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Accruals accounting in the public sector: some reflections from the UK

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TO PROGRESS AND LEAD



Accruals accounting in the public sector: a road not always taken

Two roads diverged in a yellow wood,
And sorry I could not travel both
And be one traveler, long I stood
And looked down one as far as I could
To where it bent in the undergrowth;

Then took the other, as just as fair
And having perhaps the better claim,
Because it was grassy and wanted wear;
Though as for that, the passing there
Had worn them really about the same

Main Theoretical Underpinnings

- New Public Management (NPM)
- 'Rational' Accounting
- Institutional Theory (external legitimation; differences in translation; internal legitimation strategies; institutional logics)
- Structures and systems / interpretative schemes; radical change and incremental change (archetype theory)

Methods



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- Document analysis (arguments being made – support or against)
- Semi-structured interviews (those implementing, those using – key actors)
- Comparative studies (within UK - devolved institutions, UK vs Italy and Austria, UK vs Republic of Ireland)



Intensity of adoption of NPM	Country
High	Australia, Canada, New Zealand, Sweden, UK
Medium	Austria, Denmark, Finland, France, Republic of Ireland, Italy, Netherlands, Norway, Portugal, USA
Low	Greece, Germany, Japan, Spain, Switzerland, Turkey



UK Accounting Changes

- FA - cash  accruals/consolidated (IFRS/WGA)
- Budgeting - cash/annuality  accrual/EYF
- PM - limited  comprehensive PSAs/SDAs



Resource Accounting and Resource Budgeting (RAB)

- Resource accounting is a term used to cover a set of accruals accounting techniques and a framework for analysing expenditure by objectives, related to outputs wherever possible.
- Resource budgeting is concerned with planning and controlling public expenditure on a resource accounting basis.

Claims for RAB



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- Better decision making (improved resource allocation; improved capital investment decisions)
- Improved accountability and control
- No cost

Reflections/Key Findings/ Issues

- Political force
- Often information not used – but possibly changes in attitudes over time
- Complex
- Cost
- Changes often seen in terms of authority (rather than rationality)
- Incremental change (rather than radical change)



Political Backing

Kenneth Clarke, Chancellor of the Exchequer, Launching the Green Paper, in July 1994:

- *“People will find other ways of celebrating the millennium but few will be more important. This is one of those highly significant events.”*



Complexity and Usage

- *“It’s very, very time-consuming because you go into such detail... And you’re producing excruciating detail which you’re told is of help to the user, but then you say, “But who looks at this stuff?””*
(AAAJ 2006)



Complexity and Usage

- *“I can see the aspiration in trying to get a cohesive look at the whole of the government picture. I don’t think I’ve ever actually looked at the finished product and I don’t know what anyone could realistically use the information for, other than to track what’s been happening year on year.” (WP 2016)*



Complexity and Usage

- *“I do not know if it’s [Resource Accounting information] being used... but I would be skeptical. I am not sure how many people out there in a department or a branch really use it to manage their budget... I am not sure how many working decisions are taken from the accounting information. I am just not sure. It is complex.... Even I don’t fully understand it.” (MAR 2011)*



Complexity and Usage

- *“The reality is that moving to resource accounts has made everything more complex. Instead of just having cash being monitored, cash and resources are monitored so you have this mad rush at the end of the year to see if you are within your cash limit and also your resource limit. It has made it more difficult to manage. If you have some cash left and say you could buy another piece of equipment but you mightn’t have the resources or the depreciation or the cost of capital cover, so you can’t.”
(MAR 2011)*



Complexity and Usage

- *“In reality I am not sure if it hasn’t just introduced a lot of unnecessary complications. There are additional complexities that don’t add very much value at all. The biggest benefit is probably on capital... Unfortunately I don’t think the usage of assets has changed because the accounting treatment has changed.” (MAR 2011)*

Accountability



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- The requirement to be answerable for one's conduct and responsibilities.

Forms of accountability:

- *Financial accountability*
- *Performance accountability*

Transparency



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- “it can achieve rather little unless the material disseminated is made **accessible to** and **assessable by** relevant audiences, and actually reaches those audiences.” (O’Neill, 2006, p.84).



Accountability/ Transparency

- *“The level of accounting expertise has certainly improved in recent years. There are many more accountants... But I wonder how many of them are just churning out figures that maybe they don't really understand, and I guess many of the people that are getting these reports don't have the background to understand them either.” (MAR, 2011)*

Accountability/ Transparency

- *“...the financial grasp and the minutiae...largely passes over the head of the elected members. It’s not to say we’re all stupid, it’s just to say that the accounting procedures and the presentational aspects of it, the fine working of it, is not easily understood by the politicians.” (FAM 2005)*



Cost of the System

- *“Originally, when the White Paper came out, they [HM Treasury] talked about how this should be done at no extra cost; which is pie in the sky. It has cost.” (AAAJ 2006)*

When commenting on the claim that the implementation of RA would be cost neutral:

- *“Well, that’s the standard bullshit you get from [Treasury]. Total nonsense.” (AAAJ 2006)*

Cost of the System



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- *“There might be benefits but just look at the number of accountants... the number of staff, qualified staff, now working on the accounting side of things... the cost must have been horrendous and are things really that much better?” (MAR 2011)*

Radical or Incremental Change

What is the outcome of change?

Outcomes can be identified as being either:

- incremental – involving a change in structures and systems, but not interpretive schemes (first order change), or
- radical – involving shifts in both structures and systems, and interpretive schemes (second order change).

Radical or Incremental change

Authorisation – Operational Department:

- *“I think, through time, you did get the feeling that Treasury were driving it [RAB and performance management changes]. And there seemed to be a drive towards making the public sector more commercial.” (ABR 2016)*
- *“Treasury tell us and then we ask how high they would like us to jump.” (WP 2016)*

Radical or Incremental change

Rationalisation – Operational Departments:

- *“... the departments have to do a business plan, which was quite amusing, but part of the business plan was to identify the ministerial priorities, which makes sense.” (WP 2016)*
- *“I think it [RAB] was to demonstrate costs in and around each department because before that we weren't; we were only thinking about the cash costs. You weren't ever thinking about any non-cash elements.” (WP 2016)*

Radical or Incremental change

Rationalisation – HM Treasury:

- *“I am extremely enthusiastic about both of the reforms [resource accounting and resource budgeting]. I suppose I’m involved in both, I’ve worked with both. I’ve been a strong advocate of both and would continue to do so. But I think from the way departments operate, treasury operates, parliament oversees, you can see the clear benefits.” (ABR 2016)*



Other Countries

- *“I don’t think anyone has articulated a case against accruals accounting but I think that the lack of progress tells it own story. There was a growing a scepticism, which got stronger because of all the half measures. There was no grand plan that people could drive towards, and eventually it just faded out.”* **Irish interviewee** (MAR 2011)



Other Countries

- *“From my own perspective the objective of going to accruals accounting has just faded away. ... At a senior level inter-departmental committee I can recall a senior official in the Department of Finance saying that when it comes to accruals accounting I would advise you make haste slowly.”* **Irish interviewee (MAR 2011)**



Concluding Thoughts on the UK Experience

Present system:

1. Too complex
2. Oversold and undercosted
3. Problems in democratic accountability



Concluding Thoughts on the UK Experience

Suggestions:

1. Keep it simple
2. Consider cost-benefit issues
3. Control the influence of providers of services and systems
4. Educate users