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# **Accrual Accounting Regulation in Central Governments**

**- A Comparative Study of Australia, Sweden and the United Kingdom**

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## 1. Introduction

### 1.1 Accrual accounting reforms – a component of New Public Management

A wave of management reforms have swept through many countries in the last twenty years. Public management reforms have to do with deliberate changes in the structure and process of public sector organisations. The purpose is to get them to perform better.<sup>1</sup> These management reforms are often referred to as New Public Management (NPM).

Sahlin-Andersson<sup>2</sup> points out three different types of global reform trends. The first type of trend is nationally based and results when a number of countries pursue similar reforms at the same time, but independently of each other. The second type of trend is internationally formed and is a consequence of a set of ideas travelling around the world. The third type of trends is transnationally formed. In addition to reformers, there are a number of observers and mediators of reform ideas and experiences, such as researchers, international organisations, consultants and publications. They produce and provide information and comparisons, report on and propose initiatives for change and act as arenas for the exchange of experience, ideas and ideals. In her conclusions Sahlin-Andersson refers to the NPM having evolved into a global trend and reforms being shaped as a product of interaction between national reformers and transnational mediators and editors of such reforms.

The definition of NPM is not clear-cut and the elements included may differ from country to country.<sup>3</sup> Some important characteristics are reforms, such as market orientation, devolution, managerialism and use of contracts.<sup>4</sup> According to Olson, Guthrie and Humphrey<sup>5</sup> accounting arrangements are an important part of the NPM ways of governing, and the introduction of business like forms of accounting are pointed out as some of the more central reforms. They launch the concept of New Public Financial Management (NPFM) as they identify five different categories of NPFM reforms, including the promotion of accrual-based financial statements and a reliance on professionally set accounting standards.

The reliance on professionally set accounting standards is referred to as follows by the Comptroller and Auditor General of the UK<sup>6</sup>: “Financial statements need to be produced within a set of principles and rules which ensure that information is presented in a consistent manner which is understandable and meets the needs of the users of the statements. For example, in private sector, companies are required to prepare accounts based on accounting standards which aim to ensure that the accounts provide a true and fair view of their financial performance and standing. Without such a framework, financial statements are open to manipulation and can

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<sup>1</sup> Pollit and Bouckaert, 2000, p 17

<sup>2</sup> Sahlin-Andersson in Christensen and Laegreid (eds), 2002, chapter 3

<sup>3</sup> See Forsell in Christensen and Laegreid, 2002

<sup>4</sup> Christensen and Laegreid, 2002, p 1

<sup>5</sup> Olson, Guthrie and Humphrey, 2000

<sup>6</sup> Report by the Comptroller and Auditor General Resource Accounting and Budgeting in Government (House of Commons Paper HC123 Session 1994-95, 25 January 1995).

mislead rather than inform the users. Such a framework is more important for accruals accounts, which require the preparer to make more judgements and estimates than is the case for cash accounts. Standards are necessary to govern these judgements and to provide an agreed benchmark against which the auditor can examine them; so that the reader of the accounts can know the basis on which they have been prepared.”

Accounting standards - and other types of accounting regulations - are a small part of the NPM reforms and only a part of the accounting reforms. However, it is an important area, in my opinion, and it is the area I focus on in this comparative study. It has been stated that there have been few comparative studies of experiences with NPM and NPFM.<sup>7</sup> Comparative studies have also been promoted by organisations such as the comparative international government accounting research (CIGAR) network.<sup>8</sup> Studies on government accounting often stress “context” over “content”. However, content is also important as it gives information on what an accounting and reporting system actually does.<sup>9</sup>

## 1.2 A few governments apply full accrual accounting

According to Pollit and Bouckaert<sup>10</sup> the modernisation of accounting systems follows a roughly similar pattern of country trajectories. The pattern consists of three broad positions, beginning with a traditional, cash-based accounting system, then a shift to double-entry book keeping, modified cash or modified accrual and, finally, the development of accrual accounting including performance-related information. They point out that Australia, New Zealand, and the UK are among the countries which appear to have had the most far-reaching changes. In a table<sup>11</sup> also a fourth country is referred to this third stage of development. The fourth country is Sweden.

A lot of governments have adopted, or are about to adopt, accrual accounting. This development has been stimulated by the Organisation for Economic Co-operation and Development (OECD) which already in 1993 commented that “While the advantages of cash are acknowledged in terms of assessing short term economic impact and compliance with spending limits, the ability of cash information to enable informed decisions on the stewardship and financial position is constrained because it excludes physical and financial assets and liabilities. Alone it provides no basis for judgements on performance in terms of economy and efficiency.”<sup>12</sup>

At present very few countries produce consolidated whole-of-government accrual accounts. According to the OECD<sup>13</sup> only the countries in table 1 apply full accrual accounting in that respect. In a footnote the OECD also informs that the UK will produce consolidated statements year 2005-06.

<sup>7</sup> Olson, Guthrie, Humphrey, 2000, p 23

<sup>8</sup> Chan, Jones, Lüder, 1996

<sup>9</sup> Chan in Montesinos and Vela, 2002, p 25

<sup>10</sup> Pollit and Bouckaert, 2000, p 67

<sup>11</sup> table 4.3 (page 68) in Pollit and Bouckaert, 2000

<sup>12</sup> OECD, 1993

<sup>13</sup> PUMA/SBO(2002)10

Table 1: Accounting Basis Applied for Consolidated (Whole-of-Government) Financial Statements

	Full Accrual Basis	Accrual Basis, except no Capitalisation or Depreciation of Assets
Australia	X	
Canada		X
Finland	X	
Iceland		X
New Zealand	X	
Sweden	X	
United States	X	

Source: OECD Budgeting Database

In addition to the above countries some more countries use accrual accounting for departmental and agency level financial statements<sup>14</sup>.

Table 2: Additional Use of Accruals in Departmental / Agency Level Financial Statements

	Departmental / Agency Level Financial Statements on Full Accrual Basis
Japan	X
Netherlands	X
Portugal	X
Switzerland	X
United Kingdom	X

Source: OECD Budgeting Database

### 1.3 Accrual accounting increases demand for standards

As mentioned above, moving to accrual accounting increases the demand of standards. Without standards – or regulations - the accounting practice would diverge, and the status of government finances would be uncertain<sup>15</sup>. Flower<sup>16</sup> has presented three broad reasons why standards for company accounts are important. The reasons presented by Flower's are the following:

**Certainty:** The accountant who has to prepare the financial statements and the auditor are faced with a difficult problem when they come across an item or a transaction over which they have doubts as to what is “good accounting practice”. Their tasks are made easier if there are authoritative statements to which they can turn for guidance and which they can refer to if their choice of accounting method is questioned.

**Comparability:** A similar argument applies in respect of the users of accounts. If all companies use the same accounting methods for equivalent elements and transactions the user of the accounts will have to inform himself/herself only once and the information can be used for many companies. Standardised accounting methods also make financial statements of different companies comparable.

**Quality:** Behind this lies a desire to improve the usefulness and relevance of financial statements. If the information needs of the users of accounts are to be

<sup>14</sup> See also Lüder, 2001 and Lüder in OECD, 2002, p 237

<sup>15</sup> Premchand, 1995

<sup>16</sup> Flower, 1994, p 251

met, some constraint on the preparers of accounts is necessary. J.A. Burggraaf, a former chairman of the International Accounting Standards Committee<sup>17</sup>, expresses it very concisely: “the major thrust of accounting standards is to reduce the freedom of preparers, in order to satisfy some of the demands of the users.”<sup>18</sup>

Comparative studies in private sector accounting regulation in Europe show that there is an extraordinary diversity in the regulatory systems of the EU countries. Even though there are similarities and common features, the differences are more striking.<sup>19</sup>

However, there has been, and still is, a movement towards a larger degree of harmonisation between countries. One reason is the EU accounting directives, especially the fourth and the seventh directives. In addition, in June 2000 the EU Commission published the Communication “EU Financial Reporting Strategy: the way forward” with a requirement for listed EU companies to use International Accounting Standards (IAS) issued by International Accounting Standards Board (IASB) in their consolidated accounts from at the latest the financial year 2005. The IAS will be applicable after having been endorsed by the EU.

As regards the public sector, The Public Sector Committee (PSC) of the International Federation of Accountants (IFAC) has started to issue Accounting Standards (IPSAS). So far the IPSASs are based on the IAS.<sup>20</sup>

So far no government has fully adopted the standards issued by the IFAC-PSC. However, according to information on the IFAC website, a few organisations have decided to adopt the standards. These organisations are The North Atlantic Treaty Organisation, the OECD and the European Union.

#### **1.4 Who sets the standards?**

As regards the private sector the accountancy organisation FEE (Fédération des Experts Comptables Européens) has carried out a survey on accounting standard setting in Europe. The results show that all countries in Europe have some form of standard setting body even though their structure and method of operation differ. Some of the standard setters are private organisations; others are public bodies. It is also shown that in some countries standard setters are given the power to set standards by law; in other countries this is not the case. The FEE also points out that there is a process of convergence between national standards and IAS, in particular in the case of consolidated accounts.<sup>21</sup>

The OECD budgeting database provides information on the determination of Accounting standards for the Public Sector. The database covers 29 countries which are classified according to four different alternatives as follows<sup>22</sup>:

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<sup>17</sup> Equivalent to the present International Accounting Standards Board (IASB)

<sup>18</sup> Bromwich and Hopwood, 1983, p 4

<sup>19</sup> Flower and Lefebvre, 1996, p 413

<sup>20</sup> Adhémar in Montesinos and Vela, 2002 and [www.ifac.org](http://www.ifac.org)

<sup>21</sup> FEE, 2000

<sup>22</sup> OECD, 2002a, p 49

- Finance Ministry determines the standards (applies in 68 % of the countries, including Sweden)
- Finance Ministry determines the standards following recommendations by formal Advisory Board (applies in 21 % of the countries, including UK)
- Finance Ministry appoints independent board to determine the standards (applies in 7 % of the countries)
- Private sector accounting standards body determines the standards (applies in 3 % of the countries, including Australia)

Who decides accounting regulations is more important in an accrual environment since more judgements need to be made on how to account for individual transactions<sup>23</sup>. It has been discussed in the UK where concern was expressed by Parliament and the accountancy profession that the determination of accounting regulations should not be a governmental internal affair<sup>24</sup>.

### 1.5 My research question

The OECD survey presented above is very brief. It does not give any details about the accounting regulation system, including the decision process related to accounting standards and the participation of other organisations. My hypothesis is that the reality is much more complex.

Also, according to the OECD survey, in Sweden the Finance Ministry determines the standards. However, according to the Swedish constitution decisions are taken jointly by the government cabinet. This is not reflected in the OECD survey. Altogether this indicates that there is a need to study the issue in more detail.

My main research question is: How are accounting regulations formed and how is accounting practice communicated within governments in three countries applying accrual accounting?

In other words, I want to describe the system for accounting regulation which is the basis for the preparation of government annual reports. I want to penetrate these specific issues;

- Which organisations are involved in the formulation of accounting regulations?
- What different types of regulations are there? Level of details?
- To what extent are there defined processes (“due process”) for establishing the regulations?
- In broad outline, which areas are covered by the regulations? For example, are requirements for performance reports included?
- From where are influences gathered? To what extent are private sector accounting standards valid?
- How is accounting practice communicated, for example through education, newsletters etc.

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<sup>23</sup> OECD, 2002b, p 7

<sup>24</sup> Likierman in Montesinos and Vela, 2002, page 150

## 2. Design of the study

### 2.1 Comparative analysis of three countries

My study is driven by an empiric type of research question. Therefore my approach is to make a descriptive, comparative case study of three countries.

The study is limited to three countries as I want to give priority to a detailed description of a few countries before making a more shallow study of a larger number of countries. In my opinion, three countries are a reasonable number in relation to the amount of time I have available. My objective is not to make generalisations.

My objective is to give a comprehensive picture of the present, accounting regulation system in each one of the three countries. My intention is not to describe the process leading up to the present arrangements or analyse why possible similarities or differences exist.

I have chosen to make a comparative study as it is a good method to get a fair understanding of a phenomenon.<sup>25</sup> Also, comparative studies have been promoted –as already mentioned.

I have carried out my study by the use of information found mainly on websites. I have also interviewed some people actually working with the issues studied. More details about the gathering of information are found below.

My focus is on accounting regulations concerning the preparation of annual reports. This means that I do not study regulations concerning other types of accounting and reporting, such as internal reporting, periodic reporting or how and when accounting information technically is to be delivered to a hierarchically higher level. In terms of annual reports I do focus on the reports from all the different levels within central government, such as agency and departmental reports as well as annual reports for governments and states.

### 2.2 Choice of countries

The selection of the countries, Australia, Sweden and the United Kingdom (UK), is subjective. However, I do believe it is interesting to compare these countries as they are among the countries which appear to have made the most far-reaching changes in terms of financial management reforms, including the modernisation of accounting systems. Other relevant countries could have been New Zealand, the United States and Finland.

Australia is a federal state. Sweden and the UK being “unitary” states can be further distinguished as centralized (the UK) and decentralised (Sweden). For example, in Sweden many powers have been delegated from ministries to agencies and local governments have statutorily well-protected independence

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<sup>25</sup> Forsell in Forsell (ed), 2001, p 18

from central government.<sup>26</sup> Having chosen countries that, in this respect, are quite different I do not believe have any major implications to my study.

The focus of my study is on what in Sweden is referred to as central government. Due to different structure of the states, there is not a total correspondence. However, this fact should not have any major relevance in relation to the main issues in focus.

I have come across, in my view, a minor problem when carrying out my study. This problem refers to Australia being a federal state, comprising several states and territories. As my study shows, the regulatory system for accounting is the same for all states and territories to a large degree. However, each state and territory has its own financial management legislation. On a more detailed level, supplementary regulations etc. are issued by the Ministry of Finance in each state or territory. I have studied the state of Victoria. This state was, after New South Wales, one of the front-runners in terms of implementation of accrual accounting in Australia. Due to this fact, I think Victoria is a good choice. An alternative would have been to choose the federal level. However, the federal state implemented accrual accounting at a later stage and might not have come as far with the development of regulatory structures. Also, the federal state accounting probably does not include as wide range of issues as included in the operations of the different states and territories. In those cases when I refer to circumstances related only to Victoria, that fact is pointed out specifically.

### **2.3 Information on internet web sites**

A large amount of information has been gathered through different web sites. I have found that all the organisations included in my study, have a lot of information on their websites. In this respect I have had a problem of too much information rather than a problem of too little information.

Through the website information I have been able to understand the overall structure of the system of accounting regulations and learn briefly about how the different bodies operate. The websites have also provided me access to all the standards and regulations which have been issued, as well as other documents.

I have also browsed through quite a large number of annual reports from agencies, departments etc. in order to increase my general understanding. Some of these annual reports have been available on the websites. They have also been gathered on other occasions, including interviews.

### **2.4 Interviews**

Even though the websites provide very much information I have seen a need to get some additional information and clarifications through interviews. Therefore, I have discussed specific issues of interest with representatives from relevant organisations in Australia, the UK and Sweden.

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<sup>26</sup> Pollit and Bouckaert, 2000, p 41

Interviews have been made in person. If needed, additional information has been collected by e-mail. These contacts of follow-up character are also referred to as interviews. A draft version of my report has been sent to the people interviewed with the invitation to read at least “their” sections in order to detect possible misunderstandings. The people interviewed have also had the possibility to comment on my presentation and analysis.

## 2.5 Outline of this report

The introductory chapter and this chapter describing the design of the study are followed by another seven chapters.

In chapter three I present the model I have chosen to use for analysing accounting regulations in the three countries. It sets the framework for my study and presents the four aspects I want to focus on. For each one of these aspects a theory or an example is used as a reference in my analysis.

Chapter four contains some general information on accrual based annual reports in Australia, Sweden and the UK. The purpose is to facilitate the reading of the following chapters.

The main findings of my study are presented in chapter five to seven. There is one chapter for each country. Each chapter has the same structure. After an overview there is one section for each one of the main actors in the system for accounting regulation. In each section the other aspects of my study are dealt with. In the end of each country chapter there is a summary of the hierarchy of the accounting regulations and other instruments of that country.

In chapter eight there is a comparative analysis of my findings. This analysis is linked to the model presented in chapter three and follows the same structure. Finally, in the last chapter, I present some personal reflections on my findings.

## 2.6 Definitions

Accounting policies are the specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting financial statements. (IFAC, Glossary of Defined Terms)

Accounting regulations: This is the term I have chosen to use in this study in order to define a wide range of accounting policies and accounting standards issued by various organisational bodies.

Accounting standards are authoritative statements of how particular types of transactions and other events should be reflected in financial statements and accordingly compliance with accounting standards will normally be necessary for financial statements to give a true and fair view. (ASB Foreword to Accounting Standards, 1993)

Accounts: A term often used as equivalent to financial statements.

