The actual implementation of accruals accounting

Caveats from a case within the UK public sector

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Abstract

Purpose – To ascertain the principal benefits and drawbacks that have been experienced in implementing accruals-based resource accounting in the UK public sector.

Design/methodology/approach – In a unique study, which presents case research of the Northern Ireland experience within the wider UK context, semi-structured interviews were held with key actors involved in the implementation, maintenance or oversight of resource accounting in Northern Ireland. This paper looks at the operation of a newly introduced system through the eyes of those who are in a position to understand and evaluate the impacts (accountants).

Findings – It finds that the actual implementation of accruals accounting is very different, in effect, in cost and in terms of timing, to that presented in pre-implementation government publications. The result is a complex, expensive system that has provided few benefits to date. What is found is a story of overoptimistic claims and obfuscation of costs. The very best that could be suggested from this research is that a lengthy continuum of accounting change is underway.

Research limitations/implications – This research is a case study within the wider UK public sector and therefore any generalizing of the conclusions beyond the Northern Ireland context should be undertaken with care. However, although Northern Ireland departments are relatively small compared with Westminster departments, there are significant similarities between the modes of operation of all departments within the UK (whether in Westminster, Scotland or Wales). Furthermore, both the implementation of resource accounting and the challenges that it presents are common to all public sector bodies in the UK.

Originality/value – Gives some thought-provoking arguments into the benefits and drawbacks of implementing accruals-based resource accounting in the UK public sector which will provide interest to those in the field.

Keywords Accounting, Public sector accounting, Northern Ireland, United Kingdom

Paper type Research paper

Accruals accounting and the UK

Accruals accounting is a method of recording expenses as they are incurred and income as it is earned during an accounting period (in contrast to cash accounting...
which records cash payments and receipts when they are made or received). A major aspect of accruals accounting is that there is much greater emphasis placed on the use and recording of capital assets. Although accruals accounting was introduced for UK local authority accounts as early as the mid-nineteenth century (Coombs and Edwards, 1996), and, with the major reforms of the early 1990s, accounting on an accruals basis was adopted to facilitate the internal market in the National Health Service, it was only in 1993 that it was proposed that it be adopted, under the title resource accounting (RA), for central government (by the then Chancellor of the Exchequer, Kenneth Clarke). This was quickly followed by a Green (discussion) Paper (HM Treasury, 1994) and a UK Treasury White (policy) Paper (HM Treasury, 1995a).

RA is a term of art covering a set of accruals accounting techniques for reporting on the expenditure of UK central government and a framework for analyzing expenditure by departmental objectives, related to outputs wherever possible. In the mid-1990s, the announcement of its introduction, as part of a wider resource accounting and budgeting (RAB) agenda, was proclaimed as an epoch in the UK public sector accounting framework. As Kenneth Clarke stated, when launching the White Paper (HM Treasury, 1995b, p. 1), “people will find other ways of celebrating the millennium but few will be more important. This is one of those highly significant events”. The impact of the change was similarly emphasized by Wright (1995, p. 580), “not since the 1960s has a change of such magnitude been introduced unprovoked by either a financial or economic crisis”.

RA is predicated on the presumption that the production and use of this new information would lead to decisions being made that would support effective and efficient operations, as well as providing a better basis for the discharging of accountability. The White Paper (HM Treasury, 1995a), as well as containing the broad strategy for managing the transition from cash-based Appropriation Accounts (AAs) to accruals-based Resource Accounts, presented a timetable of providing “live” Resource Accounts by 2001/2002, with the parallel running of AAs and Resource Accounts in advance of this. Such a timetable was to be used in all parts of the UK (England, Northern Ireland (NI), Scotland and Wales), and remained largely unchanged despite the establishment of devolved governments/assemblies in NI, Scotland and Wales in 1999.

Despite many advantages claimed for RA in advance of its introduction (mainly by HM Government), there is a paucity of up-to-date information with regard to it in use. Indeed, despite the vigour with which the potential benefits of RA have been articulated by HM Government sources, a number of commentators have remained unconvinced. Many of the supportive claims relating to the use of accruals accounting in the public sector, and indeed many of its perceived drawbacks, are based on normative arguments (Potter, 1999). It is therefore difficult to assess with any degree of certainty whether the aspired-for benefits of RA have accrued or will accrue, and what the extent of any drawbacks and associated costs have been or will be. The research included in this paper, which constitutes a case study within the wider UK public sector and is the first investigation of its type in the UK, seeks to redress this situation by providing field research. Using a series of semi-structured interviews with key actors (accountants involved with implementing RA in departments, or accountants involved with overseeing the implementation of RA in departments) in NI, its main objective is to ascertain the principal benefits and drawbacks that have been experienced in implementing RA. The main research questions explored are: how was RA implemented; how is the new information used; what are the benefits of RA; what are the drawbacks and costs associated with its use; and did devolution in NI impact on
its introduction? It is a study of actual implementation, something viewed by Carlin (2004) as particularly useful.

NI has a population of 1.7 million, with the NI Civil Service (NICS) having some 32,000 civil servants, approximately equaling a medium-sized department in Whitehall. As Carmichael and Knox (2003) remark, the public administration system in NI has undergone major upheavals in recent times, as a result of the introduction of a new devolved Assembly in December 1999, in line with the provisions of the Belfast (or Good Friday) Agreement in 1998 (NI Office, 1998). This has resulted in major changes in the departmental configuration of the NI Government (as it has done in both Scotland and Wales). Prior to devolution in 1999, there were six departments; with devolution, these six departments were replaced by 11. RA affected all NI government departments (NI Assembly, 2002) and went “live” in NI at the same time as the rest of the UK, although because of the protracted devolution process in NI (see Ezzamel et al., 2005a, b), the periods of actual parallel running were shorter than in the rest of the UK.

