Reforming central government accounting in diverse contexts: a three-country comparison

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Abstract: The purpose of this paper is to unravel similarities and differences across countries approaching the accrual accounting model, yet being situated in diverse institutional contexts. We tackle this by conducting a comparative study of accounting developments in three heterogeneous settings, namely Nepal, Norway, and Russia. The selection of settings is designed in a way to observe commonalities and variations in approaching accounting reforms between one of the poorest countries on earth, one of the richest nations, and one of the world’s growing superpowers. This study draws on institutional theory, particularly the DiMaggio and Powell’s (1983) idea of how organisations comply with institutional requirements in framing rules and practices. Document search represents the major method of collecting data. As our evidence shows, the institutional forces identified across the three settings were not of one single kind, but rather from segmented institutional environments.

Keywords: central government accounting; comparative study; reforms.


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Reforming central government accounting in diverse contexts

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1 Introduction

Many countries have invested in modernisation of the public sector during the last three decades under the banner of new public management (NPM) (Broadbent and Guthrie, 2008; Guthrie et al., 1999). Accounting reforms, dealing with the adoption of accrual accounting, have been one of NPM’s key issues, often referred to as ‘new public financial management (NPFM)’ (Guthrie, 1998; Guthrie et al., 1999). International organisations and professional accountants have strongly favoured the adoption of accruals in the public sector, helping countries to implement the accrual basis of IPSASs in endeavours to harmonise public sector accounting practice at global level (Torres, 2004).

The majority of OECD member countries now practice some form of accruals in their administrative hierarchies (Pina et al., 2009). However, IPSASs are still yet to be recognised and implemented in many European central governments due to emphasis being put on the Anglo-Saxon tradition (Benito et al., 2007; Christiaens and Reyniers, 2008; Christiaens et al., 2010; Pina and Torres, 2003). In recent years, many developing countries and emerging economies have also embarked on similar reform paths. Unlike the case of the Western Europe, IPSASs have attracted a great deal of attention while initiating public sector accounting reforms in less-developed nations (Parry and Wynne, 2009; Sutcliffe, 2009). IPSASs have been envisaged as the best government accounting alternative for less-developed nations that are lacking internationally approved regulations and standards (Chan, 2005).

The World Bank’s reports on standards and codes have used international accounting standards as a benchmark to access strengths and weaknesses of financial management in developing and transitional countries (Humphrey et al., 2006). More recent studies have demonstrated that accounting changes – leading to the implementation of international standards, mainly IPSAS, have become an important centrepiece of structural adjustment programmes, as well as a primary lending condition for developing nations (Neu et al., 2006, 2009; Timoshenko and Adhikari, 2010). Moreover, IFAC (2010) claims that governments in less-developed nations have increasingly considered adopting IPSASs. In
recent years, a growing body of studies has dealt with accrual accounting in the public sector. Some studies have focused on reform initiations (see e.g., Carpenter and Feroz, 2001), others have suggested that accrual accounting has not functioned as intended (see also Newberry, 2006). This has created a critical sentiment or new relations towards accruals. The studies have identified significantly heterogeneous development paths and attitudes towards NPFM reforms around the world, both in strategy and content (Guthrie et al., 1999; Pina and Torres, 2003). This ‘decoupling’ between how accrual accounting was intended to operate and how it turned out in practice, has so far not been a key issue in accrual accounting literature. The causes for this decoupling may, e.g., relate to variations in the accounting standards applied, the way accruals have been interpreted, as well as the ways the countries have approached accrual accounting.

Assiduous attempts to locate accounting in its operating contexts have in recent years renewed interest in studying cross-national differences in accounting development (Carnegie and Napier, 2002). Prior studies demonstrate varied reform paths and attitudes towards such reforms in similar contexts, particularly in the context of OECD countries (Chan, 2005; Lüder and Jones, 2003). Still, some scepticism has been observed in the literature about undertaking comparative studies within similar contexts, as the countries are anticipated to share similar results and outcomes (Paisey and Paisey, 2009). As a result, there is a growing demand for comparative studies in public sector accounting, covering nations at different levels of socio-economic and political development (Benito et al., 2007; Broadbent and Guthrie, 2008).