Accrual basis is a basis of accounting under which transactions and other events are recognized when they occur (and not only when cash or its equivalent is received or paid). Therefore, the transactions and events are recorded in the accounting records and recognized in the financial statements of the periods to which they relate. The elements recognized under accrual accounting are assets, liabilities, net assets/equity, revenue and expenses. (IFAC, Glossary of Defined Terms)

Annual report: This is the term used in this study for the reports including financial statements that organisations are to submit annually. In the UK the term Annual report and accounts is most often used instead of annual report.

Consolidated financial statements: The financial statements of an economic entity presented as those of a single entity. (IFAC, Glossary of Defined Terms)

Financial Statements are a structured representation of the financial position of and the transactions undertaken by an entity. The objectives of general purpose financial statements are to provide information about the financial position, performance and cash flows of an entity that is useful to a wide range of users in making and evaluating decisions about the allocation of resources. (IFAC, IPSAS 1, Presentation of Financial Statements)

General purpose financial report means a financial report intended to meet the information needs common to users who are unable to command the preparation of reports tailored so as to satisfy, specifically, all of their information needs. (Australian Accounting Standard AAS 31, June 1998)

Reporting entity means an entity (including an economic entity) in respect of which it is reasonable to expect the existence of users dependent on general purpose financial reports for information which will be useful to them for making and evaluating decisions about the allocation of scarce resources. (Australian Accounting Standard AAS 31, June 1998)

Resource accounting (used frequently in the UK): A set of accruals accounting techniques for reporting on expenditure by departments and the relationships between expenditure and departmental objectives. (UK “Managing Resources” booklets)

Resource accounts (used frequently in the UK): Resource accounts are prepared annually and present the financial results of the department for the relevant year. They are prepared on the basis of generally accepted accounting practice and in accordance with the Resource Accounting Manual. (UK “Managing Resources” booklets)

UK Generally Accepted Accounting Practice (GAAP): The accounting and disclosure requirements of the Companies Act (1985) and pronouncements by the Accounting Standards Board (principally accounting standards and Urgent Issues Task Force abstracts), supplemented by accumulated professional judgement. (UK “Managing Resources” booklets)

### 3. Model for analysing the accounting regulation system

Chapter one ended with an overall research question and a list of specific questions which I focus on in my study. The purpose of this chapter is to set the framework for my study and present the four aspects by which I make my questions operational. These aspects are:

- The accounting regulations and other instruments
- The actors in the system
- The process of setting accounting regulations
- The overall content of accrual accounting regulations

In this chapter I present each one of these aspects by the use of either a specific model or an example. These are used as points of reference in my analysis. Altogether they constitute what I refer to as an accounting regulation system.

#### 3.1 Accounting regulations and other instruments

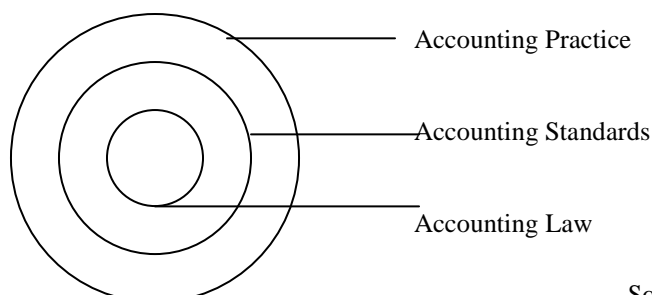
As regards this first aspect I have chosen to use a model presented by Flower as a point of departure. It should be noted that his model concerns regulations of company accounts, but I believe it is useful also for my purpose. According to Flower<sup>27</sup> each country has its own unique system for the regulation of financial reporting. However, according to Flower, it is possible to construct a general model that is valid, to some degree, for all countries. The main elements of his model are presented and explained in the following:

(1) National laws and regulations on accounting comprise all rules issued by the government which have the force of law i.e. which are followed automatically by the courts.

(2) Accounting standards and similar statements that set out the rules to be followed in preparing accounts. They are issued by a wide range of “standard-setting bodies”. The characteristics of standards are that they are not law but that they are followed by accountants generally. The standards supplement the law.

(3) Accounting practice includes previous practice, accounting manuals, articles as well as the accountant’s own training and experience.

Figure 1: Main elements of a system for the regulation of financial reporting



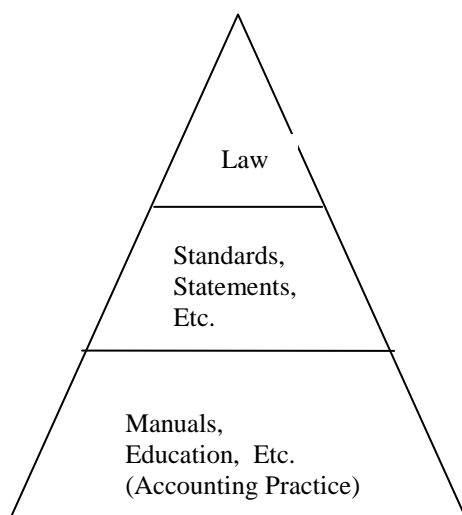
Source: Flower (1994)

<sup>27</sup> Flower, 1994, p 22

The accounting regulations and other instruments, as described above, is one area I want to cover in my study of governments. To what degree do the regulations take the form of law, standards or other formal rules and norms? What other instruments are used to communicate accounting practice? However, as accounting practice in its nature is vaguer and more extensive than the other elements, it will be covered in a less comprehensive way. For example, I will touch areas such as education and training.

For my analysis I have chosen to slightly modify the conceptual model used by Flower, more in terms of the design of the diagram than in terms of content. One reason is that I also want to introduce the notion of a hierarchy and I find that is better reflected by the use of a pyramidal diagram. Consequently, I want to use the same elements as Flower, however made up in a way that indicates that each element represents a hierarchical level.<sup>28</sup> The pyramid also illustrates that law while being on a hierarchically high level normally is kept quite brief. The standards, statements etc. are more extensive and practice, including manuals, education etc. even more extensive.

Figure 2: Accounting regulations and other instruments



This model is used in each one of chapter 5-7 in order to summarise my findings.

### 3.2 Actors in the system

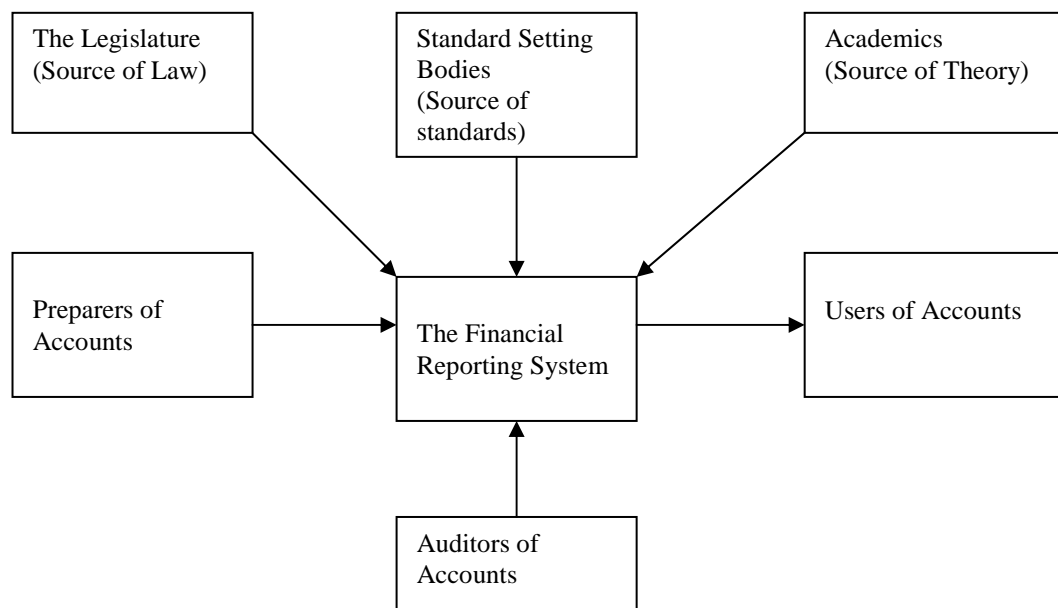
I have chosen to regard the actors as the most important aspect in my study and it will therefore be the aspect I cover the most. Also, the country chapters (5-7) will be structured with departure from the actors.

Flower presents<sup>29</sup> the following figure which includes the actors he regards as important in the system for the regulation of financial reporting.

<sup>28</sup> My use of a hierarchical level is not unique. It is e.g. used by Hendriksen (1994, p 124) in a discussion about elements in a conceptual framework. To some degree those elements are the same as the elements used by Flower.

<sup>29</sup> Flower, 1994, p 25

Figure 3: The Principal Actors in the System for the Regulation of Financial Reporting



Source: Flower (1994)

Flower's comments on these actors can be summarised as follows:

The legislature, an organ of government, is the primary source of accounting law. The legislature is influenced by indirect sources, such as lobby groups and the European Union.

The standard setting bodies issue accounting standards and therefore have a direct influence on the accounting regulation system. It is common for most of the members to be professional accountants; but, in recent years, there has been a noticeable trend to include people from other groups as well. Influence comes from the other actors in the figure, as well as from international organisations, such as IASC (International Accounting Standards Committee<sup>30</sup>).

Preparers of accounts, i.e. company accountants, have a direct influence on the accounting practice.

Auditors are a very important indirect influence as the company accountant will commonly discuss with the auditor any problems that he has with the accounts.

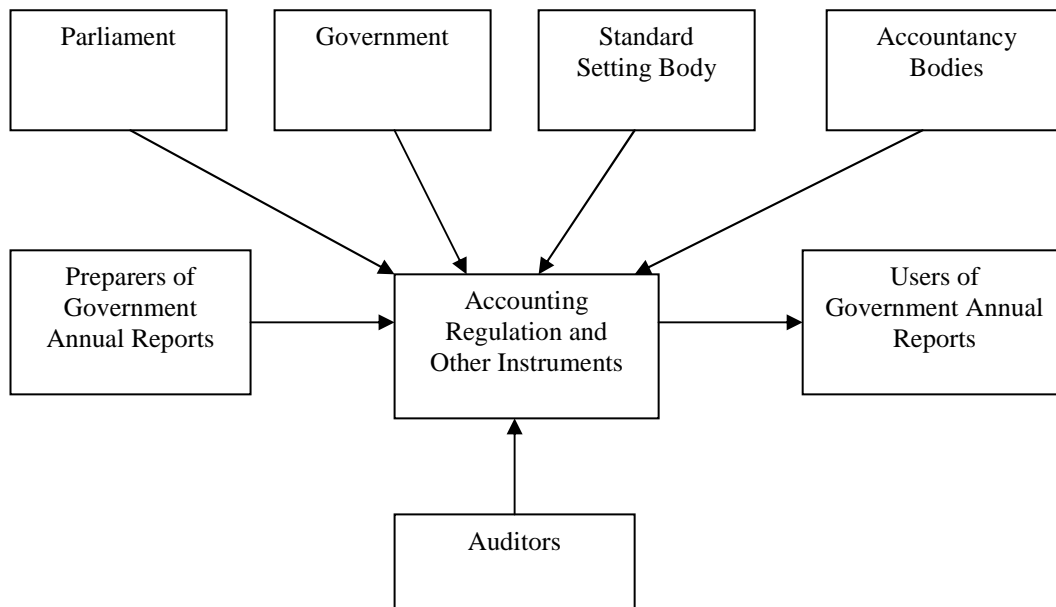
Academics are the principal source of accounting theory.

The users of accounts are people who consult accounts because they have an interest in the company. This category includes shareholders, investors, employees, suppliers, customers, financial analysts and government.

<sup>30</sup> Equivalent to the present International Accounting Standards Board (IASB)

My analysis of actors in accounting regulation systems in governments will be based on the Flower figure above. However, I have made some modifications which I will explain below. My model of possible actors is presented in the following figure:

Figure 4: Principal Actors in a Governmental Accounting Regulation System



My modifications are as follows:

Annual Report is the term I use instead of accounts. The reason is that I want to also include regulations in respect of performance reporting in my study.

Academics are excluded in my model. First, I firmly believe that so far they have played a limited role in relation to specific government accounting issues. Second, as academics operate internationally I do not think their impact differ very much in the three countries of my study. Also, I find it more relevant to study accountancy bodies (see below) and as I want to limit the total number of actors, I have chosen to exclude the academics. In one indirect way, however, academics are included in my study. That is in the case they participate in the work carried out by the other actors in the system.

Parliament is referred to instead of Legislation as it is the term I use throughout my report.

Government is added and referred to as a separate actor. This means that government can have many roles. One role includes the decision of accounting regulations to be applied within the government sector; another role includes the preparation and submission of government annual reports. A third role is when government is the user of annual reports from separate government entities.

Standard setting bodies should be defined just the same in my model as in Flower's. As a clarification I would like to add that I do not include government

organisations which issue regulations for government entities, including the own organisation. These kinds of organisations are referred to the Government box in the figure.

Accountancy bodies are included as they can influence accounting practice as well as the setting of standards. Accountancy bodies are professional organisations which often certify its members, provide education and give support. They may also submit professional statements for the members to follow.

In addition, I have considered including the International Monetary Fund and the United Nations as these organisations issue regulations concerning government statistics and national accounts. However, as that kind of statistical information does not form part of general purpose annual reports, I have decided not to include these organisations in my study.

### 3.3 The process of setting accounting regulations

The process of setting accounting regulations has effects not only on the quality of the regulations but also on the legitimacy of the regulations.

The organisation FEE has made a survey of European countries and concluded that every standard setter (for the private sector) operates a defined “due process” in establishing standards. This process normally includes a wide consultation of all stakeholders. For most standard setters, this due process is formalised. It includes normally issuing exposure drafts and other consultation papers. The process may differ from country to country.<sup>31</sup>

Legitimacy is gained if the view of all parties in the financial reporting process is taken into account in developing the standards. The result would be a better and fairer standard that properly reflects the interest of all concerned, including the wider interest of society.<sup>32</sup>

“Due process” can be described as a structured deliberative process with steps designed to enhance the acceptance of the results<sup>33</sup>. This issue is dealt with by Kam<sup>34</sup> who describes the due process procedure which is followed by the Financial Accounting Standards Board (FASB) in order to give interested parties an opportunity to express their views. According to Kam the FASB process is typical in the development of an accounting standard and I therefore use it as a point of reference in my analysis. The described process is as follows:

1. An issue or project is identified and placed on the FASB’s agenda.
2. A task force consisting of members of the FASB’s technical staff, in consultation with experts in the accounting and business community, prepares a discussion memorandum (DM) on the issue or project. Sometimes an Invitation to Comment is issued before the DM.
3. An exposure draft of the proposed standard is prepared by the FASB, after considering the oral and written responses.

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<sup>31</sup> FEE, 2000

<sup>32</sup> Flower, 1994

<sup>33</sup> Allen in OECD, 2002

<sup>34</sup> Kam, 1990, p 39

4. A second public hearing is sometimes held after a minimum 30-day period of “exposure” of the exposure draft.
5. The proposed standard may be revised after the Board considers the responses.
6. The Board votes on the final draft of the proposal, and if a majority favors it then a standard is issued.

To me it is of interest to study to what degree some kind of due process is applied in Australia, Sweden and the UK in relation to decisions on accounting regulation. However, I want to point out that I do not focus on the legislation process. My primary focus is on the process related to the large bulk of regulations.

### 3.4 The overall content of accrual accounting regulations

My intention is to find out, in a very broad outline, what areas are covered in the accrual accounting regulations. I will focus on the content of laws and standards and their equivalence. This means that I will deal less with practice in relation to this aspect.

In respect of laws my objective is to give a comprehensive illustration of what accounting regulations are communicated by law. I find that important as law is the hierarchically most important regulation. In addition, I believe it is possible as laws normally are kept quite short.

In relation to the large bulk of detailed accounting regulations my point of reference will be the accounting standards issued by the Public Sector Committee (PSC) of the International Federation of Accountants (IFAC). An alternative would have been to have the IASB as reference. However, I find it more relevant to use public sector accounting standards as reference, even though they are still under development.

Beside the financial statements, performance reports and its equivalence are regarded as important in governments. Therefore I will also try to at least touch that area. That will be done without any point of reference.

So far the IFAC-PSC has issued twenty international public sector accounting standards as well as other publications such as background papers and studies<sup>35</sup>. Areas covered by standards are shown in the table below.