The paper is structured in the following manner. A brief outline of the perceived rationality of RA and its linkages to New Public Management (NPM) is presented. This is followed by a review of both the case for RA, mainly encapsulated in HM Government-related publications, and the criticisms of the use of accruals-based accounting technologies in the public sector. These are presented as a basis for the empirical work that is subsequently reported and discussed.

**NPM, rational accounting and accruals accounting**

Over the last 25 years or so, numerous changes have occurred in the public sector in the UK. Collectively, these adjustments have been referred to as NPM and are viewed as ways of improving planning, controlling, transparency and accountability in the public sector. NPM reforms, which were particularly prevalent during the 1980s and 1990s, have had major impacts in many western governments (Guthrie et al., 1999; Hood, 1991; Pollitt and Bouckaert, 2000). Within the UK, this focus on new management practices is seen in a range of changes in health, education, central government and local government. For example, the language of NPM provides a major thrust in the whole Next Steps Initiative programme (HM Treasury, 1992; HM Government, 2000), and its rhetoric is peppered throughout the *Modernising Government* (HM Government, 1999) White Paper. NPM reforms typically have evolved around six dimensions: privatization, marketization, decentralization, output orientation, quality systems, and intensity of implementation. Minogue (2000) argues that the NPM approach to public sector financial management is based upon the view that: large state bureaucracies are inherently defective and wasteful; the free market is the most efficient method of allocating scarce resources; private sector management techniques are a suitable model for the public sector; and if the preferred approach of privatization is not considered to be appropriate then commercialization or pseudo-markets should be introduced as the second best alternative.

In tandem with NPM reforms, a number of governments have moved from cash to accruals accounting principles. Indeed, it is argued that without such movement some of the NPM changes would be weakened (Chan, 2003; Likierman, 2003). In HM Government publications, and in much of the traditional literature, accounting is typically conceptualized as a tool intended to furnish rational decision makers with appropriate information. Accounting is treated as a neutral technology, and hence in the hands of rational decision makers it is deployed to generate and draw attention to information that guides decision makers in making informed decisions. Such a traditional view of accounting is premised on a more general view of the organization,
as one with well-defined, clearly-ordered goals and objectives that are relentlessly pursued by senior managers or decision makers. It is assumed that the preferences of decision makers map (or can be made to map) perfectly onto organizational preferences, and that these preferences provide the basis upon which accounting systems are designed and developed. Such has been the main thrust of the HM Government arguments in proposing the implementation of RA, and more widely RAB, in central government since the early 1990s.

The introduction of RA in the UK is part of an international trend in which central government accounting has moved from its traditional cash-based accounting to accruals accounting. The shift towards a comprehensive accruals oriented public sector accounting and financial reporting structure began to take place in the late 1980s, most notably in Australia and New Zealand. For a full description of the changes see Funnel and Cooper (1998), Ball et al. (1999), Christensen (2002) and Pallot (2002). By 2002, it was estimated that half of Organisation for Economic Co-operation and Development (OECD) member countries were using some form of accruals accounting in their financial reporting (Matheson, 2002), although, on a worldwide basis, cash rather than accruals accounting was still the mainstay of public sector accounting and financial reporting (OECD, 2002). Cash accounting has as its dominant financial statement a budget out-turn report that shows cash spent against budgeted spend. However, critics of cash accounting argue that this does not: give a accurate picture of all the costs; show use made of capital assets; and provide a complete record of what is owed and what is due. As a result, the information is incomplete and often undermines the ability of decision makers to make decisions that result in effective and efficient outcomes. The arguments for using accruals accounting, in place of cash accounting, often resonate with ideas relating to such issues as better information for decision making and more accurate costs.

A central aspect of RA is the production of Departmental Resource Accounts and these form the principal financial reports, providing a series of interrelated statements reporting on the resources, financing requirements, financial position and aims and objectives of departments. The core of RA involves applying “best” commercial accounting and reporting practices to central government, although two of the five primary schedules of Departmental Resource Accounts (Schedule 1 Summary of Resource Outturn and Schedule 5 Statement of Resources by Departmental Aims and Objectives) are unique to the public sector. Many of the benefits that are purported to arise from the introduction of RA, and more widely RAB, are driven by the belief that it will produce new and, arguably, better information, which should enhance control within government, and accountability by government. Key benefits articulated by HM Government include improved resource allocation, improved capital investment decisions and improved accountability and control (HM Treasury, 1994, 1995a).