This paper follows this path, seeking to unravel similarities and differences across countries approaching the same accounting model, yet being situated in diverse institutional contexts. We tackle this by conducting a three-country comparison of public sector accounting reforms in one developing nation, one developed country, and one transitional economy – namely Nepal, Norway, and Russia. The present paper draws on institutional theory, particularly the DiMaggio and Powell’s (1983) idea of how organisations comply with institutional requirements in framing rules and practices.

The remainder of this paper is structured as follows. First, the choice of the three countries is elaborated on. Methodological issues pertinent to the present study are then underlined. Next, institutional perspectives, which have provided a theoretical setting for the study, are highlighted. Furthermore, the description and comparisons of public sector reforms in the chosen three countries are presented. This is followed by the discussion of public sector accounting reforms in the three countries in the light of the theoretical perspectives applied. The paper ends with some concluding remarks and looks at the need for further research.

2 The selection of settings

We have selected Nepal, Norway and Russia as the empirical settings for this study. With a population of approximately 30 million, Nepal remains the poorest nation in South Asia. This makes the country largely dependent upon foreign aid and assistance. Nepal’s GDP (PPP) per capita for 2010 is estimated at over $440. On the contrary, Norway, with some 4.9 million inhabitants, currently ranks the second wealthiest nation on earth in monetary value, with the second highest GDP (PPP) per capita, $53,000, in 2010. Finally, Russia is the world’s largest nation, with a population of some 142 million. It represents a transitional middle-income economy with GDP (PPP) per capita estimated at above
Reforming central government accounting in diverse contexts

While commonly accepted as being a great power, Russia has often been characterised as a potential superpower.

Given these diversities, we assume that public sector reforms in the three nations chosen have adhered to diverse paths, are led by unlike motives, and engender different results and outcomes at the end of journey. However, the three nations are thought of being somehow similar in the sense that they are to a large extent characterised by isolationism within their corresponding contexts. Indeed, representing one of the poorest countries in the world, Nepal has always been outside a purview of research. Being one of the richest countries in the Western Europe, Norway is not a member of the EU. As the successor to a former superpower, Russia is today not yet fully accessible to the outside world. Hence, the selection of settings here is designed in a way to observe commonalities and variations in approaching accounting reforms between one of the richest nations on earth, one of the poorest and most isolated countries, and one of the world’s growing superpowers.

3 Choice of data collection methods

This empirical study of government accounting reforms was primarily conducted by examining various official documents – budgeting and accounting provisions – located and accessed throughout the study. These included, e.g., various laws, cabinet resolutions, concept papers, and ministerial orders. The search for official documents was supplemented by informal face-to-face conversations and interviews with public accountants embedded in accounting change in the countries studied. Among these were representatives of Federal Treasury Offices in two Russian local governments, senior accountants at the Financial Comptroller General Office of Nepal and employees from the Ministry of Finance in Norway as well as its subordinated management control agency and participating pilot agencies. This was undertaken with the aim of boosting the level of detail and care. The duration of interviews and the number of questions varied considerably from one participant to another. Each interview lasted between 30 and 40 minutes on average.

4 Theoretical framework

There is a strong emphasis on studying accounting in the context in which it is enmeshed (Carnegie and Napier, 2002; Hopwood, 1983). Such studies, covering the context of accounting, have endeavoured to see accounting more as a social institution rather than merely a technical practice (Miller, 1994). This has led to a greater awareness of the desirability of examining the processes and consequences of accounting change and its institutionalisation in a specific setting. In recent years, a growing body of literature has attempted to adopt the institutional perspectives in order to explore accounting changes (Bergevärn et al., 1995; Carpenter and Feroz, 2001; Covaleski and Dirsmith, 1988; Dillard et al., 2004; DiMaggio and Powell, 1983; Timoshenko and Adhikari, 2010). These studies have striven to portray the accounting change more as a symbol of legitimacy, demonstrating that legitimacy can be gained through the three mechanisms: coercive, mimetic, and normative.
Firstly, coercive pressures for change stem from sources of power that impel organisations to adjust. From a general institutional perspective, the state and the profession are recognised as the most influential actors in the institutional environment. Among these two, the state is more likely to rely primarily upon coercive means in pursuing its ends. The state can, e.g., avail itself of this method by mandating through law changes in existing organisational forms or by establishing a new class of administrative agencies. Moreover, coercive pressures for change may arise at a time of fiscal stress and a resource dependency situation (see e.g., Carpenter and Feroz, 2001). In fact, organisations encountering resource scarcities are likely to adopt the rules and practices made mandatory by the institutions on which they depend. Organisations can, therefore, be categorised as ‘powerful’ or ‘weak’ institutions based on the extent to which others rely upon them for resources. Some organisations are seen as more important and powerful than others since they possess the resources needed by others. At the same time, some organisations are considered weak and less important in that they lack such resources.