Table 3: Standards issued by the IFAC-PSC

<ol style="list-style-type: none"> <li>1. Presentation of Financial Statements</li> <li>2. Cash Flow Statements</li> <li>3. Net surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies</li> <li>4. The Effects of Changes in Foreign Exchange Rates</li> <li>5. Borrowing costs</li> <li>6. Consolidated Financial statements and Accounting for Controlled Entities</li> <li>7. Accounting for Investments in Associates</li> <li>8. Financial Reporting of Interests in Joint Ventures</li> <li>9. Revenue from Exchange Transactions</li> <li>10. Financial Reporting in Hyperinflationary Economies</li> <li>11. Construction Contracts</li> <li>12. Inventories</li> </ol>
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<sup>35</sup> [www.ifac.org](http://www.ifac.org)

13. Leases
14. Events after the Reporting Date
15. Financial Instruments: Disclosure and Presentation
16. Investment Property
17. Property, Plant and Equipment
18. Segment Reporting
19. Provisions, Contingent Liabilities and Contingent Assets
20. Related Party Disclosure

Source: IFAC-PSC Newsletter No 7, April 2003

As already mentioned, the four aspects which I have presented above are used in order to analyse the accounting regulation system of each country. The actors create the main sections of each country chapter. In each one of these sections I also cover the other aspects – to the extent that they are relevant.

## 4 Accrual based annual reports in Australia, Sweden and the UK

The purpose of this chapter is to give background information which is closely linked to my study, but does not primarily form part of the accounting regulation system. However, I believe it is valuable information which facilitates the reading of the following chapters. The information is based partly on the documents referred to in the tables, partly on interviews with the respective countries.

### 4.1 There are three types of reporting entities

It is pointed out by Nowak<sup>36</sup> that relatively little attention has been devoted to the question of the governmental reporting entity. However, as aspects of the reporting entity influence the accounting and reporting systems it is, according to Nowak, essential that comparative studies on governmental systems of accounting and reporting do have the accounting entity as a starting point. In my study there are three different types of reporting entities which are relevant. These are presented below.

First, annual reports can be prepared for an agency. In this case the report includes the operations that the agency is responsible for. This kind of reports is produced in all three of the countries.

Second, annual reports can also be prepared for a department. This kind of report is produced in the UK and in Australia. In the UK executive agencies formally are a part of a Government department. Therefore the accounts of these agencies, besides being presented on their own, are consolidated into the accounts of the department. In Australia the annual report of a department only includes the accounts of the department itself and therefore, in a way, can be regarded as equivalent to an agency's annual report.

In Sweden there is no annual report for each department. Instead, there is one annual report for the Government Offices including all the departments. This annual report, however, is regarded as equivalent to an agency's annual report.

Thirdly, annual reports can also be produced for a state or a government. In Sweden the Central Government Annual Report and Consolidated Financial Statements includes the operations of all agencies and departments. Internal transactions between different agencies are eliminated. In Australia a similar report is produced for each state, as for example the state of Victoria. However, the different states and territories are not consolidated into one annual report for whole of Australia as they represent separate jurisdictions which do not form part of one economic entity. In the UK the production of whole of government accounts is planned to, as a first step, include central government and, as a second step, include the whole public sector. According to these plans whole of central government accounts will be produced for the year 2003/04.

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<sup>36</sup> Nowak in Montesinos and Vela, 2002, has made a study on governmental reporting entities. His study includes a comparison of entities in conceptual frameworks in New Zealand, the US federal sector and the IPSASs.

Table 4: Reporting entities in Australia (Victoria), Sweden and the UK, and an approximate indication of the volume of reports.

	<b>Australia (Victoria)</b>	<b>Sweden</b>	<b>UK</b>
<b>Agency</b>	310 (including state-owned enterprises)	270	130 executive agencies
<b>Department</b>	9	0	50
<b>Central Government or State</b>	1	1	1 (under development)

Sources: Australia: 2001-01 Financial Report for the State of Victoria  
 Sweden: Consolidated Annual Report 2002  
 UK: Archibald (2001)

## 4.2 Content of annual reports

As can be seen from following table there are both similarities and differences between the annual reports in the three countries. Each column should be seen as a list of content of each country's annual reports. Corresponding statements are aligned in the table, even in those cases they have different names but in large include the same substance.

Table 5: Prescribed content of department / agency level annual reports in Australia (Victoria), Sweden and the UK.

<b>Australia (Victoria) Annual Report</b>	<b>Sweden Annual Report</b>	<b>the UK Annual Report and Accounts Statement</b>
Report of Operations	Performance Report	Annual Report/Foreword (incl. principal activities and achievements)
		Statement of Accounting Officer's responsibilities
		Statement on internal control
	Appropriation Report (on cash basis)	Summary of Resource Outturn (compares outturn with estimates)
Statement of Financial Performance	Statement of Financial Performance	Operating Cost Statement
Statement of Financial Position	Statement of Financial Position	Balance Sheet
Statement of Cash Flows	Cash Flow Statement	Cash Flow Statement
		Resources by Departmental Aim and Objectives
Notes to the Financial Statements (including appropriations report)	Notes to the Financial Statements	Notes to the Financial Statements

<sup>37</sup>	Audit opinions and reports
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Sources: Victoria: Directions of the Minister of Finance, part 9

Sweden: The Ordinance on the Annual Report and Budget Documentation

UK: The Resource Accounting Manual, chapter 11

### 4.3 Audit and submission of annual reports

In respect of the process of auditing, submitting and tabling the annual reports there are both differences and similarities. In the UK all agencies and departments are required to produce an Annual Report and Accounts statement. These are presented to Parliament after auditing by the Auditor General. The process in the Victorian state of Australia is the same, although somewhat faster. Sweden is different as the annual reports of agencies are audited after the annual report has been submitted to the Government Cabinet.

The following table summarises the process of each country in a list of activities. As the processes in Victoria and the UK are the same, the activities of these countries are aligned. The Swedish process is different; therefore the Swedish activities are not aligned with the other countries.

Table 6: The process of auditing, submitting and tabling the annual reports of agencies and departments in the three countries.

Australia (Victoria)	Sweden	UK <sup>38</sup>
30 June end of financial year (education institutions 31 December)	31 December end of financial year	31 March end of financial year
25 August latest date for sending annual financial report to audit office.		30 November latest date for sending annual report to audit office.
	22 February latest date for sending annual report to Government Cabinet and to audit office (and to ESV <sup>39</sup> ).	
25 September latest date for audit office to present report on audit		15 January latest date for audit office to send annual report to Treasury
	22 March latest date for audit office to send agency audit reports to Government Cabinet.	
31 October latest date for department to present annual financial report to Parliament.		31 January latest date for Treasury to present annual report to Parliament

Sources: Victoria: Financial Management Act 1994, Audit Act 1994

Sweden: The Ordinance on the Annual Report and Budget Documentation, Ordinance on Instruction for the National Audit Office

UK: Government Resources and Accounts Act 2000

<sup>37</sup> Audit opinion seems to normally be included. However, it is not prescribed.

<sup>38</sup> The UK timetable refers to departments. The timetable for executive agencies is different.

<sup>39</sup> ESV is the Swedish acronym used for the Swedish National Financial Management Authority (see chapter 6). I have chosen the acronym throughout this report.

In Sweden the whole annual report of agencies is audited, including the performance report. In the UK the performance measures in departmental and agency annual reports are not, at present, subject to external audit. In Australia (Victoria) the financial statements of each authority must be audited at least once each year. The Victorian Auditor-General *may* elect to perform an additional performance audit on any report of operations to determine whether any performance indicators in the report of operations are relevant to the objectives, appropriate for the assessment of performance and fairly represent the authority's actual performance.

As regards the whole of central government accounts, they are submitted to Parliament in Australia and Sweden, and they will be in the UK. The reports in both Sweden and Australia are audited. Central government accounts in the UK will also be audited.

## 5. Accounting regulation in Australia

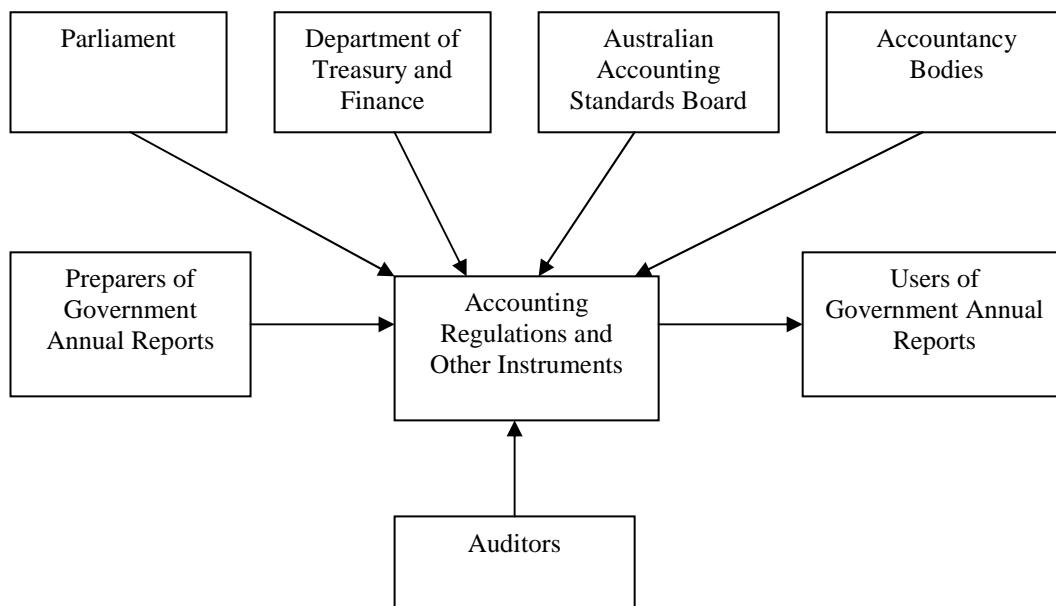
This chapter describes the accounting regulation system in Australia. The information has been gathered through websites<sup>40</sup>. Clarifications have been made through interviews.

Preparers of government annual reports are departments, agencies and other statutory bodies. The Treasuries prepare the annual report of each state/territory.

The users of government annual reports include a wide range of groups. As stated in the Victorian Standing Directions of the Minister for Finance<sup>41</sup>: “The Annual Report is the principal medium through which Public Sector Agencies discharge their accountability to the Parliament, Government and the people of Victoria. The Annual Report should allow these users to make decisions about the utilisation of resources in relation to the relevant entities. Annual Reports therefore should provide both general and financial information about the operations and performance of Public Sector Agencies, assessments of results and financial position.” The term general purpose financial statements is widely used.<sup>42</sup>

An overview of the actors in the Australian system, the result of my study, is presented in figure 5. The figure corresponds very well to my model of possible actors, presented in figure 4. This indicates that Australia has a relatively large number of actors. The large bulk of regulations is issued by the Australian Accounting Standards Board. Even though I have focused on the state of Victoria, it is my clear opinion that the overview presented in the figure below is relevant for all states and territories as well as for the Commonwealth.

Figure 5: Overview of the actors in the Accounting Regulation System in Australia.



<sup>40</sup> The documents are available on the website of respective organisation. The Parliament acts are on the Treasury website.

<sup>41</sup> Exposure Draft, September 2002

<sup>42</sup> For example in AAS 29 as well as other AAS.

The actors in the system are regarded as the most important aspect of my study. Therefore the actors create the main sections in this chapter. In each section covering an actor, I also deal with the other aspects of my study. The preparers and the users of government annual reports have already been dealt with in this chapter and therefore they do not create their own sections.

## 5.1 Parliament

This section about Parliament refers to the situation in the state of Victoria.

**The Financial Management Act 1994** (the Act) enacted by the Parliament of Victoria includes regulations on various areas, such as budget (appropriations) and fund management. It also prescribes requirements in relation to annual reports, including deadlines for submitting reports. It also mandates (by Ministerial Direction) variations from or clarifications to existing accounting standards to be followed by departments and agencies. This is explained in further detail below.

Part five of the Act is about the states' financial responsibility and various reporting requirements, including the annual financial report for the state. It states that

- (1) The minister must prepare an annual financial report for each financial year.
  - (2) The annual financial report - -
    - (a) must be prepared in the manner and form determined by Minister;
    - (b) must present fairly the financial position of the State and the Victorian budget sector at the end of the financial year - -
      - (i) the transactions on the Public Account;
      - (ii) the transactions of the Victorian budget sector;
      - (iii) other financial transactions of the State - -
- in respect of the financial year.

Part five also includes a rather long list of other information to be provided in the annual financial report, such as details of

- Amounts paid in Working Accounts
- Amounts allocated to departments during the financial year
- Payments made during the financial year out of money advanced to the Treasurer in an annual Appropriation Act for that year to meet urgent claims.

Part seven requires the preparation of an annual report of a department or public body. The annual report is to comprise both a Report of Operations and Financial Statements.

It is also stated that a report of operations must be in a form and contain information determined by the accountable officer to be appropriate and must contain any other information required by Minister.

The financial statements

- Must contain such information as is required by the Minister; and
- Must be prepared in a manner and form approved by the Minister; and

- Must present fairly the financial transactions of the department or public body during the financial year to which they relate; and
- Must present fairly the financial position of the department or public body as at the end of the year; and
- Must be certified by the accountable officer for the department or public body in the manner approved by the Minister.

The relevant minister may, according to the Act, in writing direct a public body to include in a report of operations or financial statements such additional information as he or she considers necessary or appropriate in the public interest. The Minister also has a possibility to vary reporting requirements as the Minister, in writing, may grant an exemption to the accountable officer of a department or public body from any provision of Part seven relating to the contents, form or preparation of the financial statements of that department or public body. In that case, an accountable officer must include in financial statements particulars of any exemption given.

Section 8 in part one of the Act provides authority for the Minister of Finance to issue directions with respect to matters of financial administration and accounting. Section 59, in part nine, states that any regulation may adopt, apply or incorporate the whole or any part of any statement of accounting standards or statement of accounting practice issued by Australian Accounting Standards Board<sup>43</sup>.

The **Audit Act** requires the Auditor-General to comply with Auditing Standards issued by the Australian Society of Certified Practising Accountants and the Institute of Chartered Accountants in Australia. These auditing standards require financial statements to be prepared in compliance with accounting standards.

**The Financial Management Regulations 1994** are decided by the Governor in Council, the representative of the Queen of Australia. These regulations were made by the Governor under sections 8 and 59 of the Financial Management Act.

The Financial Management Regulations provide regulations on the collection of revenue and other receipts as well as the incurring of expenses and obligations. Beside that, it includes one part authorising the Minister for Finance to give any authority or public body, an accountable officer or a chief finance and accounting officer directions in writing in relation to a long list of areas. Included areas are

- The form and content of financial statements, additional information requirements and reports of operations
- The preparation of performance indicators
- The preparation, issue and amendment of accounting manuals of authorities.

I have chosen to present the Financial Management Regulations under the heading Parliament. My reason for that is that the decision by the Governor in Council can be seen as a way of enacting the budget law. These regulations are not dealt with further.

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<sup>43</sup> Some other organisations are also mentioned.

## 5.2 Department of Treasury and Finance of Victoria (DTF)

**Directions of the Minister for Finance** are issued based on the authorisation in section 8 of the Financial Management Act, with respect to matters of financial administration which must be observed by all departments and agencies. The directions prescribe requirements at a minimum level on such matters as how to handle receipt and payment of money, internal audit and control as well as regulations concerning the annual report. The Directions of the Minister for Finance are currently being revised and the following is based on the draft version of the revised Standing Directions of the Minister for Finance under the Financial Management Act 1994.

Each section in the Directions contains the following:

- A description of the Directions;
- A procedure, which is mandatory in order to achieve compliance with the Direction, and
- Where relevant, guidelines which are not mandatory but will assist in applying the procedure.

Some elements which were previously in the Directions have been transferred to Bulletins (see below). This is particularly the case where the Directions related specifically to annual reporting requirements.

Part four of the draft Directions deals with Financial Management Reporting, one section dealing especially with reporting requirements in terms of Part 7 of the Financial Management Act. The main focus is on the Annual Report of a Department or Public Body comprising both a Report of Operations and Financial Statements.

In relation to the Report of Operations following procedures are prescribed:

- The Report of Operations should include qualitative and quantitative information on the operations of the Public Sector Agency and should be consistent with the financial statements prepared by the Public Sector Agency pursuant to the Act. This report should assist the users of the financial statements in understanding the function, customers, objectives and outcomes for the reporting period.
- The Report of Operations must be prepared in accordance with the requirements of the Financial Reporting Directions<sup>44</sup>.
- The Report of Operations for Government Departments must be presented in accordance with the guidelines contained within the Model Financial Report for Victorian Government Departments as issued by the Department of Treasury and Finance. In the case of Government Department, the report must include comparison of the output targets specified in the State Budget with actual performance against those targets.

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<sup>44</sup> The revised Bulletins (see next page) and Ministerial Directions are being transformed into a new instrument titled Financial Reporting Directions.

In terms of the financial statements it is stated as a procedure that they must be prepared in accordance with:

- Australian Accounting Standards and other mandatory professional reporting requirements, as identified in an Appendix.
- The Financial Reporting Directions<sup>6</sup>, issued by the DTF.
- The Business Rules set out in the Budget and Financial Management Guide issued by the DTF

According to the same procedure, the financial statements are to comprise:

- Statement of Financial Performance
- Statement of Financial Position
- Statement of Cash flows
- Notes to the financial statements

It is also stated that the financial statements of Government Departments must be presented in accordance with the requirements contained within the Model Financial Report for Victorian Government Departments (see below) as issued by the DTF.