It is suggested that the introduction of accruals accounting, the heart of RA, helps to improve the “quality and consistency of the information provided to decision makers” in the public sector (US Government Accounting Office, 2000, p. 207). In particular, by providing more relevant information to inform resource allocation, it is argued that RA allows a more strategic approach to public expenditure, enabling departments to cost the resources that they use and match them with the outputs they deliver (Likierman, 1997a). Consequently, using Departmental Resource Accounts to underpin resource allocation decisions at the aggregate level enables allocations among competing priorities to be made in conjunction with full cost information (Evans, 1995; HM Treasury, 2001a). Such views suggest accurate, true, rational information being used to support rational, objective-focused decision making.
In a cash-based system, it is claimed that there is an inbuilt bias against rational capital investment (HM Treasury, 2001b) and it is asserted that the information provided through RA enables better-informed decisions on the balance between current and capital expenditure, taking into account the opportunity cost of capital and its consumption over time (Bevins, 1994; HM Treasury, 1994; Mellet, 1996). In addition, it is suggested that the requirement for each department to identify, in its Resource Accounts, its assets and liabilities, has provided a framework for departments, for example, to take responsibility for properly managing their fixed assets, which includes full asset recording and maintaining up-to-date records (Likierman, 2003). The more effective use of assets was an important part of both the 1998 Comprehensive Spending Review and the 2000 Spending Review, and it is contended that the emergence of resource-based information now plays an important part in decision making, especially as departments have to prepare Departmental Investment Strategies (HM Treasury, 2001b).

It has also been asserted that the provision of better and more focussed information as a consequence of RA has resulted in enhanced accountability to Parliament and better control by operational managers (HM Treasury, 2001a). One aspect of this is that it has facilitated comparisons of the costs of departmental activities both with previous time periods and with external providers (Likierman, 1997b; Carlin, 2002). Similarly, it is suggested that the increased volume and quality of information resulting from RA concerning what is spent and how it is spent, together with the greater transparency of the accounts, which is complemented by the work of the Financial Reporting Advisory Board, has assisted Parliamentary scrutiny (HM Treasury, 2001b).

Despite the articulated benefits of RA, many potential problems have been highlighted (for a more comprehensive coverage of these than is possible in this paper, see Carlin, 2004). Some doubt the quality of the new information provided by RA and the incentives associated with its use, and the view is expressed that the introduction of both RA and RAB is the possible source of new difficulties. Sceptics particularly point to RA’s cost and complexity, the validity of information provided by RA and barriers to effective accountability and control.

It is argued that cash-based accounting has the virtues of simplicity and objectivity, and has served many countries well over at least the last 200 years (Dorgan, 1996). Indeed, even Likierman (1992, p. 23), the individual who was later responsible for guiding the introduction of RAB in the UK central government, once opined that cash accounts “despite their crudeness, have a degree of transparency that accrual accounts cannot give and that many private sector financial reports do not seek to offer”. Moreover, it has been claimed that standard setting affecting the public sector, which provides a basis for RA, may be heavily influenced by political processes, thereby undermining its objectivity (Hodges and Mellett, 2002).

In addition, it is suggested that the changes that RA requires may be difficult to justify in cost-benefit terms, particularly for small departments (NAO, 2003a). It is of note that no cost benefit study was conducted prior to the publication of the White Paper (HM Treasury, 1995a) (Hansard, 1996) that heralded the introduction of RA, and there has been no compliance cost assessment since its introduction despite the significant costs involved (Chow and Humphrey, 2003). And even when costs are ignored, it is argued that many of the claimed benefits on which the case for RA is based may not materialize (Mellett, 1997, 2002).

Heald and Georgiou (1995) question RA’s espousal of basically private sector accounting principles by suggesting that it results in the neglect of genuine differences
between the public and private sectors. In a similar vein, Guthrie (1998), in reviewing the Australian experience of accruals accounting in government, advises that more research in this area should be conducted before such codes are applied generally in the public sector. Recent private sector financial reporting failures, which call into question the reliability of private sector accounting practices (for example, Polly Peck, Enron, WorldCom), are presented as evidence to support prudence in terms of transporting such practices into the public sector. Furthermore, critics question the seeming naivety that allows governments to believe that the public sector will not face the ambiguities and choices in accruals accounting that made these failures possible (Guthrie, 1998; Mellett, 2002).

It has been claimed that the potential for misunderstanding and manipulation of RA information has made Parliamentary committees apprehensive that understanding will be reduced and Parliamentary oversight weakened. Parliamentary staff and NAO officials are concerned that the increased complexity of the accruals-based system may have negative implications for Parliamentary accountability and control (Jones, 1996); concerns which are intensified due to the heavy reliance on professional judgement that is associated with accruals-based measurement (US Government Accounting Office, 2000). Both Jones (1996) and Pollitt (2002) express further concerns that RA is based upon the assumption that private sector methods are superior, and assert that government departments are not business organizations and the requirements relating to accountability and control are different. For example, Guthrie (1998, p. 5) argues that, unlike the private sector, the public sector is “not interested in notions of profitability or financial position”.

Methodology
Arguments in favour of RA articulated by the UK Government, often in advance of the implementation of RA, claimed that it would improve decision making within the public sector, supporting managers in making more effective and efficient decisions, and that it would lead to greater accountability. However, many of these assertions were based on views of how things ought to be rather than how things actually were. The overall objective of the paper is to ascertain the principal benefits and drawbacks that have been experienced in implementing RA in NI. Semi-structured interviews were held with key actors involved in the implementation, maintenance or oversight of RA systems in NI. The questions included in the interview guide emanated from the main themes identified in both the academic (often more critical) and the “official” government (often descriptive and optimistic) literatures relating to RA (reviewed in the previous section) and were broad in scope (a copy of the interview guide used is available from the authors on request). The reason for collecting qualitative data by informal semi-structured interview is based on the interactionist’s premise that when the aim of the research is to understand a complex process where those involved have different perspectives on the matter in question, it makes sense to adopt a research strategy which allows these perspectives to be understood in the same terms in which the participants understand them (Blumer, 1969).