Next, the mimetic pressures for change refer to the adoption of organisational rules or practices used by other similar organisations in the field, especially those rules or practices being implied by so-called ‘successful or legitimate organisations’ (see e.g., Oliver, 1991). According to DiMaggio and Powell (1983), mimicking is an endeavour to learn from other’s experience in order to yield a desirable solution with little effort, as well as a reasonable way to face uncertainty. Lastly, changes are usually impossible without eminent professional actors who standardise the contents of norms and ‘package’ them to look attractive and applicable. This is what is labelled normative pressures for change. A peculiar feature today is that more and more of the emergent rule-making tends to be based on some elements of voluntarism as propagated by international organisations. They promote standards and guidance without formally established sanctions or enforcement mechanisms for not following them. We rely on institutional theory to learn more about how variations in institutional contexts have impacted on the countries’ policymaking approaches.

5 Empirical section

Nepal, Norway and Russia provide unique contexts for the comparative study, representing a developing nation, a developed country, and an emerging economy, respectively. Our focus will be on reform agendas and how reforms have been approached. Nepal commences our empirical discussion. Thereafter follows the Norwegian case and the Russian case.

5.1 The case of Nepal

The Nepalese public sector attracted special attention both at national and international arenas in the late ‘90s. The country’s planning approach repeatedly failed and public expenditure management remained ineffective in overcoming absolute poverty and fostering economic growth throughout the whole of the 20th century (Asian Development Bank, 2005; World Bank, 2002). Nepal witnessed a significant reduction in international grants and aid because of the failure to ensure the results and performance of public resources (Asian Development Bank, 2005). Moreover, rising security expenses as a
result of the Maoist insurgency triggered a severe financial crisis. Deteriorating financial conditions along with growing international concerns provided the country with an impetus to declare broader public sector reforms. In 2002, the country introduced a medium-term expenditure framework, performance-oriented reporting, and a public expenditure tracking survey, just to name a few measures, as part of public sector reforms (Timoshenko and Adhikari, 2010).

However, there was concern about the significance of these newly introduced financial measures without also improving the government accounting system. In fact, government accounting was envisaged as a key discipline in Nepalese financial management demanding rigorous institutional reforms and capacity building [His Majesty Government of Nepal (HMGN), 2005]. In 2005, this emphasis on government accounting reform resulted in the formulation of a high-level government expenditure committee under the chairman of the Accounting Standards Board (ASB), an autonomous body to pronounce accounting standards for the private sector. The committee was given the task of studying various alternatives to improve the effectiveness of government expenditures and control government irregularities. In late 2005, the committee submitted its report to the government recommending a shift away from cash accounting to accrual accounting. The accrual basis of accounting was claimed to be important, not only for providing information useful for decision-making, but also for complying with ongoing international trends towards accrual accounting (HMGN, 2005).

The committee designed a five-year ‘road map’ in order to make a stride away from cash towards accrual accounting. The first year was devoted to developing the accrual basis accounting codes, manuals, and reporting formats. Some of the activities scheduled for the first three years included the competence building of government accountants, the development of computer software, and the identification and evaluation of government’s existing assets and liabilities. The experimentation of accrual accounting in some selected government entities was proposed during the fourth year. The idea was that this experiment would provide the opportunity to tackle the difficulties and weaknesses encountered during the trial periods and pave the way for the introduction of accrual accounting right across the country by the end of the fifth year.

However, the ideas of accrual accounting proposed by the committee members failed to generate positive feedback both from government officials and international organisations. The government officials, who were in favour of a longer transition period, claimed that a five-year period would prove inadequate to ensure success for the transformation process. One government accountant commented on this during a conversation:

“We are, in fact, not against the propagated benefits of accrual accounting, but the fact is they could not be realized within a short period of time. We are at present struggling to keep properly the records of cash transactions and to reconcile our reports with those prepared by the central bank.”