The Minister for Finance may by written direction exempt persons or things from the provisions of the Directions. Where an exemption is sought, the application for exemption must be in writing, state the reason why the exemption is necessary and include specification of proposed alternative action or procedures. Each Accountable Officer must maintain a register of exemptions granted by the Minister for Finance and make the register available for inspection by the Auditor-General.

As the review of the Directions of the Minister for Finance has been in progress during my work with this study, I have had a perfect opportunity to study the process. According to the exposure draft presented in September 2002 external experts were engaged to undertake an independent review of the Directions. The initial draft was reviewed internally within Treasury. The September exposure draft was made available on DTF's website with a request for comments. The respondents were asked to express a clear overall opinion on whether the exposure draft, in general, is supported and that this opinion is supplemented on detailed comments on these issues. The DTF also points out some specific matters for comments. The comment period closed 13 December. A second draft (for final comments) was presented on the website in April 2003 and according to the plans the directions are to come into force on 1 July 2003.

**Accounting and Financial Reporting Bulletins** are a series of newsletters<sup>45</sup> designed to clarify and expand on certain accounting issues. These bulletins must be followed by all government reporting entities. Each bulletin deals with a specific topic. Reference is usually made to standards and other pronouncements issued by the Australian Accounting Standards Board but the information given is on a more detailed level. For instance, in some cases examples of journal entries

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<sup>45</sup> On the website they are referred to as newsletters. However, they have a prescriptive character.

are given. There are 24 applicable Bulletins covering a wide range of areas such as:

- Reporting on Contingent Liabilities
- Disclosure of Parliamentary Appropriations
- Accounting for Water as Inventory

**A Model Financial Report for Victorian Government Departments** has been endorsed by the Minister for Finance. The purpose of the Model is to serve as a basis for financial reporting by government departments in Victoria. It prescribes the minimum content of financial reporting for all departments under Ministerial Direction 9.9., including templates for the financial statements and layout of notes. Reference is made to standards and other pronouncements from the Australian Accounting Standards Board. The Model incorporates the financial reporting changes that are applicable for the reporting period including changes to directives and other authoritative pronouncements.

According to the latest version, the Model Financial Report has been revised with the participation of all Victorian government departments and significant contributions from the DTF's Financial Policy and Compliance Branch and the Victorian Auditor-General's Office.

**Financial Reporting Update** is a newsletter issued every six months. The aim of the newsletter is to provide a summary of the recent changes in financial reporting requirements of Australian accounting standards, Urgent Issues Group Consensus Views, Accounting and Financial Reporting Bulletins, Ministerial Directions and other relevant changes in the Financial Management Act 1994. It also outlines issues that are under consideration by the DTF as well as by the Australian Accounting Standards Board and the Urgent Issues Group (see below).

**Other information** includes advisory services, information meetings and seminars. The DTF has very much information on its external website. Beside the information mentioned above there is other information such as the Information Manual related to the consolidated financial statements of the Victorian state. There is also an intranet which the departments have access to.

### 5.3 Australian Accounting Standards Board

Australian Accounting Standards Board (AASB) has responsibility for the development of accounting standards for application by companies and by other entities in the private and public sectors, and for the development of Statements of Accounting Concepts. This responsibility is based on the Corporate Law Economic Reform Program Act 1999 (which amended the Australian Securities and Investments Commission Act 1989). The new arrangement was decided in 1999 and in force from 1 January 2000. Before that, the AASB was responsible only for private sector standards while public sector accounting standards were the responsibility of the Public Sector Accounting Standards Board of the Australian Accounting Research Foundation. An important consequence of this new arrangement is that the same accounting standards are normally applicable to both private companies and government entities in all states and territories of Australia.

The accounting standards and concepts are given authority in the public sector through requirements specified in ministerial directives. Following pronouncements from the AASB are applicable for government entities in September 2002<sup>46</sup>:

- 47 Australian Accounting Standards (AAS)
- 4 Statements of Accounting Concepts
- 43 Urgent Issues Group Consensus Views<sup>47</sup> (called abstracts, see page 31)

There were also 6 Exposure Drafts to possibly consider.

**Accounting standards** deal with specific accounting policies concerning a particular topic. An analysis of the existing standards shows that they cover a very wide range of subjects including the ones covered by the standards issued by the IFAC-PSC. The **Accounting Concepts** describes the conceptual framework for general purpose financial reporting, including definitions and qualitative characteristics.

An overall comparison indicates that the accounting standards issued by the AASB are similar to the ones issued by the IFAC-PSC. However, the AAS seem to cover a substantially larger number of topics.

As already mentioned the pronouncements from the AASB are applicable for both private and public sector. However, there are three standards which are only applicable to the public sector. These are:

- AAS 27 Financial Reporting by Local Governments
- AAS 29 Financial Reporting by Government Departments
- AAS 31 Financial Reporting by Governments (for example the State Victoria)

As it is not possible to give a presentation of all the standards and concepts, I choose to present parts of the AAS 29 which I believe is most relevant in relation to my study.

The AAS 29 standard comprises 84 pages including appendix but excluding amendments published at a later date. It begins with the presentation of some main features of the standard, including the use of accrual basis. The purpose of the standard is to prescribe the form and content of general purpose financial reports of government departments. It requires that other standards are to be applied, except where the requirements of AAS 29 differ from other applicable standards. Legislation or other authority may require government departments to comply with financial reporting requirements which differ from the requirements of AAS 29. Such requirements would apply in addition, and not instead of, the requirements of AAS 29.

The AAS 29 then focuses on different areas, such as boundaries of the reporting entity, contents of financial reports, assets, liabilities, revenues and expenses. In terms of performance indicators it is stipulated as follows:

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<sup>46</sup> According to Standing Directions of the Minister for Finance – Exposure Draft, appendix 4

<sup>47</sup> In May 2003 there are 52 Abstracts on issue.

12.10 Where performance indicators are included in the general purpose financial report of a government department, such indicators must:

- (a) satisfy the qualitative characteristics of relevance and reliability
- (b) be presented in a manner which satisfies the qualitative characteristics of comparability and understandability.

12.10.1 This Standard does not require government departments to report non-financial measures of performance. However, government departments are encouraged to report performance indicators which assist users in assessing the government department's performance in achieving its objectives.

The AAS 29 recommends that the general purpose financial report of a government department should form part of the annual report of that government department. In addition the annual report may comprise other information, including commentary on policies, objectives and achievements of the government department.

The AASB adopts a comprehensive due process when developing its pronouncements. The process is outlined in Policy Statement no 1. The development of Statements of Accounting Concepts and Accounting Standards includes elements such as:

- Communicating its views and policies to a broad range of interested parties via Discussion Papers, Accounting Theory Monographs, Invitations to Comment and Exposure Drafts;
- Meeting with representatives of interested parties and organisations;
- Inviting public comment on its policies, procedures, priorities and standards under consideration;
- Issuing media releases related to its activities; and
- Maintaining a website.

The AASB has nine part-time Board members. In the Financial year 2000-01 they held eight two day meetings, plus an unscheduled one day meeting. The additional staff is of both technical and administrative nature.<sup>48</sup>

A broadly-constituted Consultative Group is to provide a forum where the AASB can consult with representatives of organisations to obtain input on major technical issues, its work program, project priorities and due process. The Consultative Group consist of approximately 35 members representative of those preparing, using and regulating financial reports. Examples of members are Australian Bureau of Statistics, Australasian Council of Auditors-General, The Treasury (Commonwealth), Treasuries of some states and territories, Public Sector Committee of IFAC.

The Consultative Group generally has two meetings a year. A typical agenda includes discussions of topics at key stages, international issues or procedural matters. Written materials are provided prior to each meeting. The role of the Consultative Group is to provide a means by which the AASB can obtain and discuss views representative of the diverse groups that they affect. The

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<sup>48</sup> AASB Annual Report 2000-01

Consultative Group does not vote on agenda items. The members do not get compensation for costs incurred by the participation.<sup>49</sup>

Project Advisory Panels are established by the AASB to assist in the development of background papers and to provide expert technical advice. Project Advisory Panels provide a pool of knowledge and experience which will assist in identifying problems and evaluating possible solutions in relation to the particular project. They are also available for discussion and advice.<sup>50</sup>

**Urgent Issues Group (UIG) Consensus Views** are published in **UIG Abstracts**. The purpose is to provide timely guidance on urgent financial reporting issues. The UIG is a committee to the AASB. In providing guidance, the UIG will be seeking to avoid the development of divergent or unsatisfactory financial reporting practices in areas not dealt with, or not dealt with specifically, in Accounting Standards. As seen above, the abstracts are given authority by the ministerial directives issued by the DTF.

The UIG consists of fifteen voting members and two official observers. The list of members include partners from accounting firms, members from industry and commerce, members from public sector organisations, an Auditor-General, one person from a Treasury or a Department of Finance and Administration and a member from a organisation of chartered accountants.<sup>51</sup>

**Other information** is provided through bulletins and other means. The AASB maintains a website to provide information about the Board, its meetings and activities, and its work program. Key AASB Board papers are also posted on the website. Media releases are issued to announce when new or revised accounting standards have been made. An AASB Action Alert is issued after each AASB meeting to summarise the proceedings of the meeting.<sup>52</sup>

Members of the AASB and its staff are available to present papers on matters relating to the AASB's work program at seminars, congresses and conferences held throughout Australia.

The Financial Reporting Council (FRC) is responsible for broad oversight of the accounting standard-setting process carried out by the AASB. The FRC is to advice the Government on the accounting standard setting process and the development of international accounting standards, and to determine the broad strategic direction of the AASB. In June 2002 the FRC decided that the AASB is obliged to work towards the full implementation of IAS in Australia in respect of financial years commencing on or after 1 January 2005. Any Australian-specific material in respect of not-for-profit entities will, as far as possible, be included in the Australian standards and be clearly identified as being in addition to the adopted IASB standards. In the work with these supplements, regard will probably be taken to the IPSASs.

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<sup>49</sup> Policy Statement 2

<sup>50</sup> Policy Statement 3

<sup>51</sup> UIG Charter

<sup>52</sup> AASB Annual Report 2000-01

To carry out its activities the AASB is financially dependent on appropriations from the Parliament of the Commonwealth and on grants from the States and Territories and from Certified Practicing Accountants Australia, The Institute of Chartered Accountants in Australia, the National Institute of Accountants and the Australian Stock Exchange.<sup>53</sup>

#### **5.4 Auditor-General's Office**

The Auditor-General is an independent Officer of the Victorian Parliament, appointed under legislation to examine, on behalf of Parliament and Victorian taxpayers, the management of resources within the public sector. The Auditor-General is not subject to control or direction by either the Parliament or the Government. This independence is enshrined in Victoria's Constitution Act.

The Auditor-General Office is not one of the most dominating actors in respect of the setting and implementation of accounting regulations. However, the Office does take part in the activities such as participating in reference groups linked to the DTF. At these meetings issues related to accounting regulations are discussed.

The General-Audit Office also tries to influence the development by other means. For example, the Audit Office has been pushing for model financial statements for agencies, similar to those for departments. Another example is the pushing for having more performance reporting at agency level.

#### **5.5 Accountancy Bodies**

In Australia there are professional organisations for accountants, such as the Certified Practicing Accountants (CPA) Australia and the Institute of Chartered Accountants in Australia (ICAA). These organisations support their members through various kind of information, advice, education etc. At least the CPA, which I have studied most deeply, has special public sector committees and its Public Sector Centre of Excellence encourages excellence in accounting and financial management policy and practice in the public sector. This centre of excellence has many objectives, including also the provision of a network which facilitates the development, exchange and distribution of valuable knowledge on key public sector financial management.

There are also professional statements that require their members to take all reasonable steps within their power to ensure that entities in which they are involved comply with Accounting Standards and other authoritative pronouncements in preparing their general purpose financial statements.<sup>54</sup>

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<sup>53</sup> AASB Annual Report 2000-01

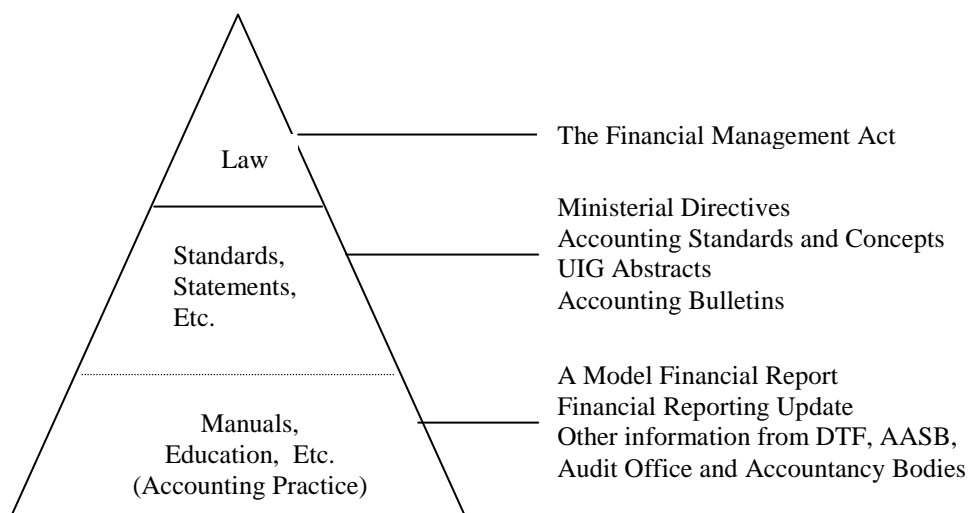
<sup>54</sup> Miscellaneous Professional Statement APS "Conformity with Accounting Standards and UIG Consensus Views".

It has also been suggested that the chief Finance and Accounting Officer of each agency must hold at least tertiary level accounting qualifications and membership of the ICAA, CPA or equivalent.<sup>55</sup>

## 5.6 Hierarchy of accounting regulation – a summary

My summary of the hierarchical structure of the accounting regulations and other instruments is presented in the following figure.

Figure 6: Accounting Regulations and Other Instruments in Australia (Victoria)



It should be noted that in the figure above, the line between the two levels is dotted. The reason is that I have not found a very clear borderline between the two segments. Also, in respect of AASB standards and ministerial directives it is also not possible to identify a clear hierarchy. One reason is that these instruments are issued by two different bodies.

I also want to point out that the Australian system seems to comprise a very extensive volume of different pronouncements etc.

<sup>55</sup> Standing Directions of the Minister for Finance – expoure draft

## 6. Accounting Regulation in Sweden

This chapter describes the accounting regulation system in Sweden. The information is based on documents available on websites, information provided by people interviewed as well as my own personal knowledge acquired during many years of work with financial management issues within the Swedish central government.

The preparers of central government annual reports are the agencies. The Swedish National Financial Management Authority (ESV) and the Ministry of Finance prepares the consolidated (whole of central government) annual report.

In terms of users, the consolidated (whole of central government) annual report is presented to Parliament but the agencies' annual reports are not. In the case of agency reports, the government is regarded as the main receiver– even though the reports are made public. For example, in the Ordinance on the Annual Report and Budget Documentation it is stipulated that the annual report shall provide a concise basis for the Cabinet's follow-up, appraisal or budgeting of the agency's operations. It is also prescribed that the performance report in annual reports shall only include information actually requested by the Government. However in the Conceptual Framework for the Preparation and Presentation of Financial Statements in Central Government<sup>56</sup> (see page 40) it is stated that the information should meet the needs of different users, including also the general public.