Staff from ten NI Government departments, that is all departments with the exception of the Office of the First Minister and Deputy First Minister (OFMDFM) (which, although it operates as a department, is mainly concerned with administrative functions), a senior member of the NI Audit Office (NIAO), and a consultant who has had substantial involvement in a number of departments were interviewed. In total, 15 interviews were conducted, although on a number of occasions more than one person
from the same organization participated in the interview and therefore the views and responses of a total of 20 interviewees are reported in this paper.

The interviewees, all of whom were accountants (the vast majority of whom were professionally qualified), were chosen because of their seniority, assumed detailed technical knowledge and awareness of the broader issues surrounding the implementation of RA in NI. Furthermore, all of the participants had extensive public-sector experience and significant experience in their present roles. Given their knowledge of the changes taking place, and their position relating to the changes, this group was well situated to comment on the implementation and operation of RA. As suggested previously, accounting techniques have an aura of logic, objectivity and accuracy, a leitmotif throughout a wide range of HM Government publications supporting the implementation of RA. However, it has been claimed that such an impression holds particularly strongly among those who are not technically equipped to deconstruct accounting numbers (Knights and Collinson, 1987; Ezzamel, 1994). With this possibly the case, and given the fact that the RA changes could be perceived as being especially complex, it was considered that accountants were in a unique position to provide realistic and well-informed views on what was happening.

Typically, an interview lasted between one and two hours, with all interviews being recorded and transcribed. Given the potential sensitivities of the matters being discussed and the desire for participants to be as candid as possible, interviewees were informed that interviews would be reported in a manner where specific statements could not be attributed to particular individuals. To reflect the different focus of interviewees, they are classified as either “Overseer” participants (interviewees from the Department of Finance and Personnel (DFP) with responsibility for the implementation of RA in NI government departments, together with the interviewee from the NIAO; interviews 1 to 3) or “Operational Accountant” respondents (those responsible for the implementation and/or maintenance of RA in individual departments; interviews 4 to 15).

Results
The results are presented in relation to the main research questions: how was RA implemented; how is the new information used; what are the benefits of RA; what are the drawbacks and costs associated with its use; and did devolution in NI impact on its introduction?

How was RA implemented?
The strategy, in both Britain (England, Scotland and Wales) and NI, for managing the transition from cash-based AAs to accruals-based Resource Accounts was based upon a phased “trigger point implementation strategy”, involving close collaboration between departments and their auditors to ensure that the various components of the new Resource Accounts were being put into place on time and to acceptable standards (DFP, 2002a). The impression presented in official HM Treasury and DFP pronouncements (for example: HM Treasury, 2001a; DFP, 2002b) was that trigger point dates were firm, and effective systems would be operating by the target dates. Such an articulation of the implementation strategy suggested that accounting change could be introduced relatively rapidly, at low (or no) cost and to strict deadlines (presumably after any problems relating to its introduction have been sorted). Given this, participants were asked questions relating to their experiences of implementation.

“Overseer” participants indicated that their perception was that initial steps to implement RA had been slow, even though there was knowledge of the proposed
changes since the mid-1990s. Progress in individual departments was perceived as being quite variable (often related to the priority afforded to RA within the department). “Operational Accountant” participants often related the extent to which RA had been implemented to whether or not their department was newly created (following devolution) and whether they had the manpower and systems in place. Almost all of the “Operational Accountant” participants expressed views that the process was rushed, and that parallel runs were limited (particularly in comparison with Britain). In addition, several of the “Operational Accountant” participants expressed disappointment at a lack of engagement of the NIAO with their department following the dry run year (and consequent lack of learning on the part of the department). For example:

Because of the timetable, the whole thing has been “ramstammed” in and we had one dry run year. In that dry run year, we produced a set of accounts that we thought, by and large, conformed with department yellow in the manual. But we never actually got any feedback from the audit office about them... So when we came to do the first year, we didn’t actually know really what their view was (Interview 8).

Staff shortages and incomplete asset registers were highlighted as obstacles to efficient implementation, problems that were particularly acute in newly created departments.

Both “Overseer” and “Operational Accountant” participants revealed a number of different sources of support that were available to help implement RA. The Northern Ireland Resource Accounting Manual (NIRAM), the auditors, DFP, Dear Accounting Officer (DAO) letters, external consultants and informal networks were all mentioned as providing assistance; although the extent to which “Operational Accountants” were positive about such support was mixed. For example, although NIRAM (supplemented by DAO letters) was viewed by one “Operational Accountant” as the “Bible” (Interview 4), difficulties in understanding and applying its contents, and the lateness of its provision, were viewed as major problems by several others. Furthermore, although both DFP and the NIAO were important points of contact for advice, the perceived benefit of such contact varied greatly. For example:

As with most of the stuff that comes from DFP, all [a person in DFP] and his crew do, in all honesty, is take the Treasury version, stick DFP on the top of it and send it out. In most cases, they don’t understand it... They [referring to the NIAO] are a bloody nuisance, to be quite blunt. A lot of it is down to the individuals concerned (Interview 8).

It was clear from the interviews with “Operational Accountants” that informal inter-departmental networks were fairly strong (outside of DFP and NIAO) in aiding the implementation of RA, and these were often used to support learning. These contacts were viewed as valuable because of the knowledge of the contact and the expectation that confidences would be respected. Often, these links were based on participants’ experiences from working in other organizations. For example, one interviewee explained that when an issue arose he/she would frequently contact another department in which he/she had previously worked because:

You don’t want to ring somebody you don’t know and sound thick! It’s better with someone you know (Interview 4).