Similarly, international organisations in favour of accrual accounting reforms in the past, especially in the ’80s and ’90s (Adhikari and Mellemvik, 2010), expressed their concern about the lack of competence and resources to install and practice accrual accounting. Their main argument was that in order to undertake a stride toward any comprehensive system of accounting, Nepal should first work on reinvigorating the operation of its existing cash accounting (Asian Development Bank, 2005; HMGN, 2005). This lack of
consensus on accrual accounting undermined the significance of the road map and led to the prolongation of accounting reforms.

The World Bank’s assessment of Nepalese public sector accounting and auditing standards initiated in 2006 could be credited with restarting the process of accounting change. The assessment report recommended the government putting more emphasis on improving the prevailing cash basis accounting in the short term by referring to cash basis IPSAS, as part of a longer term plan to initiate accrual accounting reforms (World Bank, 2007). Nepal’s major development partners, international organisations, and government officials underpinned the idea of cash IPSAS with additional voluntary disclosures, such as undrawn borrowings, liabilities, and outstanding advances as an immediate reform approach. The professional accountants were convinced about the issue of cash basis standards and ensured their leadership and involvement in the standards setting process. The ASB was therefore appointed as the main steering body of the public sector accounting standards project in 2007. The ASB initiated the process of pronouncing Nepal Public Sector Accounting Standard (NPSAS) corresponding to the cash basis IPSAS in 2008 (Adhikari and Mellemvik, 2010). On 15th September 2009, the cash basis NPSAS, pronounced by the board, was approved for implementation within budgetary entities (ASB, 2009). Throughout our conversation, one government accountant stated:

“The Financial Comptroller General Office (FCGO) has been attempting to prepare the annual accounts for the fiscal year 2010/2011 in accordance with the NPSAS.”

International organisations have in their recent reports acknowledged the progress made in the implementation of NPSAS (Adhikari and Mellemvik, 2010). These reports have claimed that the successful implementation of the cash basis accounting standard would lead Nepal to the next stage of public sector accounting reforms, i.e., the adoption of accrual accounting and the accrual basis IPSASs (Asian Development Bank, 2009; Ministry of Finance, 2008). However, during our conversation, some accountants expressed a doubt as to whether the implementation of accounting standards would be successful without adequate training being given to government accountants and auditors. All in all, the adoption of the NPSAS, corresponding to the cash basis IPSAS, has provided the country with a means of responding to national and international calls for government accounting reforms and securing legitimacy.

5.2 The case of Norway

A modified cash accounting system has prevailed at central government level in Norway for approximately the last 80 years. This has been preferred, in part, because of its simplicity with respect to both understanding and applying the cash accounting model (Ministry of Finance, 2003; Standing Committee on Finance and Economic Affairs, 2003).

It appears that Norway’s financial situation impacted on its choice of accounting model. One interviewee argued as follows:

“Norway can in a way afford to be more ineffective than other countries due to the central government’s financial situation… Norway needs good mechanisms for efficient steering perhaps for the very reason that we lack an outer pressure for efficiency that exists in other countries.”
Reforming central government accounting in diverse contexts

Other interviewees expressed similar thoughts, e.g., (parentheses added by the authors):

“Even if Norway will meet some of the same (welfare) challenges, we do not have the same focus. For that, we are too rich and relaxed, due to the oil money.”

Being wealthy meant there was no evident feeling of crisis, forcing Norway to change its accounting model. Instead, this provided an argument for continuing the perceived well-functioning modified cash accounting model. Moreover, Norway’s oil funds and resources also implied a larger action space for carrying out macro-economic steering (e.g., counter-cyclical steering, in which the cash accounting model is often preferred).

Yet, the accrual principle was seen as a potential tool for providing more emphasis on long-term consequences of today’s actions and decisions (the Storting’s Presidium, 2001). The aim was to equip the country for tackling anticipated increased financial challenges and scarcity of resources in the decades to come. Moreover, an emerging interest for accrual accounting in Norway partly grew out of international trends and developments within public sector accounting. Particularly, other countries and international organisations were seen to implement and/or recommend the accrual principle. Uncertainty and curiosity about what accrual accounting would bring about therefore also stimulated the accrual accounting project.