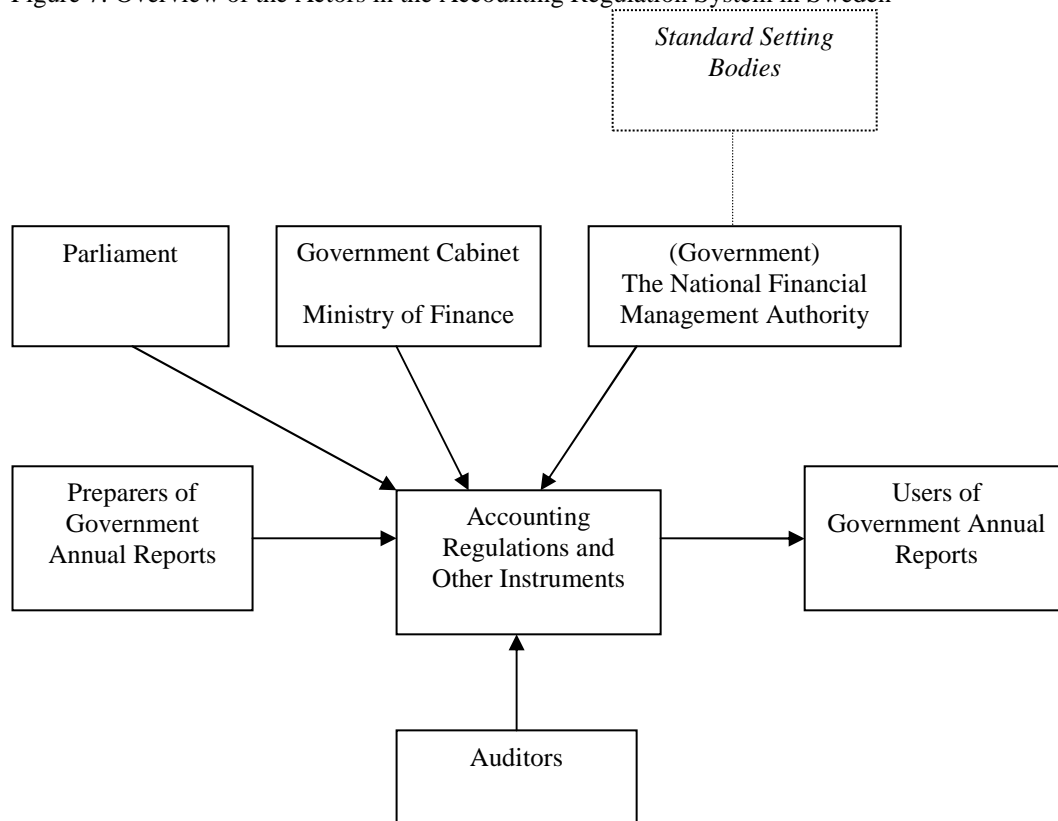
As the actors are regarded as an important aspect of my study, they create the main sections of this chapter. In each section covering an actor I also deal with the other aspects of my study. The preparers and the users of government annual reports have already been dealt with in this chapter and therefore they do not create their own sections.

An overview of the actors in the Swedish system, the result of my study, is presented in the following figure. The figure does not entirely correspond to my model of possible actors, presented in figure 4. The main differences are the absence of accountancy bodies and the negligible role of standard setting bodies. Altogether the number of actors is not as large as in my model of reference. The large bulk of regulations are issued by the ESV.

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<sup>56</sup> ESV 2002a

Figure 7: Overview of the Actors in the Accounting Regulation System in Sweden



## 6.1 Parliament

In the constitution there is a section that covers financial powers. However, the constitution does not include any accounting regulations.

**The Budget Act**<sup>57</sup> regulates the relationship between the Parliament and the Government in the area of financial and performance management. The law regulates appropriations and state budget revenue, financial commitments, delimitation of the state budget, financing of investments, transfer of state property, follow-up, forecasts and outcome. It is stipulated that the Government shall report to Parliament on the objectives aimed at and the results achieved in various areas of operation.

Under the heading “accounting and audit” it is stipulated that:

The Government is accountable to Parliament for the state funds and other assets that are at the disposal of the Government pursuant to Chapter 9, article 8 of the Constitution. This accountability also includes operations carried out by the government and the state’s liabilities and other financial commitments.

Government accounting shall be carried out in accordance with generally accepted accounting principles. The accounts shall give a true and fair picture of the operations, the financial outcome and position, and of the management of the state’s funds and other assets. Detailed provisions of accounting shall be decided by the Government, or by an agency appointed by the Government.

<sup>57</sup> SFS 1996:1059

The state's operations shall be subject to audit.

Under the heading "follow-up, forecasts and outcome" it is stated that as soon as possible, but no later than nine months after the concluded fiscal year, the Government shall have an annual report presented to the Parliament. The annual report shall contain an operational statement, a balance sheet and a cash flow statement. It shall also contain the final outcome of state budget revenue and appropriations.

The Commission that drew up the proposal for a State Budget Act<sup>58</sup> points out that generally accepted accounting principles for governments sometimes differ from those for the private sector. In the report it is also pointed out that the principles and the practice is developed over time.

As regards accounting in relation to appropriations and state budget revenues, the law includes some more detailed statements:

Accounting in relation to appropriations for transfers shall be carried out currently during the fiscal year as payment takes place. In relation to other appropriations, accounting shall be carried out in the fiscal year to which the expenditure relates.

Accounting in relation to state budget revenue for tax shall be carried out currently during the fiscal year as payment is received. In relation to other state budget revenues, accounting shall be carried out in the fiscal year to which the revenues relate.

The above statements concerning appropriations and state budget revenues relate only to the state budget accounting which still is on a cash, and in some cases modified accrual, basis. The basis for the state budget is currently being investigated as it is proposed that a move to full accrual accounting should be made. As my study focuses on the implications of the introduction of accrual accounting, I do not focus on the budget accounting in the following parts of this report.

## 6.2 Government Cabinet and the Ministry of Finance

Sweden differs from many other countries as decision making in the Government is collective. The individual ministers make decisions only concerning the internal organisation and administration of his/her ministry. Instead decisions are made jointly by the government cabinet.

**The Government Approval Document**, one for each agency, is decided by the Government Cabinet in December each year. This is the main steering document in the relationship between the Government and the agencies. The main function is to set objectives and the financial conditions of the agency's operations. In terms of accounting the most important feature is the inclusion of requirements for performance information to be presented in the agency annual report. There is also a possibility to include additional, agency specific, regulations concerning accounting or to give exceptions from the general regulations, including the ordinances. The government cabinet can also make separate decisions concerning an agency's accounting. However, this is seldom done.

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<sup>58</sup> SOU 1996:14

**The Ordinance on the Annual Reports and Budget Documentation**<sup>59</sup> is decided by the government cabinet. It stipulates the budget and accountability documents that an agency shall submit to government, the contents of the documents and the time at which they are due. The provisions in the ordinance are mandatory, unless an agency has been granted an exempt by the government cabinet for a specific agency.

A large part of the ordinance is made up of regulations concerning the financial statements, such as overall principles of valuation and classification. It is stipulated what documents the annual report shall consist of (see chapter 4).

In both structure and content this part of the ordinance follows very closely the Annual Accounts Act<sup>60</sup>, which regulates the private sector accounting requirements. Having strong influences from private sector accounting was a decision made deliberately when accrual accounting was first investigated. The provisions in the ordinance are kept very short and therefore the provisions are not at all to be compared with the standards issued by the IFAC-PSC.

A small section of the Ordinance on the Annual Reports and Budget Documentation deals with the Performance Report. It states as follows:

Art 1. The agency shall report and comment on the outcome of its operations in relation to the goals and in accordance with the reporting requirements stipulated by the Government in the Approval document, or in another decision. In cases where the Government has not stipulated reporting requirements, the agency shall report and comment on the development of its output in terms of volume, revenues, costs and quality.

Art 2. It shall be evident from the Performance Report how the cost of operations and revenue other than that received in the form of appropriations are broken down in accordance with the structure of the report on operations stipulated to the Government.

In the Ordinance there is a specific section with regulations concerning public utilities. These regulations differ slightly from the other regulations but are not dealt with further in this study. The number of public utilities has decreased over time and at present there are four public utilities. This is not dealt with further.

The ordinance ends with an authorisation to the ESV to issue supplementary regulations.

The Ministry of Finance is responsible for proposing changes to the ordinance. These proposals are often based on reports from the ESV. In order to get support from the other ministries ahead of the decision there is a formalised process for the Ministry of Finance to follow. The ESV (see below) and some other agencies concerned are normally included in this process as well as in the initial work of the Ministry of Finance. As regards other agencies or other parties concerned, there is no formalised process to get their opinion on proposed changes. As the ordinance is kept quite short and on a general level changes normally do not need to be made every year.

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<sup>59</sup> SFS 2000:605

<sup>60</sup> SFS 1995:1554 (the act is based on the EU directives)

**The Bookkeeping Ordinance**<sup>61</sup> is decided by the government cabinet. It includes regulations of more technical nature, including current recording of transactions, accounting vouchers, the closing of the books and documentation of computer systems. It also prescribes that the obligation to keep accounts shall be fulfilled in a manner consistent with generally accepted accounting practice. In this respect the special regulations for government operations issued by the Government and the ESV shall be observed.<sup>62</sup>

The major parts of the Ordinance are very similar to the Bookkeeping Act<sup>63</sup> for the private sector in Sweden. In addition, the ordinance also includes reporting requirements for consolidation purposes, for example what accounting data is to be transmitted at different points of time. The ordinance does not give prescriptions on the form and content of the annual report and consequently is not dealt with further in this study.

Accounting regulations on some specific issues can also be found in the **Appropriation Ordinance**<sup>64</sup> and in the **Ordinance on Donations**<sup>65</sup>. These regulations are very brief.

An **instruction** is given to the ESV on the preparation of the consolidated annual report. This instruction specifies which entities are to be consolidated and the templates for the statements of financial performance and position as well as the cash flow statement.

**Other information** on accounting issues given by the government is negligible. The Ministry of Finance provides a limited amount of advisory services to the other ministries on accounting issues. Advisory services or education to the preparers of accounts and annual reports, i.e. agencies, is normally not provided.

### 6.3 Swedish National Financial Management Authority (ESV)

The Swedish National Financial Management Authority (ESV) is the government agency for financial management in Sweden. Its objective, as defined by the Government, is high quality financial management. The ESV works in close co-operation with the Government and other agencies.

As regards accounting, the ESV develops generally accepted accounting principles for the central government. The agency continuously monitors the development of principles and standards issued for private companies in Sweden – as well as the development of IAS and IFAC-PSC standards – in order to identify needs of amendments.<sup>66</sup>

**Supplementary regulations** are issued by the ESV to the financial management ordinances, including the Ordinance on the Annual Reports and Budget

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<sup>61</sup> SFS 2000:606

<sup>62</sup> Section 6 in the ordinance.

<sup>63</sup> 1999:1078

<sup>64</sup> SFS 1996:1189

<sup>65</sup> SFS 1998:140

<sup>66</sup> Lundqvist in Montesinos and Vela (eds), 2002, p 161

Documentation and the Bookkeeping Ordinance. These supplementary regulations include more detailed rules and clarifications in areas covered by the ordinances. There are two types of supplementary regulations: **rules** and **recommendations**. The rules are mandatory for the agencies. In specific cases the ESV may grant exemption so that a specific agency does not have to follow a certain rule. The recommendations can also be regarded as mandatory as they are regarded as good accounting practice and the agencies need to explain all deviations.

The ESV supplementary regulations, linked to the Ordinance on the Annual Reports and Budget Documentation, include accounting requirements similar to the Swedish private sector requirements as well as the IFAC-PSC standards. Consideration is given to the special characteristics of the public sector. A study done recently by the ESV<sup>67</sup> compared the Ordinance on the Annual Report and Budget Documentation and the ESV regulations with, on the one side, the private sector regulations in Sweden, and, on the other side, the standards issued by the IFAC-PSC. This study drew the conclusion that the central government regulations are similar to both these two other areas. However, the central government regulations are somewhat less comprehensive and less detailed than the other two areas. The structure differs as well, especially in comparison with the IFAC-PSC standards. One important difference is that the Swedish central government regulations are not split up into standards concerning different subjects. Instead they are kept as one coherent unit. This means, for example, that definitions can be given once and then do not need to be repeated.

Additions and changes to the supplementary regulations are normally made once a year and decided by the Director General of the ESV. In order to achieve good quality a formal process<sup>68</sup> is followed in order to collect views from agencies as well as the Ministry of Finance. This process normally includes the preparation of a memorandum which is discussed within the ESV and often also with some agencies. Proposed additions and changes to the supplementary regulations are always sent to a selection of agencies, including the audit office, for comments. The issue is also discussed with the ESV's advisory board for accounting issues. The regulations decided on are presented on the ESV website.

The ESV has an Advisory Board for accounting issues. This Board does not have formal terms of reference. However, in a report related to the establishment of the ESV<sup>69</sup> it is stated that accounting development issues should be discussed in an advisory board. It is also stated that the board should have representatives from the private sector and the local government, as well as from central government agencies, including universities and the National Audit Office. Somebody with experience from accounting research is also to be represented. The Advisory Board has had 8-9 members over time. The members are appointed by the Government Cabinet, normally for a period of 2 – 3 years. The board reports to the ESV and no written report is required from the board. However, minutes from the meetings are prepared by the ESV. The number of meetings are approximately

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<sup>67</sup> ESV 2002

<sup>68</sup> ESV Process P41, Utfärda Regler (ESV internal document)

<sup>69</sup> Report on Collaboration 1998-05-04

five a year and in-between there is sometimes some other form of communication. The members are paid by the ESV – approximately 2000 euros a year<sup>70</sup>.

The ESV has recently decided on a strategy concerning the strategy for the further development of accounting regulations. In this strategy<sup>71</sup> it is established that the regulations, to as large extent as possible, are to be based on regulations from others – especially the IFAC-PSC. One reason is that it is not reasonable, from a resource perspective, that the ESV develops everything from scratch. A reason why the IFAC-PSC is prioritised is that the private sector standards are more and more designed to meet the needs of the investors.

**Manuals** are regarded as very important written material to give in-depth information on specific accounting issues. At present there are twelve manuals covering areas such as the accounting for intangible assets, transfers from the EU, real estate as well as accounting for funds and provisions. They are all available on the ESV website. The manuals are rather technical and give a lot of examples on how to account for specific transactions. Sometimes alternative solutions are given. As specified in the introduction of each manual, the manuals are not mandatory even though they are relied on to quite large degree. As the supplementary regulations issued by the ESV are less detailed than the standards issued by the IFAC-PSC some information is given in the manuals instead of in the form of mandatory regulations. The manuals are developed within the ESV and normally draft versions are sent to some agencies to collect their views and experiences.

There is also a **Conceptual Framework** for the preparation and presentation of financial statements in central government<sup>72</sup>. The framework describes underlying assumptions and principles for accounting, such as the elements of various statements and qualitative characteristics such as materiality, substance over form, continuity, prudence and consistency. According to the foreword, the point of departure for the development of the framework has been the IASB framework. The foreword also states that the framework has primarily been produced to provide guidance for the formulation of standards, i.e. an ESV internal document rather than a document to be used directly by the agencies. For this reason, at present, I place the document low in the hierarchy of accounting regulation (see figure 8).

**Other information** from the ESV is quite substantial. It includes a wide range of information materials, advisory services, seminars, education and training.

A magazine is published by the ESV 4-5 times a year. This magazine has a very broad scope and when needed it does also give information related to accounting issues.

Advisory services are regarded as important by the ESV and have been promoted in different ways. This has led to an increase in the number of questions over the

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<sup>70</sup> Decision by Government Cabinet 1998-07-02

<sup>71</sup> ESV 2003:5

<sup>72</sup> ESV 2002a, see also Lundqvist in Montesinos and Vela (eds), 2002, p. 161

last few years. A recent policy concerning advisory services points out accounting managers as being the target group and also stipulates that agencies first need to try to solve issues internally, before posing questions to the ESV.<sup>73</sup> Answers to frequently asked questions are presented on the ESV website.

Seminars and education is held on a regularly basis. The ESV has a yearly catalogue of courses including accounting courses. In November seminars are held to prepare the agencies for the year-end process of closing the books and the submission of annual report. Courses are also held for specific agencies asking for that kind of support.

#### **6.4 Standard setting bodies**

Standard setting bodies do not have a direct role in the accounting regulation system for the Swedish central government. As already mentioned the ESV continuously monitors the development of principles and standards issued for private companies in Sweden. In that way the standard setting bodies have the same role as the IFAC-PSC, i.e. only an indirect role.

In one case the standard setting bodies have a direct role in relation to accounting practice within government. That occurs when the supplementary regulations and manuals issued by the ESV do not give guidance on how to account for a specific event. If that situation occurs, according to an ESV recommendation<sup>74</sup>, agencies can possibly get guidance from pronouncements issued by the standard setting bodies.

In Sweden there are, at present, three standard setting bodies for the private sector in Sweden. These are the Swedish Financial Accounting Standards Council (Redovisningsrådet), the Swedish Accounting Standards Board (Bokföringsnämnden) and the Swedish Financial Supervisory Authority (Finansinspektionen).

#### **6.5 Swedish National Audit Office**

The Swedish National Audit Office is responsible for auditing central government activities, both financial auditing and performance auditing. All the annual reports of agencies are audited and each audit report shall be submitted to the government no later than one month after the agency has submitted its annual report. The Swedish National Audit Office is an agency under Government. From the first of July 2003 it will be replaced by a Supreme Audit Institution placed direct under Parliament.

In 1998 the Audit Office issued guidance on the annual report<sup>75</sup>. The guidance presents good example and includes guidance on how information can be presented in the annual report. It comprises both the performance report and the

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<sup>73</sup> See article in the ESV Magazine no 1/2003

<sup>74</sup> ESV Recommendation to the Bookkeeping Ordinance ((2000:606), section 6.

<sup>75</sup> RRV 1998:58

financial statements. Since 1998 the Audit Office has not issued any guidance on accounting.

In their daily work the auditors often discuss accounting issues with the preparers of accounts. However, advisory services do not seem to be highly prioritised as the auditors' role of giving advice is not at all mentioned in the Annual Report of the National Audit Office<sup>76</sup> or in the general information on the website.