All “Overseer” and most “Operational Accountant” participants stated that external consultants were often used to support the RA implementation process because of, among other things, skills shortages, staff shortages, very tight deadlines and peaks of activity. For example:
The people who were in post, particularly in finance positions, didn't have that skill, first of all to prepare accounts, and secondly to interpret them. Consultancy firms would have provided a lot of assistance... And there are sort of peaks and troughs as well (Interview 5).

However, both the “Overseer” and “Operational Accountant” participants acknowledged the possible drawbacks of having too much, and often inappropriate, reliance on external consultants, whose detailed knowledge of public sector accounting, and RA in particular, was sometimes limited. A number of participants articulated the importance of having enough expertise in-house so as not to be overly dependent on consultants (although it was acknowledged that this was not the situation in most departments at the time of the interviews).

*How is the new information used?*

The change to RA was predicated on the belief that such information would improve planning and control within, and accountability by, government departments. Given that HM Government publications clearly stated that the production of accruals-based information would lead to its utilization, interviewees were therefore asked about such use.

Rather than comment directly on use, “Overseer” participants tended to remark generally on the benefits of RA, although no statements were particularly expansive. In addition, they typically expressed the view that RA was still in the early stages of its development. In cases when “Overseers” referred to the use of RA information, it was often alluded to as being employed in discussions at high level in departments, rather than in the context of operational managers utilizing it to influence decisions (“It’s something you’re sensing at a very high level”. Interview 3).

In contrast, “Operational Accountant” participants were almost unanimous in their view that RA information was either not used or had limited use at present. One of the most negative comments reflected a view that the process was too complicated and suggested a pretence that this information is produced, understood and used, where in reality there is little understanding and use.

What is produced is not worth doing because, frankly, the accounts themselves are so complicated that nobody understands them... They are just totally incomprehensible... I could sit here and tell you that yes it is [being used] and there will be individual branches that do [use it], but the bulk of the people out there frankly don't. They pay lip service to it (Interview 8).

However, several “Operational Accountant” participants, in a more positive tone, did indicate that there was some use being made of the information and suggested that, through time and with more training, this may increase. For example, one participant suggested that there was some evidence of RA information beginning to trickle down from central finance functions into the departments (albeit that the first “live” year of RA had been 2001/2002 and the interviews on which this research is based were conducted in 2003/2004) and was now starting to have an impact (Interview 5).

*What are the benefits of RA?*

RA is presented, particularly in HM Government publications, as a technology that can be applied in order to provide accounting information that is both rational and objective. Many of the benefits that are purported to arise from its introduction are driven by the belief that it will produce new and, debatably, better information as the basis for decision making and reporting. Proponents of RA argue that it will provide
advantages for government departments, central government, Parliament, the public sector and the economy as a whole. These include improved resource allocation, improved capital investment decisions and improved accountability and control. Participants were asked about the extent to which benefits had, or were likely, to arise.

“Overseer” participants typically responded with statements that echoed many of the advantages of RA articulated in HM Government publications. However, when probed as to whether these were planned or actual benefits, it was clear that “Overseers” were of the opinion that while some of these benefits had already emerged, many of them had not. Perceptions of a slow evolving, phased process were expressed, rather than the decisive, orderly accounting change purported in HM Treasury and DFP publications. For example, one “Overseer”, when asked about whether the benefits that he/she had expressed had been achieved, stated that there had been a focus on getting the system set up, and suggested that it would take time for the full extent of the benefits to emerge (even though RA had been “live” for over two years at the time of the interview). He/she commented:

No, it’s not fully achieved. It hasn’t been totally realized. We’re still in this transitional phase... We’re still in that technical transition phase where people are grappling with, “What does this mean?” (Interview 2).

For “Operational Accountant” participants by far the most frequently quoted advantage, although mentioned by a minority of participants, related to the management of fixed assets. While some stated that the existence of an asset register could aid decision making, further discussion revealed that the information was not necessarily influencing decisions yet. Two reasons suggested for this were lack of real control by departments over assets and the fact that the incentives available in the private sector to motivate managers were not available in the public sector:

[...] in the private sector if you had an asset that could be sold and you could save money, then it would be sold and the office relocated somewhere cheaper. But we can’t think like that. The money generated in the public sector just goes back into the central pot. There is no great motivation for a budget manager to manage well (Interview 14).

Many “Operational Accountant” participants suggested that few advantages had arisen from RA, with some expressing strong negative opinions on the purported benefits of the new system over cash accounting. For example:

Well there is the old mantra of being able to monitor your fixed assets better and providing information. To be quite honest, I can’t see, for this department, what the advantage is of having Resource Accounts over appropriation accounts or cash accounts. I really can’t (Interview 11).

To me, the exercise had been more or less a waste of time (Interview 8).

However, some “Operational Accountant” participants (particularly Interviews 13 and 14) suggested that, in time, as the information bedded down and appropriate training was given, the provision of the information had the potential to yield benefits (albeit over the long term, something not particularly acknowledged by HM Treasury).

What are the drawbacks and costs associated with its use?

Despite the articulated benefits of RA, a number of commentators, highlighting potential problems, argue that it is not a panacea. Indeed, the view is expressed that the introduction of RA is the possible source of new difficulties, with detractors pointing to
its complexity, the validity of information provided and barriers to effective accountability and control. In addition, the official government line that RA will not result in additional costs has been challenged. Perceptions relating to both drawbacks and costs were elicited from interviewees.