Norway’s accrual accounting initiative was formally launched in September 2001, when a commission was asked to consider the implications of using multi-year budgeting and accruals in both the central government’s budget and accounts. The commission delivered its report in January 2003. It concluded that accrual accounting should be implemented in Norway, both in the central government’s accounting and budgeting reports (Ministry of Finance, 2003). The subsequent submissions, i.e., feedback reports, were generally supportive of the recommendations made by the commission. This was followed by recommendations from the Ministry of Finance on behalf of the central government to the parliament. Their view was to approach accrual accounting by applying a cost/benefit approach connected with a step-by-step approach, by experimenting with accrual accounting for management accounting purposes. An employee at the Ministry of Finance explained this as follows:

“The Swedes at first had plans to implement the accrual principle in their central government budget, but later reconsidered. Elsewhere, experience has also been mixed. For instance, Australia still struggles, even though they have worked for a long time on implementing the accrual principle in the public sector. Because of this, we wish to obtain more information before making such a far-reaching decision. …”

Hence, it was not seen as given that the accrual accounting model was better than the existing modified cash accounting model at central government level in Norway. Consequently, exploration in terms of experimentation was preferred as a strategy.

It was explicitly pointed out that appropriations should still be made on a cash basis and that the formal accounting reporting should not be changed. Still, this allowed for experiments with accrual-based (management) accounts. Starting with central government agencies as step one provided insight about costs and benefits, and thereby, in what form and to what extent accruals might be useful at central government level. A potential next step could then be, depending on experience gained from the first step, to experiment with the accrual principle at ministry level.
Parliament supported the views held by central government and the Ministry of Finance. Thereafter, an accrual accounting pilot project was launched, consisting of ten (later 11) central government agencies. The pilot project was initiated by contemplation and discussions regarding what accounting guidelines to follow (this was specified in the roadmap-paper: see, Ministry of Finance, 2004). Subsequently, a set of initial accounting solutions was developed, based primarily on Norwegian private sector accounting solutions, though with certain adjustments being made for central governmental specific traits. Such adjustments were either made by creating new solutions in the project to fit the particular need, or to lean partly on IPSAS standards or recommendations and practice from other countries (especially Sweden and to some extent Denmark). One topic of discussion was the controversy of the balance sheet approach versus the income statement approach to standard setting. The IPSASs represented the former, whereas the Norwegian private sector accounting standards represented the latter. Since there was a preference to adhere mostly to Norwegian private sector accounting standards, primarily because they were assumed to be easily recognisable to practitioners, it meant that IPSASs would never be fully adhered to. Nevertheless, IPSASs were consulted, e.g., in areas of financial statements; revenue from exchange transactions; non-exchange revenue, with respect to appropriation-based revenue; inventories; leasing; property, plant and equipment.

The developed solutions were thereafter tested on the pilot organisations, and new accounting solutions were developed in parallel. At first, the attention was mainly devoted to testing and ensuring that the accounting solutions functioned in practice. This was strongly bookkeeping orientated. Later on, potential user effects and opportunities were considered.

The accrual accounting project was evaluated in 2006. It was then decided that it should continue to allow further experience with potential costs and benefits of implementing accrual accounting. The experimentation period was therefore prolonged until 2008. Another evaluation was made in 2009, finally ending with the conclusion that the newly developed accrual accounting standards constitute recommended, but not mandatory solutions. The formal central governmental accounting reporting model thus remains on a modified cash accounting basis.

To sum up, Norway approached accrual accounting at central government level in a traditional “rational” manner, where costs and benefits were assessed and discussed. A net positive benefit would be required in order to legitimate accounting model changes. Albeit Norway was influenced by other countries and standard setters, it was decisive in choosing its own path towards accrual accounting – including making alterations, if necessary, to meet internal requirements. The external institutional environment affected, but did not dictate the way Norway approached accrual accounting, nor the output of the experimentation.

