp.153-271.

Lande, Evelyne and Marine Portal (2010), 'France', unpublished paper.

Lüder, Klaus and Rowan Jones (eds) (2003a), *Reforming governmental accounting and budgeting in Europe*, Frankfurt: Fachverlag Moderne Wirtschaft.

Ministère du Budget des Comptes Publics et de la Fonction Publique [of France] (2009), *Central Government Accounting Standards (including conceptual framework)*.

Office of Management and Budget [of the U.S.] (2009), *Circular A-136: Financial Reporting Requirements*.

Office of Management and Budget (2010), *Circular A-11: Preparation, Submission, and Execution of the Budget*.

Schick, Allen (2007), *The Federal Budget*, 3rd edition, Brookings Institution Press.

U.S. Department of the Treasury (1977), *Consolidated Financial Statements of the United States Government: prototype*.

U.S. Department of the Treasury, Financial Management Service (2006), *Governmentwide Financial Report System User Manual*.

U.S. Department of the Treasury, Financial Management Service (2009), *U.S. Government Standard General Ledger*.