Both “Overseer” and “Operational Accountant” participants identified a range of drawbacks. Particularly frequently mentioned were the complexity of the information, the length of time needed to produce the information, and the lack of understanding and use by potential users. In many cases, these issues surfaced in the same statement. Fairly typical comments were:

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?” (Interview 4).

A lot of senior people within departments don’t have a full knowledge [of Resource Accounts]. They are complex, those accounts are a nightmare (Interview 1).

Many participants also pointed to the lack of desire by senior managers, most of whom had limited financial training, to learn and adapt. In addition, one participant also stressed the linked problems of underdeveloped information systems and the tight deadlines for “laying” the accounts (Interview 1). “Overseer” participants, in particular, opined that while there was a desire to embrace commercial practices in RA, there also appeared to be a wish to keep hold of the routines of parliamentary cash accounting, which led to significant intricacy and compounded the complexity problem.

With respect to cost, all of the “Overseer” participants challenged the views expressed by HM Treasury that the implementation of RA would be cost neutral (i.e. if any additional costs were incurred they would be offset by savings from using RA information). For example:

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 (Interview 1).

In addition, while acknowledging that departments had budgets for their accounting functions, they expressed no knowledge that any department had budgeted specifically and separately for any additional costs relating to the implementation of RA. Given this, perhaps unsurprisingly a view was expressed (Interview 1) that departments were unlikely to be able to identify the actual costs associated with RA. This apparent tension between the official position of the introduction of RA being cost neutral and the perception of key actors that it was always likely to lead to more costs (and in fact had led to more costs) was expressed in the context of the possible unacceptability to politicians of admitting that RA would result in additional expense (Interview 2).

“Operational Accountants” were equally forthright when commenting on the claim that the implementation of RA would be cost neutral:

Well, that’s the standard bullshit you get from DFP. Total nonsense (Interview 8).

I can think of a one-word answer to that. It is nonsense and speaking to people on the mainland [Britain] it is nonsense there too (Interview 13).

While a range of additional outlays relating to the implementation of RA was cited (for example, information systems costs and consultancy costs), by far the most referred to was the cost associated with staffing up with accountants. Most of the “Operational Accountants” remarked on the number of additional posts created as a result of RA,
with the median being about six or seven in each department (with one department claiming that it had created 30 posts). For example:

Before RAB, we had two qualified accountants looking after the financial accounts. Now we have six (Interview 14).

Given that many of the NI departments are fairly small in UK terms and, pre-RAB, had few accountants, this represented a considerable increase. The magnitude of this enlargement as a result of RAB was summed up by one of the “Overseer” participants, who suggested a three-fold increase in accounting staff in many departments as a result of RA, as follows:

An increase of the number of accountants from two to eight in a department would not be uncommon. Some departments had very few accountants at the beginning. The increase was significant and from a very low base (Interview 1).

In terms of annual staff costs alone, an array of subjective estimates for individual departments was given:

You could be talking about £500,000 (Interview 13).

You're talking a couple of hundred grand a year (Interview 7).

It was clear from all of the participants’ responses that, while they had perceptions as to the elements of cost affected by RA, none had an accurate estimate of the actual cost incurred. In addition, it was evident that these additional costs were not budgeted for in terms of a programme to implement RA. Indeed, one “Operational Accountant” participant suggested that a cost-benefit evaluation would not be popular because the costs are so high and the benefits so limited (Interview 13).

Given the perceived additional costs, and the fact that the official line was that no additional resources were to be given to implement RA, the issue of what “gave” in departments was explored. While participants were unsure of the specific impact of such a diversion of resources, they did acknowledge that resources would have had to be diverted from departmental services. For example, one interviewee (Interview 6) suggested that senior management within his/her department were supportive of RA and therefore decided to divert money from front-line services. Similarly, another participant (Interview 11) stated that the resources relating to unfilled posts in other, more direct, areas were redirected to the administration budget.

**Did devolution in NI impact on its introduction?**

Under the terms of the Belfast (or Good Friday) Agreement (NI Office, 1998), the structure of government in NI was changed from six to 10 departments plus an OFMDFM (effectively, 11 departments) in the run-up to the introduction of RA (for a fuller explanation, see Ezzamel *et al.*, 2005a, b). Interviewees were therefore asked whether these fairly substantial changes to departmental and accounting boundaries, and the reconfiguration of existing accounting systems and allocation of accounting staff, provided additional obstacles to the implementation of RA.

“Overseer” participants, individuals ideally positioned to identify what was happening across departments, concurred that devolution made the process difficult to manage and demanding in terms of meeting deadlines. A variety of related reasons, contrary to the deliberate and systematic approach outlined in the pre-RA official government literature, were presented for this, including: the departmental restructuring resulting from devolution; the limited preparation, and consequent
lack of parallel running, given the uncertainty and focus on broader political considerations; and the limited financial expertise that was available in the NICS. Additionally, it was stated that, compared with Britain, the departments had less time. For example:

So we had all this stuff [referring to changes brought about by devolution] right in the middle of our dry run experience. So we had to basically drop the dry runs, which meant that we were limited in our preparation time... The bigger issue was departmental restructuring which fell out of devolution... that had real practical impact. (Interview 2)

Moreover, the same participant suggested that once devolution had been established, it was unlikely, giving the dominance of bedding down the political processes in the new Assembly, that the new ministers would see RA as a high priority.