5.3 The case of Russia

At the turn of the new millennium, the modernisation of Russia’s budget process was announced to be at the core of the programme of economic transformation with the primary goal of “boosting accountability in government expenditures”. The importance of these efforts can hardly be emphasised enough, as they were laid down in the Concept of the Budget Process Reform for 2004–2006 endorsed by Cabinet Resolution # 249 on May 22nd, 2004. The objective was “to lay down preconditions and prerequisites for the
most effective allocation and management of government finances by appropriate prioritisation of various government activities considered to have a critical bearing on the country’s development”. From these policy measures outlined in the concept, streamlining public accounting was viewed as the first element of the reform package. A common argument for this move was to establish a system of accounting and financial reporting in the Russian public sector that was capable not simply of tracking the flow of budgetary resources, but also of assessing their effective use. The concept favoured a shift from traditional cash accounting towards accrual accounting in order to boost accountability and transparency of government transactions (see, e.g., Timoshenko, 2008).

The move towards accrual accounting should not be considered an end in itself. While central to the changes sought, this shift merely envisaged a subset of a comprehensive package of alterations, a progression in keeping with wider management and financial developments in the government sector. It can be seen as part of a dramatic change in the Russian budget process – a change that encompassed performance-oriented budgeting, managers’ responsibility and accountability, programme basis, and medium-term financial framework (see Timoshenko and Adhikari, 2010). Without corresponding changes in the accounting system it was said to be difficult, if not impossible to achieve all these goals (Nesterenko, 2004). Therefore, transforming government accounting was reckoned to be “a necessary and indispensable precondition in modernising a country’s budget process”, or “the paramount constituent part of the Budget Process Reform” [Charkov and Choroshev, (2005), p.9]. The new reform agenda was centrally guided by the top level of the Russian executive under the chairmanship of the Deputy Prime Minister, with the Ministry of Finance playing the key role.

The official launch of new accounting provisions took precedence over the introduction of modern budgeting techniques. In implementing the accounting reform, a transition period of nine months was allowed. This period was characterised by parallel running of the old and the emerging system, providing the accounting staff across the country with an opportunity to get accustomed to the latter and enabling the experts to test the functioning of software products (see Timoshenko and Adhikari, 2010). Interestingly enough, the Russian newspaper ‘Kommersant’ (2004) called this preparatory period ‘real hell’ for public accountants. Indeed, throughout the informal conversation with us, one public accountant compared her situation with that of:

“… a baby, who is plunged into water in the hope that she starts swimming.”

The transformation process in Russia was substantially impacted by overseas forces in the shape of large international organisations, especially the IMF and the World Bank (Timoshenko and Adhikari, 2009, 2010). To illuminate this, the IMF’s (2004) Report on Fiscal Transparency Practices in Russia prescribed that “the new Chart of Accounts should be based on a GFS-consistent budget classification system, reflect international accounting standards in the public sector (IPSASs), and facilitate a gradual transition to accrual accounting” (p.28). It is not surprising that the Russian state has made assiduous endeavours to adopt these practices and definitions in accordance with the IMF Code of Good Practices on Fiscal Transparency, the 1986 edition of *A Manual on Government Finance Statistics (GFSM 1986)*, and its revised version, *Government Finance Statistics Manual (GFSM 2001)* (IMF, 2001). In this respect, the launch and implementation of the concept with its focus on altering the Chart of Accounts in favour of accrual accounting can be considered a positive response to the ideas advocated by the IMF.
What is also worth mentioning is that Ministry of Finance officials are deemed to be pretty well aware of the International Public Sector Accounting Standards Board’s (IPSASB) activities and its accrual-based International Public Sector Accounting Standards (IPSASs). While it is still premature to talk about the broad conformity of new Russian Government accounting norms with IPSASs, their adoption was said to be absolutely inevitable in the future (Artuchin, 2003). The application of IPSASs is expected to help streamline the system of government accounting standard-setting in Russia, meaning that their adoption would assist in avoiding an endless stream of instructions, orders, and decrees, which have all proved to be rather contradictory in the past (Charkov and Choroshev, 2005). As of September 2008, the IPSASB (2008) has reported that Russia has agreed to adopt the accruals basis IPSASs and has made significant progress towards its implementation (Timoshenko and Adhikari, 2009, 2010).