The Audit Office has a rather close cooperation with the ESV on accounting issues, even though the Audit Office emphasises its independence. The Audit Office has a representative on the ESV Advisory Board on accounting issues (see above) and an official from the ESV participates in meetings on accounting issues regularly held by a group of auditors. Also, the Audit Officer is the most frequent customer of the ESV advisory service on accounting principles<sup>77</sup>.

Within the Swedish National Office there is a certification program similar to the program for private sector auditors. In respect of accounting, it is normally the ESV which is responsible for the training.

## **6.6 Accountancy bodies**

In Sweden there are professional accountancy bodies for accountants employed at audit firms, primarily private sector auditors. There are two professional accountancy bodies for private sector auditors. One is FAR, the professional institute for authorised public accountants, approved public accountants and other highly qualified professionals at audit firms in Sweden. The other is the Swedish Association of Auditors (Revisorsamfundet).

There is also an organisation for people working with financial management issues within municipalities (Föreningen Sveriges kommunalekonomer). There is no certification program within this organisation.

None of the above mentioned organisations address themselves to central government employees. This means that the government accountants normally have no relationship to that kind of organisation providing support and education. Also, there is no major organisation of other kind – beside ordinary universities etc. - providing education to government accountants.

## **6.7 Hierarchy of accounting regulation – a summary**

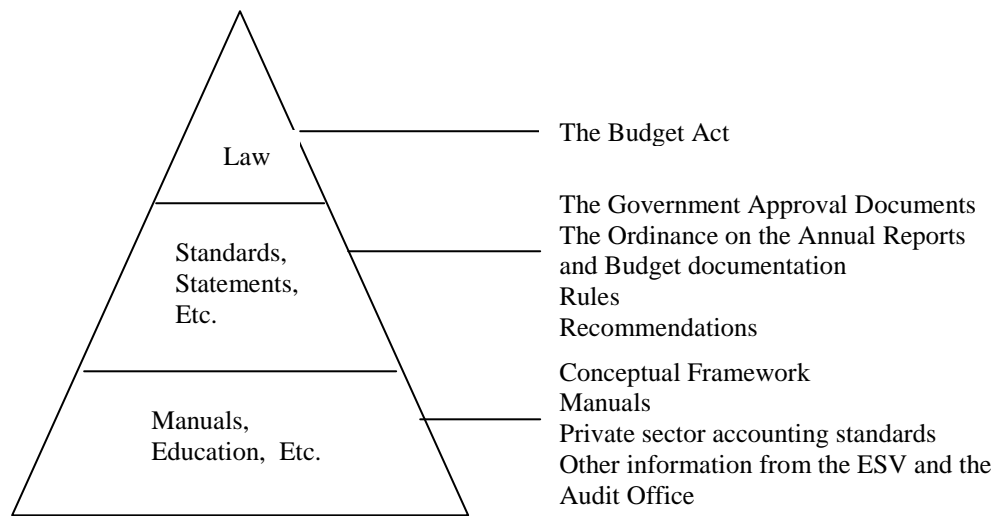
A summary of the hierarchical structure of the accounting regulations and other instruments is presented in the following figure.

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<sup>76</sup> National Audit Office, Annual Report 2002, Dnr 10-2003-0013

<sup>77</sup> According to statistics presented in the ESV Magazine no 1/2003

Figure 8: Accounting Regulations and Other Instruments in Sweden



In Sweden there seems to be a very clear hierarchical structure of the different instruments within the accounting regulation system.

## 7. Accounting Regulation in the United Kingdom

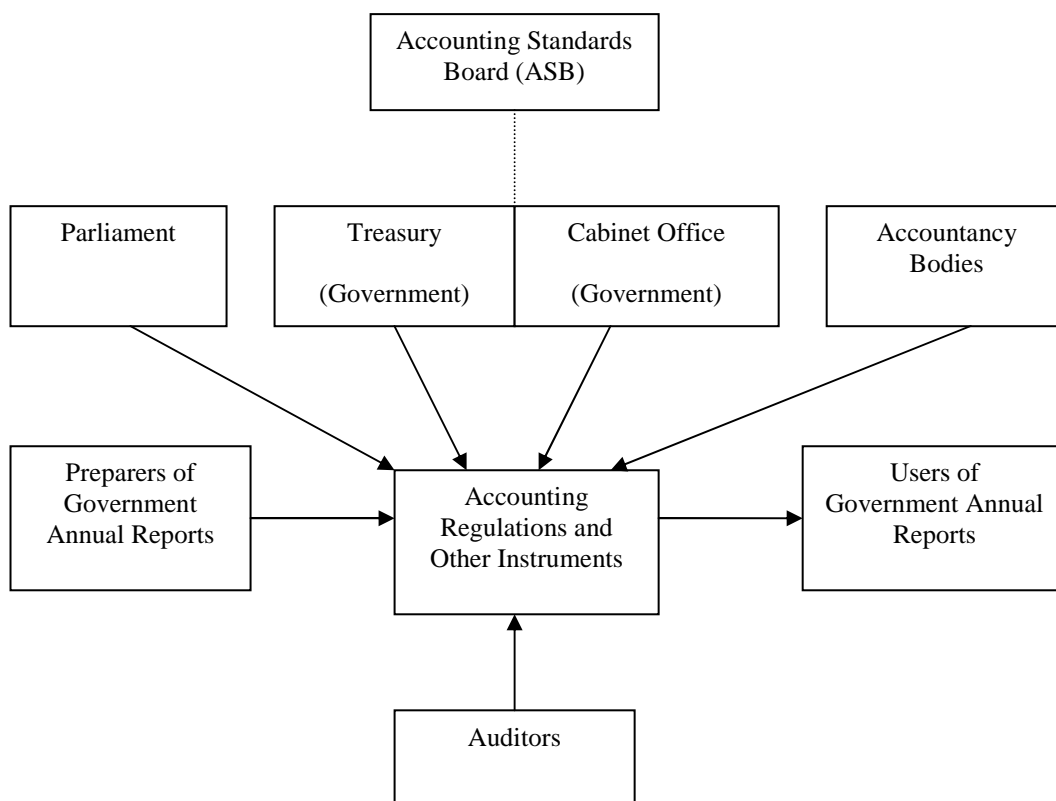
This chapter describes the accounting regulation system in the UK. The information has been gathered through websites. Clarifications have been made through interviews.

The preparers of government annual report and accounts statements are the agencies and the departments. In the future the Treasury will prepare whole of government annual report.

A wide range of interested parties are regarded as users of the annual reports of agencies and departments. This can be seen in various documents as well as by the use of the term “General Purpose Financial Statements”. The official justification for introducing accruals accounting was “public accountability”<sup>78</sup>. The formal receiver of both agency and departmental annual reports is the Parliament.

An overview of the UK system, the result of my study, is presented in the following figure. The large bulk of accounting regulations are issued by the Treasury. The standard setting body, ASB, has a special role which is described in a separate section.

Figure 9: Overview of the accounting regulation system in the UK



<sup>78</sup> Bowerman in Olson, Guthrie and Humphrey, 1998, p 410

## 7.1 Parliament

**The Government Resources and Accounts Act 2000** provides the statutory requirements for resource accounts. The Act has as a primary purpose to enable departmental estimates and accounts to be prepared on a resource rather than a cash basis. It includes requirements concerning both departmental accounts and whole of government accounts. As agencies are not legally separate entities, but part of a department, the reference to departments include agencies.

The Act requires that departmental resource accounts<sup>79</sup> shall be prepared in accordance with directions issued by the Treasury. It also states that Treasury shall exercise its power to ensure that resource accounts present a true and fair view and conform to generally accepted accounting practice subject to such adaptations as are necessary in the context of departmental accounts. Treasury shall in particular have regard to any guidance issued by the Accounting Standards Board (ASB)<sup>80</sup>.

As regards whole of government accounts<sup>81</sup> it is stated that the accounts shall contain such information in such form as the Treasury think fit. In determining the form and content of the accounts the Treasury shall aim to ensure that the accounts present a true and fair view and conform to generally accepted accounting practice subject to such adaptations as are necessary in the context. The Treasury shall in particular have regard to any relevant guidance issued by the ASB.

The Act also requires<sup>82</sup> that the Treasury, in relation to departmental and whole of government accounts, consult an appropriate advisory group on financial reporting principles and standards. Before selecting a group the Treasury shall consult the Comptroller and Auditor General. It is also required by the Act that the Treasury shall arrange for the group to prepare a report for each year.

The Act does not include any provisions on results-focused management or performance information. Neither does Parliament have any formal role in setting the Government's Public Service Agreements<sup>83</sup>. However, the publication of performance against targets in departments' annual reports provides an important tool for Parliament in its role of scrutinizing the executive.

## 7.2 Her Majesty's Treasury

HM Treasury, in the following called Treasury, receives authorisation to issue accounting regulation is received through the Government Resources and Accounts Act. Among the different instruments of communication, the Resource Accounting Manual can be pointed out as very important.

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<sup>79</sup> Section 5

<sup>80</sup> The ASB is responsible for issuing accounting standards for the private sector.

<sup>81</sup> Section 9

<sup>82</sup> Section 24

<sup>83</sup> The quality of public expenditure – challenges and solutions in results-focused management in the public sector. (UK Country report, HM Treasury and the Sure Start Unit)

**Accounts directions** for individual agencies are issued by Treasury (in some specific cases<sup>84</sup> by the sponsor department). The accounts direction can be seen as a starting point in terms of guidance on agency accounts. It provides a clear indication of what the accounts are to include and makes it possible to pay attention to specific matters within certain agencies. Previously, all agencies had individually tailored accounts directions, but from the 2000-01 year onwards most agencies have a standard direction which is as follows<sup>85</sup> :

**Accounts direction given by the Treasury in accordance with section 7 of the Government Resources and Accounts Act 2000**

The agency shall prepare accounts for the year ended 31 March 2002 and subsequent financial years in compliance with the accounting principles and disclosure requirements of the HM Treasury's Resource Accounting Manual which is in force for that financial year.

The accounts shall be prepared so as to give a true and fair view of the income and expenditure (or as appropriate, net resource outturn), total recognised gains and losses (or, as appropriate, recognised gains and losses), and cash flows of the agency for the financial year and of the state of affairs as at 31 March 2002.

Compliance with the requirements of the Resource Accounting Manual will, in all but exceptional circumstances, be necessary for the accounts to give a fair and true view. If, in these exceptional circumstances, compliance with requirements of the Resource Accounting Manual is inconsistent with the requirement to give a true and fair view, the requirements of the Resource Accounting Manual should be departed from only to the extent necessary to give a true and fair view. In such cases, informed and unbiased judgement should be used to devise an appropriate alternative treatment which should be consistent both with the economic characteristics of the circumstances concerned and the spirit of the Resource Accounting Manual. Any material departure from the Resource Accounting Manual should be discussed in the first instance with the Treasury.

This direction replaces any previous correction issued to the agency.

Head of central Accountancy Team, Her Majesty's Treasury

**The Resource Accounting Manual (RAM)** sets out the requirements for resource accounting. The manual

- Establishes the main accounting concepts and principles to be adopted under resource accounting;
- Sets out the format of the primary statements and supporting notes to be included in resource accounts;
- Provides guidance on which entities to include in a department's consolidated accounts;
- Outlines the proposed publication and audit cycle.

The accounting policies contained in the RAM follow UK generally accepted accounting practice (GAAP) for companies to the extent that it is meaningful and appropriate to the public sector. The Manual refers to financial reporting standards (FRS) issued by Accounting Standards Board where they are relevant. These standards should be consulted for a full understanding of their requirements. As a help there is an annex in the manual with information about what FRS and abstracts issued by Urgent Issues Task Force (UITF) apply for government and which are not relevant.

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<sup>84</sup> Non-departmental public bodies

<sup>85</sup> Archibald 2001, p. 128

There are some areas where the RAM departs, or is adapted, from the GAAP for companies<sup>86</sup>.

- One such area is the criteria deciding the boundary of the accounting entity. The departmental accounts are based on other control criteria, such as in-year budgeting control requirements.
- Assets are valued at current value instead of historical cost.
- The concept of “value in use”, used in determining the valuation of fixed assets takes primarily not account of future cash flows but the cost of replacing the service potential provided by the asset.
- Certain notional cost items are included in the accounts (such as the audit fee), even though there may be no associated cost transaction.
- The ASB standard on segmental reporting does not apply for departments.

A new version of the RAM is prepared for each financial year. Changes are made in dialogue with the parties concerned. As regards changes in the RAM a letter is sent to all departments to ask for their view. This is normally done before the issue is discussed with the Financial Reporting Advisory Board (see below) but might also be done afterwards.

The Treasury has made a comparison between the IFAC-PSC standards and the RAM<sup>87</sup>. This comparison shows that in large the RAM covers the same areas as covered by IFAC-PSC standards. However, there are a few departures, for example in relation to the accounting of Revenue from Exchange Transactions. This accounting issue is dealt with in IPSAS-PSC standard 9 while there is currently no UK accounting standard on this and the RAM only includes a single sentence.

It is stated that compliance with the Manual will, in all but exceptional circumstances, be necessary for financial statements to give a true and fair view. Departure from the Manual is allowed only on exceptional occasions if required to give a true and fair view of the financial statements. Any material departure from the Manual should be discussed with the Treasury. Particulars of any departure, the reasons for it and its effects should be disclosed in the accounts.<sup>88</sup>

The RAM applies to the consolidated resource accounts of departments and also to the accounts prepared in respect of individual entities within the boundary.<sup>89</sup>

As regards other guidance it is stated in the Manual that Treasury does not expect to be directly involved in the drafting of accounting manuals for individual entities, except when significant components of the accounting are concerned. Reference is also made to the **Government Accounting manual**, which is also produced by the Treasury. This manual deals primarily with the handling and reporting of public money. It is not considered more in this study.

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<sup>86</sup> This information is from Archibald p. 127 and IFAC-PSC (2002) p. 12

<sup>87</sup> IFAC-PSC (2002) appendix C

<sup>88</sup> Section 1.3.3

<sup>89</sup> Section 1.6.1

**The Executive Non-Departmental Public Bodies Annual Reports and Accounts Guidance** covers the form and content of the Annual Reports and Accounts for these kinds of agencies. The general aim is for the accounts to be on a commercial accounting basis and to comply with generally accepted accounting practice in the UK to the extent that this is meaningful and appropriate in the public sector context. This means that the pronouncements by the ASB are important. The guidance – which is consistent with the RAM - is concerned with best practice, and the requirements described in the paper should be regarded as mandatory and be complied with fully in the absence of any dispensations agreed with the sponsor Department and the Treasury. A project is going on to bring this guidance and the RAM together and therefore this guidance is not focused on further in my study.

**The Trading Funds Accounts Guide** regulates in a similar way the accounting of trading funds. Also in this case there is a project going on to bring the guide and the RAM together. Therefore this guidance is no dealt with further.

The Financial Reporting Advisory Board (FRAB) to the Treasury should be consulted on financial reporting principles and standards. The Board is independent of government and has a wide membership in order to represent relevant spread of interest. Members are drawn from private sector, academia, the public sector audit bodies, government departments (including one National Statistician) and non-departmental public bodies.

The number of members has increased and there are now 13 members. It is clearly stated in the Terms of Reference of the Financial Reporting Advisory Board to the Treasury (8 February 1996) which bodies are to nominate members. The Treasury appoints the Chairman, a Treasury representative, an independent economist (from a university) and three representatives from Government departments and other bodies (from nominations received from all such bodies). The remaining eight members are appointed by the bodies they represent: the Accounting Standards Board; three public sector auditing bodies; two from the devolved administrations in Scotland and Northern Ireland; one from the department of Health; one from the Office for National Statistics. There is no set term for the FRAB members.

In accordance with the Government Resources and Accounts Act the Board prepares its own annual report summarising its activities on the Treasury consultations. The report is published and sent to Parliament. If the FRAB felt its neutrality was being jeopardised it would be able to refer to this in its report. It is the Treasury's interest for the FRAB to be neutral and to be seen as neutral, because it gives the RAM and other accounting guidance added credibility. The Treasury provides a secretariat to the FRAB and, for example, draft the FRAB report and discuss it with a FRAB sub-group. The Board's meetings are not open to the public, and neither are its minutes or other papers published.

The FRAB meet periodically some 5-6 times a year. The members of the FRAB are not paid for their participation. However, the Treasury covers cost such as reimbursement of some travel costs to meetings, refreshments at meetings and printing cost of the FRAB's report.

The Terms of Reference specifies the responsibilities of the FRAB as follows:

- Advise Treasury on the application to central government and National Health Service bodies of financial reporting principles and standards;
- Examine the Resource Accounting Manual; and
- Keep the Manual under review and consider any proposals for material change.

In return the Treasury has undertaken to:

- Ensure that all relevant matters are drawn to the attention of the Board;
- Consider all advice received from the FRAB; and
- Forward to Parliament a report on the FRAB's activities, setting out the resource accounting policies to be adopted and subsequent material changes, together with the view of the Board.