The views of “Operational Accountant” participants tended to be influenced heavily by the extent to which the restructuring had impacted on their particular department, and the degree to which its accounting function was left intact. In some cases, the new departments had no accounting system and had to rely on another department to provide accounting services. However, those departments that got off “lightly” in the restructuring appreciated what they saw as their good fortune:

Any department whose activities were split and therefore the infrastructure had to be split, it created problems for (Interview 12).

Overall, all “Operational Accountant” participants were aware of the potential combined impact of devolution and RAB occurring over the same period of time, regardless of the actual impact on their own department. This was summed up most vividly as follows:

The whole of the Northern Ireland Civil Service was reeling under devolution and the finance guys were being hit with RAB as well. There was an old colleague of mine who used to say that the only person who likes change is a wet baby! And change on the scale of those two was quite difficult to bear at times (Interview 6).

Discussion and analysis

Many of the structural reforms of government in the UK over the last 25 years can be seen as aspects of NPM, which, collectively, may be viewed as ways of improving accountability and control in the public sector. Often changes associated with NPM and RA are presented as technologies that can be implemented in an organized and coherent manner, resulting in knowledgeable managers making rational decisions based on maximizing the performance of their organization. This research, however, indicates a process of accounting change that is at odds with the seamless, decisive and low (or no) cost process that is articulated in the official UK Government RA literature.

HM Treasury (2001a) intimated that the real benefits of RA would be when lower-level managers understand and use such information. However, “Operational Accountant” participants indicated that this was certainly not yet happening and pointed to continuing problems understanding the RA information, which was perceived as being difficult to prepare, understand and use. Some participants believed that this complexity merely served to undermine any potential that RA had to deliver its key objective of improving decision making in, and accountability by, the public sector. In the few situations where mention was made of RA’s use, it was alluded to in the context of high-level discussions in departments, rather than in terms of
operational managers utilizing it to influence day-to-day decisions. This problem is anticipated by Shand (1998), who stressed a potential tendency for changes in the public sector to occur at a fairly high level and not impact on lower levels.

While the HM Treasury view was that the implementation of RA would be cost neutral, all interviewees highlighted that this was not the case. The interviews revealed that although no department had prepared a separate budget for the introduction of RA, or kept records of actual costs, the costs were perceived as being substantial (in particular, those relating to payroll). Given that the introduction of RA was always liable to lead to increased costs (despite official denials), and that any benefits were likely to be slow to emerge, perhaps this “fuzziness” was seen as necessary by those championing this change, albeit an approach at odds with a rational approach to accounting change. Indeed, some interviewees argued that the production of accurate cost information as part of an ex-post evaluation was unlikely to be welcomed by those promoting RA. This implies a process of understatement, official denial and obfuscation of cost had developed (perhaps deliberately), and this has possibly served to reduce both transparency and informed debate regarding the appropriateness of RA.

Perhaps it is unsurprising that the benefits claimed for RA appear to have been (deliberately?) overstated and the costs understated. For example, Rubin (2000), in commenting on budget reforms, argues that often the only way reformers get proposals accepted is to make exaggerated claims. She suggests that government frequently use a wide variety of strategies to get reform accepted, and that some of these strategies include producing difficult-to-substantiate arguments that there is a need for the change and that there will be future economic benefits. Indeed, Rubin intimates that this can result in the presentation of figures of dubious accuracy and the construction of arguments that obscure rather than elucidate key decisions. As a result, she argues that the assessment of any change should arguably be made against the status quo rather than the exaggerated claims made by the proponents of the change. This said, the interview responses reported in this case research mostly take the status quo (i.e. before the introduction of RAB) as their starting point.

At the same time as the major accounting change, devolution in NI led to substantial departmental restructuring, resulting in a number of departments being created that had no, or inadequate, accounting systems. This created difficulties in meeting trigger point deadlines, and compressed the accounting change process in NI (compared with Britain), something that was not anticipated at the time RA was announced. For example, NI had only one year of parallel running prior to 2001/2002 (RA’s first “live” year) rather than three (as was the case in Britain). In addition, and perhaps surprisingly given the upheaval caused by devolution, DFP chose a much tighter deadline than Britain for the production and laying of Resource Accounts (Ezzamel et al., 2005a, b). For example, at the time of the interviews NI Resource Accounts had to be “laid” by 15 November, whereas the comparable date for Britain was the 31 January in the following year. While this may demonstrate an enthusiasm by DFP to get RA established quickly in NI, the reaction to the tighter deadlines was not positive (as was evidenced in the interviews).

These conditions meant that the timetable for implementing RA was always likely to present challenges to departments; and so it proved. The interviews provided evidence that a number of departments were struggling to meet the trigger points because of, among other things, a lack of resources, a lack of necessary information and a lack of understanding of the concepts. Departments with little accounting system infrastructure prior to devolution were particularly ill prepared to implement RA. For example, a participant claimed that the development of an asset register, an important
aspect of RA, was not commenced in one department until May 2001 (Interview 12), a month after RA was intended to be “live”, even though parallel running was meant to have taken place in the previous year. Although the reactions and experiences among departments with respect to the implementation of RA were varied, in general the perception of interviewees was that the process was rushed, there was a lack of appropriate systems in place and available resources (particularly experienced staff resources) were limited. Overall, both sets of participants highlighted that, while no department was able to come near to meeting all the targets in the trigger point strategy, progress across departments was variable. Although the impression was presented in official HM Treasury and DFP pronouncements (for example, HM Treasury, 2001a; DFP, 2002b) that trigger point dates were firm and effective systems would be operating by the target dates, the actuality was quite different.