All the above suggests that the reconstruction of Russian central government accounting is now more reckoned to be a collective endeavour rather than a pure internal exercise, coalescing both external agencies and the government. Consequently, the learning process is no longer confined to self-experience. By declaring IPSAS and/or GFSM as forming a potential basis for its accrual-based accounting model, the state of Russia appears to have become more adaptive to ideas coming from the outside, and thereby more and more reminiscent of its Western counterparts. The evidence presented above suggests that the accounting and budgeting initiatives in the Russian public sector were unlikely to be introduced in response to a fiscal crisis. More likely than this, the fragile economic situation of the ‘90s made Russia reliant upon international donor organisations. Indeed, it is through these organisations that new accounting technologies have gradually penetrated down to the central government at the outset of the new millennium (Timoshenko and Adhikari, 2009). Engendered by rising oil prices and enhanced ability to pay debts back at the beginning of and mid 2000s, the robust macroeconomic performance has probably led to a more accommodating environment for originating a change in favour of accrual accounting. However, there is still ambivalence as to which ‘version’ of accrual accounting is to be practiced in the nation in years to come. Will it be based on IPSAS or GFSM propagated by international organisations? Or, it may solely envisage a revised version of ‘quasi-accrual’ measurement system as used in the past. The inclusion of new accounting and budgeting techniques into the political rhetoric may thus be classified as a symbol of legitimacy, intended to bolster the image of the Russian state as more ‘progressive’ and ‘modern’ in the eyes of external parties and others.

6 Discussion and conclusions

The study of Nepal, Norway and Russia shows similarities and contrasts in approaching public sector reforms. What is similar is that reforms have been introduced at approximately the same period of time and discussions are still underway on how to advance accounting reforms and changes. The case of Nepal is to a large extent reminiscent of Russia, especially in the late ‘90s, in the sense that reforms in these two countries have been very much influenced by international organisations regarding NPM in general and accrual accounting in particular. It is probably due to a close interaction with international organisations that public sector accounting reforms in Nepal and Russia have seemingly inclined more and more in the direction of IPSASs. The full
package of reform measures characterises the reforms embarked on in Nepal and Russia. This stands in contrast to the Norwegian case, which represents a Western European country, giving more emphasis to a move towards some forms of accruals, rather than adoption of IPSASs. As is the case of other central European countries (Christiaens et al., 2010), the advantages of IPSASs were also not deemed convincing in Norway. The Norwegian case appears to be much engrossed in studying the necessity and implementation of accrual accounting, and picked up the cost-benefit approach to facilitate this purpose. Moreover, reforms in Nepal and Russia can be reckoned more or less a collective endeavour, incorporating both the government and external organisations. On the other hand, the Norwegian approach to accrual accounting is largely an internal exercise, including experiments in pilot agencies along the way.

As far as the reform implementation is concerned, Nepal can be treated as following a step-by-step approach, starting from budgeting and ending with accounting. Whereas Norway’s experimental approach represented a bottom-up approach to government accounting change, the Russian approach, guided by the Soviet mentality, can be characterised as top-down, incorporating all elements of public management at the same time. However, having declared a move towards accrual accounting a priority, the Russian central government still encounters uncertainty as to how the accounting reform should be approached.

The study demonstrates that both Nepal and Norway developed a road map to guide their change efforts towards accrual accounting, but both countries changed their plans. For instance, Norway decided to prolong its experiment, and then finally to make the developed accrual accounting solutions voluntary, only, rather than mandatory. As for Nepal, it decided to switch back to the improved version of cash. However, the Russian case demonstrates a striking difference in approaching accounting reforms. A short-term implementation period resulted in growing uncertainty in the selection of appropriate accounting reforms. Nevertheless, a common trait for all the three cases was the decision to prolong their accounting change projects – indicative of a tendency amongst the countries to underestimate challenges associated with changing their accounting models and principles. This suggests that the accrual phenomenon is more complex than frequently believed, across diverse country settings. Based on our three countries, it seems as though the nations particularly underestimate the institutional handling of the reform. The same applies when it comes to whether and how the accrual accounting model is compatible with country characteristics, herein how the accrual accounting is intertwined with other elements of the countries’ steering system, like budgeting and planning.