**Public Service Agreements (PSAs)** between departments and Treasury set out the department's aim, objectives and high-level performance targets for the spending review period. Each PSA has an associated technical note which sets out how the PSA targets are being measured. PSAs are supplemented by Service Delivery Agreements (SDAs) which outline how the departments will go about achieving their PSA targets. Progress is to be reported in the annual reports<sup>90</sup>. Every department has a business plan, which sets out what it will be doing to deliver its PSA targets. Below that level there should be a clear relationship between departmental business plans and those of agencies and other delivering bodies.

There are no rules concerning performance information (see the Cabinet Office section below). Instead the strategy is to provide tools rather than hard and fast rules.

**Dear head of Accounting Profession** is the term of the letters that are normally sent from Treasury once a month and which include updated information on what is happening within the accounting area.

**Other information** includes advisory services. For example, questions on accounting issues can be posed to a specific mail address. Education held by government is normally organised by the different departments. This means that education differ between departments, both in terms of content and volume. Some departments, for example Defence, have done a lot of training. Treasury contributes to such educations, for example by giving speeches.

### 7.3 Cabinet Office

The Cabinet Office has an important role in terms of performance information.

The Office has, for example, published **guidance on annual reports** for agencies, trading funds and non-departmental public bodies. (It should be noted that in this context annual report refers to the half part of the annual report and accounts

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<sup>90</sup> Improving Performance Information, information on the Treasury website.

document that agencies and departments are to deliver, e.g. the performance information part.) According to the guidance the annual report should normally provide information under three broad headings:

- A description of the Agency's business, its aims and objectives and strategy in achieving them;
- A review of performance during the past year, including performance against agreed targets;
- A financial review (may be incorporated into information about performance)
- 

The guidance gives an indication of the areas which should be covered under each of the headings.

The guidance is based on the ASB's statement Operating and Financial Review which is the most authoritative source of guidance in the UK on best practice in providing narrative explanations and analysis of business operations and performance. That statement is drafted with listed companies in mind, but is applicable to other large entities where there is a legitimate public interest. The guidance does not reproduce all of the relevant detail of the ASB's Statement, to which reference should be made as appropriate.

The Cabinet Office is also involved in other initiatives concerning performance information. One such example is the launch of A Framework for Performance Information: Choosing the Right Fabric. This framework has been developed by the Treasury, the Cabinet Office, National Audit Office, Audit Commission and the Office for National Statistics. The framework outlines the key terms and concepts commonly used in the field of non-financial information.

**Courses** are provided by the Civil Service College, which is a part of the Cabinet Office. It offers fully customised development programmes and a management consultancy service as well as a range of programmes and courses for management development training. Within the field of accounting there are courses and seminars on resource accounting and budgeting as well as technical updates for accountants in government.

#### **7.4 The Accounting Standards Board (ASB)**

The role of the ASB is to issue accounting standards for companies. These are called Financial Reporting Standards (FRS). There is also an Urgent Issues Task Force (UITF) to assist the ASB where unsatisfactory or conflicting interpretations have developed about a requirement of an accounting standard. UITF views are published in the form of UITF abstracts.

As already mentioned, the RAM requires that the preparers of government annual reports and accounts in the UK consult most of these FRS and abstracts for full understanding. In that way these pronouncements are applicable for government entities, as adapted.

In relation to ASB it should also be mentioned that there is a public sector and not-for-profit committee which takes part in the standard setting process of the

ASB and seeks to ensure that the standards developed are as relevant as possible to public sector bodies.

## **7.5 UK National Audit Office**

The role of the Comptroller and Auditor General (C&AG), as head of National Audit Office (NAO), is to report to Parliament on the spending of central government money. Two types of audit is performed; financial audit as well as value for money audit.

The NAO also give guidance to departments and agencies. Examples of such guidance are the publishing of Good practice established in various reports. The Good practice is spread through the website and through the publication Focus, which is distributed to all departments and agencies. However, this type of Good practice does normally not relate to financial accounting standards and regulations.

One example of guidance from the NAO is the report on Good Practice in Performance Reporting in Executive Agencies and Non-Departmental Public Bodies. Its purpose is to assist agencies to improve further their performance reporting by setting out guidance based on their own good practice in collecting and reporting performance information. For example, it includes a checklist of key issues to consider when setting up and reviewing performance measurement systems and presenting results. The report does not include guidance related to financial statements.

The C&AG with the NAO's support is responsible for auditing the financial statements of all Central Government departments, agencies and other public bodies, reporting the results to Parliament.

One of the principal concerns is to assess the quality of public services from the point of view of those who use the services.

According to its website the NAO regularly provide a range of expert advice for its clients as well as day to day assistance. Technical Bulletins gives a commentary on a range of financial reporting developments. These updates, for example concerning changes in the RAM, normally cover information which is also given by other bodies such as Treasury. The annual report states that the NAO has, during the year 2001-02 played a key role in assisting departments with the implementation of resource accounting and budgeting, along with providing regular feedback on work underpinning the introduction of whole of government accounting.

The NAO also contribute to professional developments through its active role on the Financial Reporting Advisory Board whereby the Office give advice on accounting standards for central government. Members of staff also serve on the Councils of the Institute of Chartered Accountants in England and Wales and the Chartered Institute of Public Finance and Accountancy.

## 7.6 Accountancy Bodies

The accountancy bodies provide courses and publications designed to keep financial professionals informed about key issues concerning financial management, including such matters related to the public sector. Some of these bodies have technical departments involved in the standard-setting and the giving of advice to members on accounting matters.

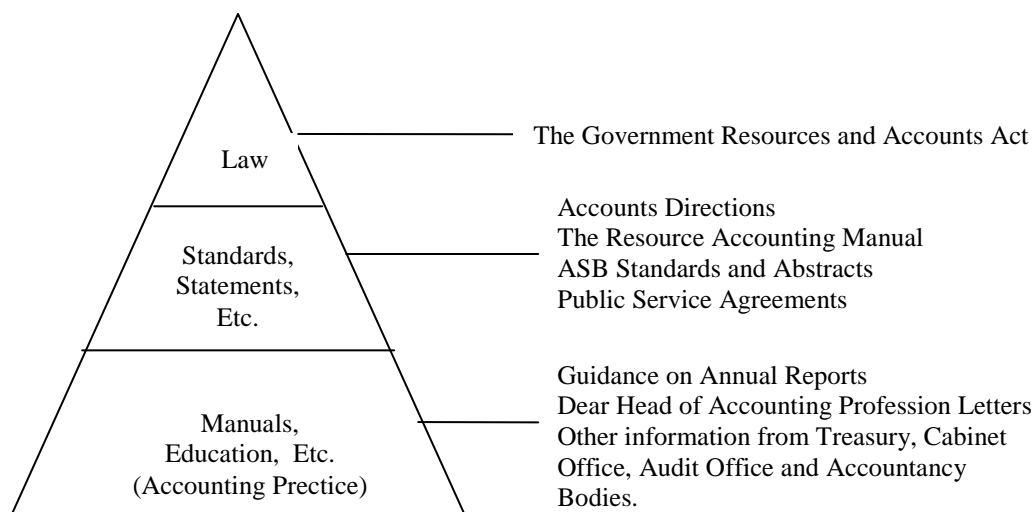
The UK has many accountancy bodies. According to the Treasury guide A Strategic Approach to Finance Training, 2001, the Consultative Committee of Accountancy Bodies consists of following accountancy bodies<sup>91</sup>:

- The Institute of Chartered Accountants in England and Wales
- The Association of Chartered Certified Accountants
- The Institute of Chartered Accountants of Scotland
- The Chartered Institute of Management Accountants
- The Chartered Institute of Public Finance and Accountancy
- The Institute of Chartered Accountants in Ireland
- Institute of Internal Auditors
- Association of Accounting Technicians
- National Vocational Qualifications

## 7.7 Hierarchy of accounting regulation – a summary

A summary of the hierarchical structure of the accounting regulations and other instruments is presented in the following figure.

Figure 10: Accounting Regulations and Other Instruments in the UK



<sup>91</sup> HM Treasury, 2001, Strategic Approach to Finance Training, p 7

## 8. Comparative analysis

The comparative analysis in this chapter follows the same structure as the one used in chapter three. This means that each one of the aspects I have focused on in my country analysis creates a separate section. The four aspects are:

- Accounting regulations and other instruments
- The actors in the system
- The process of setting accounting regulations
- The overall content of accrual accounting regulations

### 8.1 Accounting Regulations and Other Instruments

As described in chapter three there are different types of accounting regulations as well as other instruments. Important elements are accounting law, accounting standards and similar statements as well as accounting practice, including a wide range of instruments, such as manuals, articles, training and education. The hierarchical structure of each country has been presented in chapter five to seven. In the following I make a comparison.

Table 7: Accounting regulations and other instruments – comparative analysis

	<b>Australia (Victoria)</b>	<b>Sweden</b>	<b>UK</b>
Law	Financial Management Act	State Budget Act	Resource and Accounts Act
Standards, Statements, etc	Ministerial Directives Accounting Standards and Concepts UIG Abstracts Bulletins	Government Approval Letter Ordinances Rules Recommendations	Accounts Directions Resource Accounting Manual (ASB standards & abstracts) Public Service Agreements
Manuals, Education, etc (Practice)	A Model Financial Report Other Information	Manuals Other information	Guidance Other Information

My analysis shows that there are large similarities between the three countries. In all three countries there is some kind of legislature specifying broad outlines as well as regulations issued by Ministry of Finance or the Cabinet.

The large bulk of accounting regulations is made up of the AASB pronouncements in Australia, the ESV rules and recommendations in Sweden and the Resource Accounting Manual (including reference to the ASB pronouncements) in the UK. As can be noted, the regulations are issued through standards, rules, recommendations, abstracts, manuals or bulletins. There are a lot of names of these regulations which in substance are very much the same. These different types of instruments can be referred to the middle level of my hierarchical pyramid.

In addition, in all three countries, there are different kinds of information materials, education and advisory services. This can be referred to as Accounting Practice.

As regards differences, my study indicates that the accounting regulations in Australia, at least in Victoria, are more extensive than in the other countries.

As already pointed out, a lot of different names are used for the same types of regulations. After my in-depth analysis I have drawn the conclusion that it is important to look at the substance of the regulations rather than focusing on the names; i.e. the principle of substance over form should be applied. For example, the regulations in the Resource and Accounting Manual are mandatory while the manuals on different accounting issues in Sweden are not mandatory. Another example is the Swedish recommendations which in reality are mandatory – despite their name.

The hierarchical structure is very clear in Sweden and quite clear also in the UK. It seems to be less clear in Australia (Victoria) where it, for example, is clearly stated that legislation can include reporting requirements that differ from the ASB standards.

## 8.2 The actors in the system

In chapter three I presented a model of possible actors in the accounting system. With that model as a point of departure, my findings have been presented in chapter five to seven. The following table includes a summary of principal actors in each country, excluding the preparers and users of the government annual reports.

Table 8: Principal Actors in Governmental Accounting Regulation Systems – comparative analysis

Possible Actors	Australia	Sweden	UK
<b>Parliament</b>	Parliament	Parliament	Parliament
<b>Government</b>	Treasury	Government Cabinet/ Finance Ministry ESV (+ advisory board)	Treasury (+advisory board) Cabinet Office
<b>Standard Setting Body</b>	AASB		
<b>Accountancy Bodies</b>	Several Accountancy Bodies		Several Accountancy Bodies
<b>Auditors</b>	Auditor General	National Audit Office	National Audit Office

My comparative analysis indicates that on the overall level there are similarities in respect of which actors participate in the accounting regulation system in the three countries and also in relation to their different roles. However, I have also identified differences. In the following I comment on such differences as well as similarities.

Parliament decides the hierarchically highest level of regulations in all three countries. The Laws decided by the Parliaments are the Financial Management Act (Victoria), the State Budget Act (Sweden) and the Government Resources and

Accounts Act (UK). All these laws are kept short; instead they give authorisation to Government to issue further regulations on accounting. The Parliament role as a user of annual reports is dealt with further down.

Government has an important role in all three countries, beside the roles as preparer and user of annual reports. However, the government unit (units) having a principal role in the regulation system is not exactly the same in all three countries. In both Australia (at least Victoria) and the UK, the Treasury has a role in terms of deciding on accounting regulations. In both countries the Minister for Finance makes the decisions. In Sweden the Ministry for Finance has a role in the preparation process while decisions on the overall accounting regulations are taken jointly by the Cabinet.

Other principal actors within Government are the Cabinet Office in the UK and the ESV in Sweden. The ESV seems to have a very important role very much comparable to the role of the Treasuries in Australia (Victoria) and the UK. Actually the responsibilities of the ESV seem to go beyond the responsibilities of the Treasuries, for example including also a substantial amount of education.

I want to point out that the Australian Treasuries seem to have a less important role than the UK Treasury and the ESV in Sweden. The reason for that is, as already mentioned, that the large bulk of accounting regulations is the responsibility of the Australian Accounting Standards Board.

The fact that the government has several roles, including the roles as preparer and user of annual reports is reflected on in the final chapter.

Standard Setting Bodies exist in all three of the countries. However, their role is quite different in the three countries. A major difference is the important role of the AASB in terms of standard setting for the government sector, and for the private sector as well. In the UK private sector accounting standards influence government regulations and should be consulted as the starting point of the requirements to be followed. In Sweden the private sector standards influence the development of government accounting regulations but there is no recommendation that the private sector standards should be consulted by the preparers of annual reports<sup>92</sup>.

Accountancy Bodies play an important role in Australia and in the UK. In Sweden, however, they only exist for employees at audit firms and therefore they have no role to play within the government sector. This seems to result in fewer people in Sweden having knowledge about governmental accounting. This is reflected on in the final chapter.

Auditors have, according to my survey, the same role in all three countries.

Advisory Boards are used by the UK Treasury and the ESV in Sweden. In Australia the AASB's Consultative Group and the Project Advisory Panels have

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<sup>92</sup> Except on very rare occasions.

similar roles. The roles of the advisory boards are further penetrated in section 9.3.

The preparers of annual reports – different government entities - are also actors in the system. Agencies prepare annual reports in all three countries. Departments prepare consolidated annual reports in Australia and the UK. Consolidated annual reports for states or the central government are produced in Australia and in Sweden. My conclusion is that these differences are not material.

The users of annual report differ substantially between the countries. In Australia the general public is often referred to as user, beside Parliament, and the term general purpose financial statements is widely used. In Sweden, on the contrary, the public is seldom referred to and a term equivalent to general purpose financial statements is not used. The agency annual reports are primarily regarded as a document in the budget process of government. Only the consolidated – whole of central government annual report has Parliament as the formal receiver. As regards the UK my study shows that the public is regarded as an important user of annual accounts, beside Parliament. However, it does not seem to be as clearly expressed as in Australia. The term general purpose financial statements is used in the UK. The differences concerning users are further reflected on in section 9.2.

Altogether I draw the conclusion that the number of actors is larger in Australia and the UK than in Sweden. This conclusion is consistent with the conclusion that the production of annual reports is seen very much as a government internal affair in Sweden. One reason why Sweden has not as many actors is the negligible role of accountancy bodies.

The very important role of the AASB implies that the production of annual reports in Australia is not seen as a government internal affair in Australia. It also implies that the number of actors is increased and that government, through Treasury, to a lesser extent has the role of both deciding on accounting regulations and preparing the annual report. This indicates that the accounting regulations in Australia are set the most independently with the government as a preparer having smaller possibilities to take control than in other countries.

A comparison between Sweden and the UK indicates a smaller difference. However, for two reasons it seems that regulations in the UK are set more independently than in Sweden. One reason is that the advisory board in the UK has a stronger position than the ESV advisory board. Another reason is that it is already in the Government Resources and Accounts Act stipulated that Treasury in particular shall have regard to any guidance issued by the Accounting Standards Board, i.e. standards for the private sector.

In Sweden independent agencies prepare the annual report while the Government Cabinet and the ESV sets the rules. It can be argued that the formulation of regulations under those circumstances is done independently. However, the agencies, including the ESV, and the ministries constitute the central government entity, which legally is one entity.

The information about actors can be combined with the information about accounting systems, which is done in the following table. It can be argued in which hierarchical order the actors should be placed. In the table I have chosen to place the independent body at the top.