A number of DFP reports (DFP, 1997) highlighted major deficiencies in the accounting skills available to departments in NI prior to RA. This lack of available in-house skills continued during implementation (as was confirmed in the interviews), resulting in over reliance by some department on consultants. Although such skills shortages were not unique to NI (similar problems had been identified in Britain (NAO, 2003b), their magnitude, coupled with the impact of devolution-related restructuring, compounded the problem. Overall, these factors contributed to a rushed, confusing and uneven implementation process.

The research reported here indicates a process of accounting change that is significantly different from the articulated view in pre-implementation HM Treasury and DFP publications. Changes associated with RA are presented as technologies that can be applied crisply and cleanly, as a basis for rational decision making in the public sector (resulting in knowledgeable managers making sound decisions based on maximizing the performance of their organizations). However, the research presented here indicates that: the implementation of RA in NI to date is partial and uneven; RA information produced is rarely understood by the managers who were meant to be using it for decision-making purposes; and adequate systems and personnel have not been available in many departments, leading to problems in implementation.

At best, the evidence here suggests a process of accounting change that features an introduction stage (where systems are introduced and an initial framework for reporting developed), a development stage (where problems of application, understanding and use are resolved) and a maturity stage (where properly refined systems are operating and managers are using the information produced for a variety of purposes), with this process in most NI departments being somewhere between the end of the first stage and the middle of the second stage. Many of the actors interviewed expressed a view that, eventually, a period of refinement, understanding and widespread use may be reached; although none suggested that this was any way near being attained at present.

Conclusions and areas for further research
Government policy during the 1990s was to change from a cash-based to an accruals-based accounting system, and many benefits anticipated from such a change were articulated. While some limited positive claims regarding the impact of RA appeared through HM Treasury (2001b, 2002) channels, these were not based on any systematic analysis of effect, and tended to provide ad hoc assertions of benefits while underplaying any emerging problems. While the evidence from Britain of overall positive effect is partial and unconvincing, very little is known of the consequences of the transformation in NI.
The implementation of RA, and more widely RAB, is still ongoing, and the process has been very different to that presented in pre-implementation HM Treasury and DFP publications. Whether RA will ever deliver the advantages claimed for it over a cash-based accounting system is still unknown; but what is known is that it has not delivered them as quickly as pre-implementation claims suggested. What has been found in NI is a complex, expensive system that has provided few benefits to date. The very best that could be suggested from this research is that a lengthy continuum of accounting change is underway that features introduction, development and maturity stages, with progress so far, in moving along this continuum, limited. Advocates of RA will hope that, in due course, an embedded system of RA that leads to better decision making and more appropriate accountability will emerge. Sceptics will sense the possibility of a sledgehammer having been used to crack a nut, and will continue to criticize what they perceive as collateral damage. Exaggerated pre-implementation claims in terms of timing and effect may have provided an edge to a continuing debate (as well as, conceivably, being necessary inputs to the initial decision relating to the change). Notwithstanding these issues, perhaps it is still far too early to draw firm conclusions.

Undoubtedly, devolution in NI has had a major impact (as it may also have had in both Scotland and Wales). In addition, adequate systems and personnel were not in place, and were known not to be in place, sufficiently early to achieve the trigger point strategy. RA information that has been produced appears to be rarely understood and used by the managers to whom it is directed. Costs associated with the introduction of RA were considerable, although these were underplayed in official documentation and, post-implementation, no systematic attempt to measure them has been made.

This research is a case study within the wider UK public sector and therefore any generalizing of the conclusions beyond the NI context should be undertaken with care. However, although NI departments are relatively small compared with Westminster departments, there are significant similarities between the modes of operation of all departments within the UK (whether in Westminster, Scotland or Wales). Furthermore, both the implementation of RA and the challenges that it presents are common to all public sector bodies. This research views the implementation of RA through the eyes of technically proficient and knowledgeable actors (accountants) who are ideally positioned to understand the effect of what is being implemented. However, further research is needed to understand better the impact that RA has had on the public sector. Studies, of a comparative nature, of the British public sector (be it Westminster, Scotland or Wales) would be particularly relevant, as they would help to ascertain the extent to which the NI experience is common within the wider UK (and complement the rather anecdotal evidence emanating from official sources in Britain). In addition, the work could be accompanied by interviews with managers at various levels within departments in order to ascertain their understanding, use and perceptions of RA. A larger study, possibly on a UK-wide basis, allowing a disaggregation of data into areas of service activity, or size of organization (where the question of whether “full RA” should be applied to small organizational units could be explored), may be beneficial and encourage the development of more appropriate, customized accounting systems. This could be expanded by the use of international comparisons with public sectors in countries that have embraced accruals-based accounting systems.

Overall, the arguments presented by various proponents of accruals accounting systems in many countries often contain similar themes and claims. On the basis of the case-based research presented here, it is suggested that these claims should be treated with caution. Whether accruals-based accounting systems, such as RA, can ever
deliver major benefits is still unknown; but what is recognized from this case is that it is quite possible that the rhetoric of government about accruals accounting (often in advance of implementation) can be very different from the reality of accruals-based accounting systems in actual use.

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