The financial situation in each country impacted on the countries’ reform efforts. The same was discussed by Monsen and Näsi (1998). They referred to the Lüder model – including the claim that countries undertake accounting reforms on the basis of financial crises. However, our study shows that not only current financial situation impacts on countries’ reform initiations, but also expectations of future economic challenges (years ahead). Moreover, we have found that the financial situation also impacts on how countries approach change. For instance, in the case of Nepal, although the ideas of accounting changes have appeared in the forms of recommendations, they have acted more as a coercive pressure due to poor financial conditions and the situation of resource dependency. The acceptance of these internationally propagated accounting ideas and practices has been a way for Nepal to respond to the international community and ensure resources. As the state of Russia initiated accounting reforms at the start of an
economic growth period, accrual accounting and other modern budgeting techniques have apparently served as a symbol of sound fiscal management practices to Russian government officials (Timoshenko and Adhikari, 2010). This provides evidence that the country has been more subjected to normative pressures. Unlike the situation of Nepal and Russia (in the late ’90s), economic prosperity has provided Norway with more flexibility regarding selection of the accounting system. The country’s attempts towards accrual accounting were more influenced by mimetic forces. Especially, developments within international government accounting evoked curiosity concerning the possibilities and implications of implementing accrual accounting.

The points expressed above have implications for the ongoing debate in accrual accounting literature, concerning how accruals can be understood, what they imply, whether such models should be implemented in the public sector, etc. The insight gained in this paper implies that governmental accounting change endeavours cannot solely be considered on the basis of their apparent results. Explicit considerations also need to be made as to how and why countries approached change and reforms. One example is found in the way Norway approached accruals by learning from experimentation rather than sticking to a firm ex ante decision to change formal accounting models. This implied that the exploration itself and thereby the processes, were key issues. Consequently, discussions about financial steering models cannot be separated from how they were approached. This supports the conclusion made by Monsen and Näsi (1998) regarding the need for paying more attention to processes in comparative governmental research.

Our study shows that the institutional forces identified across the three cases were not of one single kind, but rather from segmented institutional environments. One type had a rhetorical basis, which was initially closely related to, e.g., Russia’s orientation towards accrual accounting. Nepal, however, oriented itself more explicitly towards an institutional environment, primarily consisting of international organisations (like the World Bank), which aided its implementation endeavour towards accrual accounting. Still, explicit consideration was given to the country’s specific context and implementation challenges. Norway related itself more closely to a Scandinavian institutional environment by looking closely at what its neighbours (particularly Sweden and in part Denmark) were doing in the accrual accounting area, as well as private sector accounting in Norway. However, Norway also paid attention to an institutional sentiment of countries and researchers, purporting critical reflections over accrual accounting. More significantly though, all the three countries selected and oriented themselves towards an institutional environment, i.e., segment – that was familiar to each country, based on prior experience – and which matched their reform ambitions and goals accordingly. By associating reform endeavours with one institutional segment over another, it became easier for each country to find support for its reform objectives. For Nepal, it therefore made sense to relate to international organisations and to work closely with them, so that they could give experienced advice about how to change its accounting. Russia, on the other hand, satisfied itself by relying on rhetoric, which would suffice in order to gain legitimacy and show political decisiveness. Norway wanted to learn more about what could be advantageous as well as disadvantageous with accrual accounting. This led Norway to associate with countries having experience from using accrual accounting, and with public sectors resembling the Norwegian one. With respect to IPSASs, the way in which Norway borrowed bits and pieces from different accounting and institutional environments illustrates sources of norms being relied on. However, more than anything, the aforementioned illuminates how reform ambitions were matched with specific
Reforming central government accounting in diverse contexts

institutional environments which seemed fit, more so than embracing others ideas for the sake of legitimacy. This point has not been very much discussed in accounting literature relying on institutional theory and can thus be seen as added knowledge and a contribution from our paper.

Finally, all the three countries reflect a government accounting policy making approach that appears as the combined result of internal and external needs and influence. Accounting policy directions seem to be much reliant on finding an appropriate mixture of internal needs, on the one side, and particular external institutional segments, on the other hand. Only when such a mixture is found, can the change efforts continue and the more long-term policy direction be decided on. We see this as a contribution to institutional theory and accounting change literature within the public sector, which has tended to (over)emphasise isomorphic mechanisms as the primary way to understand government accounting change. Our case discussions show that isomorphic mechanisms alone only portray an ambiguous understanding of accounting change in the three countries.

Our findings lead us to unveil stances for further research. More comparative governmental accounting studies are warranted. Our study could, e.g., be extended by applying different research tools, such as the survey method. Other theoretical perspectives may also provide promising insights into countries’ experiences with financial reforms.

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