Table 9: Overview of the Accounting Systems – comparative analysis

	<b>Australia (Victoria)</b>	<b>Sweden</b>	<b>United Kingdom</b>
<b>Independent body</b>	Accounting Standards and Concepts Urgent Issues Group Abstracts	<i>(Private sector accounting standards and IPSASs influence gov't regulations)</i>	<i>(Private sector accounting standards are referred to and should be consulted.)</i>
<b>Parliament</b>	Financial Management Act	State Budget Act	Gov't Resources and Accounts Act
<b>Government Cabinet</b>		The ordinance on the annual report and budget documentation Instruction to ESV on the preparation of consolidated annual report.	
<b>Treasury Cabinet Office</b>	Ministerial Directives Bulletins Information material, including newsletter Advisory services		Accounts Directions Resource Accounting Manual <sup>93</sup> Other Ministerial directives Information and advisory services Education
<b>Financial Management Authority</b>		Supplementary regulations (rules and recommendations) to above mentioned ordinances <sup>94</sup> Handbooks and manuals Information and advisory services Education	
<b>Accounting Bodies</b>	Education Publications		Education Publications
<b>Auditors</b>	Dialogue with other actors Advice to clients	Dialogue with other actors Advice to clients	Dialogue with other actors Advice to clients

<sup>93</sup> Advisory Board is consulted

<sup>94</sup> Advisory Board is consulted

### 8.3 The process of setting accounting regulations

As already mentioned in chapter three, I have not focused on the legislation process. Instead I have given priority to the process related to the large bulk of regulations.

My conclusions concerning the process of setting accounting regulations are summarised in the following table. The classification is discussed further below.

Table 10: The process of setting accounting regulations – comparative analysis

	<b>Australia</b>	<b>Sweden</b>	<b>UK</b>
<b>Due Process</b>	strong externalised	medium internalised	medium internalised/externalised

In all states and territories in Australia it is the AASB which is responsible for the large bulk of regulations. As is evident from the presentation in chapter five the AASB does apply a due process very similar to the FASAB process presented in chapter three. This makes it possible for a wide group of users, as well as the preparers and other interested parties to influence the standards set. In this sense the process can be regarded as strong, bedding for a large degree of legitimacy. As many of the involved parties can be referred to the non-governmental sector, the process can be classified as externalised.

In Sweden some sort of due process is used by the ESV. However, the ESV process does normally not include as many steps as the FASAB process described in chapter 3. The ESV use of an advisory board is an element in the due process. However, the position of this board does not seem very strong. The process involves only a selection of the preparers as well as the Ministry of Finance. Altogether I therefore classify the strength of the Swedish due process as medium. External parties are not involved except for the representation in the Advisory Board. Therefore the process in Sweden can be characterised as internalised.

In the UK the process used by Treasury is very similar to the process used in Sweden; with the difference, however, of a stronger advisory board. For example, the UK advisory board is supposed to be independent from Government and reports to Parliament. I classify the strength of the UK due process as medium however possibly somewhat stronger than the Swedish process. The UK process is largely an internal process within Government. However, it can also be regarded as an externalised process because of the strong position of the advisory board as well as of the accountancy bodies.

### 8.4 The content of accrual accounting regulations

As already pointed out the purpose of this study has not been to give a comprehensive picture of the content of accrual accounting regulations in the three countries. That is a too pretentious approach. However, I will give an overview of some similarities and differences that I have found.

The law is kept short in all three countries. The Victorian and the UK laws focuses clearly on, on one hand, agency/departmental annual reports and, on the

other hand, the annual report of the state or whole of government. The Swedish law does not make this clear distinction. This difference is in line with the fact that only the whole of central government annual report is submitted to Parliament in Sweden.

The accrual basis of accounting is not directly prescribed in any of the laws. In Victoria it is formulated as a requirement for the financial statements to fairly present the financial transactions of the department or public body during the financial year to which they relate as well as to fairly present the financial position at the end of the year. The UK law requires that resource accounts are to be prepared. It is also stated that Treasury shall exercise its power to ensure that resource accounts conform to generally accepted accounting practice subject to such adaptations as are necessary in the context and present a true and fair view. These wordings imply accrual accounting. The Swedish law stipulates that accounting shall be carried out in accordance with generally accepted accounting principles. The accounts shall give a true and fair picture of the operations and the financial position.

As regards performance reporting following can be noted in relation to the laws studied. The Victorian law includes no regulation in relation to the state's annual report. In relation to the annual report of a department or public body it is stipulated that the annual report shall include a report of operation. This report must be in a form and contain information determined by the body's accountable officer to be appropriate and must contain other information required by Minister. The Swedish law includes no requirements in relation to agencies' performance reporting. However, it is stipulated that the government shall report to Parliament on the objectives aimed at and the results achieved in various areas of operation. It is not required that this information is included in the Central Government Annual Report. The UK law does not include any provisions on result-based management and performance information.

Considering the content of the large bulk of accounting regulations there seem to be large similarities.

In all three countries the content of the regulations is similar to the content of the IFAC-PSC standards. These regulations are substantial and deal almost exclusively with the financial statements and how these are to be prepared on an accrual basis. The influence from private sector accounting standards is strong in all three countries – either directly or indirectly.

As regards performance reporting it is striking that it in all three countries it is an area which is only briefly regulated. This is reflected on very briefly in section 9.4.

## **8.5 Summarising conclusions**

My study shows that the OECD survey on how accounting standards for governments are determined is, in large, correct in the cases of Australia and the UK. In the case of Sweden it is not entirely correct. However, the Swedish system is not easily referable to any of the given alternatives in the survey.

As proved by my study, the reality is substantially more complex than the OECD survey shows. Several organisations are involved and the role of these organisations may differ from one country to another. There are a large number of different types of regulations in each one of the countries. However, their content and level of details do not differ so much.

The large bulk of regulations are established through the use of due processes. However, the strength of these processes varies.

The areas covered by regulations are similar – the Australian regulations being most extensive. Requirements for performance reports are brief.

In Australia the private sector accounting standards are also applicable for the public sector. In the UK private sector accounting standards are referred to in the regulations issued by the Treasury and should be consulted. In Sweden they have large influence on the government regulations but are normally not to be consulted.

In all three countries accounting practice is communicated through a wide range of different instruments. More striking is the fact that there are more actors dealing with accounting practice in Australia and in the UK than in Sweden.

## 9. Reflections

### 9.1 The many roles of government

As my study has pointed out, government can have several different roles in the accrual accounting regulation system.

My study shows that even in Australia where there is an independent standard setting body and where parliament instead of government is the prime receiver of annual reports, the government still has several roles. One role is linked to legislation and includes the formulation of more detailed rules in relation to what parliament has decided. For example the Victorian Treasury is the organisation which gives authority to the accounting standards issued by the AASB.

A second role of the Victorian Treasury is linked to the preparation of annual reports. This role is, in my opinion, comparable to the role of the parent company in a company group. This role includes measures taken in order to make the accounting standards operational. Under some circumstances, for example, the accounting standards allow for alternative methods and in those cases it is normal that a company group decides to use one of these alternatives within the whole group. In Victoria the Bulletins are used for this purpose.

In Sweden and the UK government also has a third role; the setting of the large bulk of accounting regulations.

What are the implications of the government having several roles? Is it important to keep the roles separate?

Separation of role number one and two does not seem to be a big issue. Neither have I found that it has been debated.

However, the separation, or non-separation, between role number two and role number three is a big issue. Non-separation implies that the same organisation determines accounting regulations and produces the annual report. Under those circumstances the organisation, at least in theory, has the possibility to change the rules in order to make the figures look more favourable. It is often argued that the regulations should be set by an independent organisation in order to assure that manipulation is not to be suspected. This issue is at present on the agenda in Sweden.

In Sweden government also has a fourth role as being the prime user of the agencies' annual reports. This is dealt with in the following section.

### 9.2 The users of government annual reports

As concluded in chapter eight there are substantial differences in relation to the main users of the annual reports. Especially in Australia, but also in the UK, the general public is often referred to as being users of the annual reports, beside

Parliament. In Sweden, on the contrary, the annual reports are regarded as government internal documents.

The “user issue” is linked to the issue of accountability, as well as to the government structure.

The issue of accountability has been studied by Chan<sup>95</sup> and the following discussion is based largely on his work.

On the overall level, Chan distinguishes between a continental model characterised by the government being accountable to Parliament and an Anglo-American model characterised by both government and Parliament being responsible to the general public.<sup>96</sup>

Financial accountability can be referred to three levels. The first level is hierarchical accountability within the government, where for example agencies are accountable to their superiors (e.g. ministers or the government cabinet). The second and higher level of accountability is that of the government to the parliament. This kind of accountability is based on the proposition that elected officials occupying seats in the parliament are more directly accountable to the people than is the government itself. The third and highest level of accountability is the entire government’s accountability to the electorate.

While there is an emerging consensus that governments should be held financially accountable, there are different types of accountability. According to Chan, this has led to two major competing models of government accounting. One model emphasises hierarchical accountability within the government and the government’s accountability to the parliament. The other model stresses the entire government’s accountability to the general public. Adherence to these different modes of accountability has led countries to adopt these different models of government accounting or their variants. The first model tends to be adopted primarily by Continental European countries. The other model is practiced mostly by the so-called Anglo-Saxon countries.

My study confirms that Sweden, in this respect, can be referred to the Continental Europe Model while Australia and the UK follow the Anglo-Saxon practice.

However, I think it is worth pointing out that in terms of business accounting there has, in Sweden, been a movement from a Continental European influence to a more Anglo-Saxon influence<sup>97</sup>. An interesting question is whether that will be seen also in terms of public sector accounting and especially in relation to the issue of who is the prime user of government annual reports.

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<sup>95</sup> Chan in OECD, 2002, p 10 and Chan, 2002, see also Benito, Brusca and Montesinos in Montesinos and Vela, 2002

<sup>96</sup> See also Olson, Guthrie and Humphrey, 1998, p 446

<sup>97</sup> Nilsson, 1999, p 12

### 9.3 The role of accountancy bodies

The fact that the accountancy profession does not have the same role in all countries is not a new finding. This has been recognised, for example by Hepworth<sup>98</sup>. He points out that in some European countries “the profession has only a very limited public sector role. The largest public sector membership is in the UK and the Netherlands.” The fact that the profession has a limited role is, according to Hepworth, a problem which needs to be borne in mind. It makes it difficult for the profession to influence those responsible for the setting of accounting standards.

Having experience from Sweden, a country where accountancy bodies exist primarily for the private sector auditors, I see the same phenomena but from the other side. I find it unsatisfactory that the actors on the central government accounting arena are so few. In my opinion there would be large advantages if there were more actors on the arena. It would most certainly result in more debating of governmental accounting, a larger interest in government specific issues and ultimately positive effects on quality, legitimacy etc.

How can the number of actors increase? How can the accountancy profession be more involved? Personally I do not have any straight answers to these questions.

### 9.4 Harmonisation

As mentioned, there is a movement towards a harmonisation of corporate accounting in different countries. Therefore it is relevant to raise the question whether a similar pattern will be seen in the public sector. In my opinion there are many circumstances which make such a development realistic.

In one way, signs of harmonisation have already been seen. First of all I have the IPSASs in mind as they form a basis which different countries can use as reference. It seems to me that the IPSASs, as well as the IFAC-PSC is gaining in importance. The legitimacy of the organisation seems to have increased lately, for example by involving people with experience in government accounting in their standard setting process. The OECD has also taken steps in order to facilitate the sharing of experiences between different countries. This, in turn, increases the chances of ending up with similar solutions.

Another reason why harmonisation is likely is the harmonisation of corporate accounting. As governments implementing accrual accounting probably will pay at least some regard to the corporate accounting principles within the country, the private sector harmonisation will also have effects on public sector harmonisation.

Altogether, as long as the financial statements are concerned I do believe there will be a movement towards harmonisation.

When it comes to the performance information in the annual reports I am more uncertain. So far the IFAC-PSC has done no major work in this area. The non-

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<sup>98</sup> Montesinos and Vela, 2002, p. 74

financial performance information is also an area where public sector accounting cannot as easily get influence and input from the private sector. These are two arguments which make a harmonisation movement less probable. However, in my opinion, it would be interesting to focus on this area. Which are the similarities and differences between countries in terms of performance reporting? Would there be advantages in a harmonisation?

Finally, what is the EU doing with reference to the harmonisation of government accounting? So far the EU authorities have not initiated any major actions in order to harmonise government accounting. They have only been concerned with business accounting harmonisation. This raises the question; is it just a matter of time before the EU authorities start paying attention to the issue of government accounting harmonisation? To me it does seem probable that the EU will take such initiatives. I believe that if the issue was penetrated by the EU, advantages with a harmonisation would be recognised – even though the arguments would not be the same as for the business accounting harmonisation. As the EU organisation itself is on its way to implement the IPSASs I do think that those standards would at least be considered in a discussion on harmonisation.

To me it has been very interesting to carry out this study and I have acquired a lot of new knowledge. It is exciting to learn about the status in different countries and possibly also contribute to the spreading of knowledge. It will be of large interest to me to follow the future development of accrual accounting regulation for governments and I look forward to continuing to monitor the subject in the future.

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Australia Accounting Standards Board	<a href="http://www.aasb.com.au">www.aasb.com.au</a>
Certified Practicing Accountants	<a href="http://www.cpaaustralia.com.au">www.cpaaustralia.com.au</a>
Commonwealth Treasury	<a href="http://www.treasury.gov.au">www.treasury.gov.au</a>
Financial Reporting Council	<a href="http://www.frc.gov.au">www.frc.gov.au</a>
Institute of Chartered Accountants in Australia	<a href="http://www.icaa.org.au">www.icaa.org.au</a>
Victorian Auditor General	<a href="http://www.audit.gov.au">www.audit.gov.au</a>
Victorian Department of Treasury & Finance	<a href="http://www.dtf.vic.gov.au">www.dtf.vic.gov.au</a>

### Sweden

Accounting Standards Board	<a href="http://www.bfn.se">www.bfn.se</a>
FAR, professional institute	<a href="http://www.far.se">www.far.se</a>
Föreningen Sveriges Kommunakekonomer	<a href="http://www.kef.a.se">www.kef.a.se</a>
Swedish Government's Swedish website	<a href="http://www.regeringen.se">www.regeringen.se</a>
Swedish Government's English website	<a href="http://www.sweden.gov.se">www.sweden.gov.se</a>
Swedish Association of Auditors	<a href="http://www.revisorsamfundet.se">www.revisorsamfundet.se</a>
Swedish Financial Accounting Standards Council	<a href="http://www.redovisningsradet.se">www.redovisningsradet.se</a>
Swedish Financial Supervisory Authority	<a href="http://www.finansinspektionen.se">www.finansinspektionen.se</a>
Swedish National Audit Office	<a href="http://www.rrv.se">www.rrv.se</a>
Swedish National Financial Management Authority	<a href="http://www.esv.se">www.esv.se</a>

### United Kingdom

Accounting Standards Board	<a href="http://www.asb.org.uk">www.asb.org.uk</a>
Cabinet Office	<a href="http://www.cabinet-office.gov.uk">www.cabinet-office.gov.uk</a>
Chartered Institute of Public finance accountants	<a href="http://www.cipfa.org.uk">www.cipfa.org.uk</a>
Civil Service College	<a href="http://www.cmps.gov.uk">www.cmps.gov.uk</a>
Government Accounting Manual	<a href="http://www.government-accounting.gov.uk">www.government-accounting.gov.uk</a>
HM Treasury	<a href="http://www.hm-treasury.gov.uk">www.hm-treasury.gov.uk</a>
Resource Accounting Manual	<a href="http://www.resource.accounting.gov.uk">www.resource.accounting.gov.uk</a>
Whole of Government Accounts	<a href="http://www.wga.gov.uk">www.wga.gov.uk</a>

### Others

OECD	<a href="http://www.oecd.org">www.oecd.org</a>
CIGAR	<a href="http://www.cigar-network.org">www.cigar-network.org</a>
International Federation of Accountants	<a href="http://www.ifac.org">www.ifac.org</a>

## Interviews

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## Abbreviations

AAS	Australian Accounting Standard
AASB	Australian Accounting Standards Board
ASB	Accounting Standards Board (UK)
C&AG	Comptroller and Auditor General (UK)
CIGAR	Comparative International Government Accounting Research
CPA	The Certified Practicing Accountants (Australia)
DTF	Department of Treasury and Finance (Victoria, Australia)
ESV	Ekonomistyrningsverket (the Swedish National financial Management Authority)
FEE	Fédération des Experts Comptables Européens
FRAB	Financial Reporting Advisory Board (UK)
FRC	Financial Reporting Council (Australia)
FRS	Financial Reporting Standards (UK)
GAAP	Generally Accepted Accounting Practice (or Principles)
IAS	International Accounting standard (issued by the IAS)
IASB	International Accounting Standards Board
IASC	International Accounting Standards Committee
ICAA	The Institute of Chartered Accountants in Australia
IFAC	International Federation of Accountants
IPSAS	International Public Sector Accounting Standard
NAO	National Audit Office (UK)
NPM	New Public Management
NPFM	New Public Financial Management
PSA	Public Service Agreement (UK)
PSC	Public Sector Committee of the IFAC
RAM	Resource Accounting Manual (UK)
RRV	Riksrevisionsverket (the Swedish National Audit Office)
SDA	Service Delivery Agreement (UK)
SFS	Svensk författningssamling (Swedish Code of Statutes)
UIG	Urgent Issues Group (Australia)
UITF	Urgent Issues Task Force (UK)