CHAPTER III
REVIEW OF LITERATURE

INTRODUCTION

Administration in government is shifting towards governance. The main instrument of administration was the line-item of budget, which was virtually an annual affair. This traditional budget was characterized by budget allocations based on percentage increases of each item of budget every year. The effectiveness of the spending of allocation was analyzed as a routine activity only. The result of this practice was extravagant spending devoid of the consequences and hence the public money was wasted most of the times. This problem reached a stage of crisis virtually. The outcome of this crisis has been the Program and Performance Budgeting (PPB) and it is increasingly adopted in developed countries and the initiation towards this is taking place in developing countries also. In this background, a modest attempt has been made to present the empirical evidences on PPB.

SCOPE OF THE REVIEW

The review of literature related to the practice of PPB has been made from the viewpoint of budget reforms, PPB implementation, use of performance information, accrual accounting, accounting systems, PPB for low income countries and preconditions for implementation of PPB.

BUDGET REFORMS

A government budget serves several purposes. It acts as a blueprint for future actions. It sets out the targets to be achieved with financial implications. The budget is also an instrument for governments to give account to parliament [Martin: 2002]. Performance budgeting initiatives are indeed partly justified as improving accountability to the legislature.

The performance budgeting initiatives that have the ambition to improve accountability to parliament have a dominant focus on changing the budget structure, but do not seem very successful in altering the budget functions. Changes in the budget procedures as for example in the
Netherlands neither seem to have a lot of impact on the use of performance information.

Grizzle [1985] believes that performance measures must be developed in conjunction with budget considerations to be adopted and perceived as creditable.

Sheffield [1999] argues that the output and outcome measures are used to tie performance standards to budget appropriations and to evaluate programs after they have been on performance-based program budgeting for a year. The bridge between performance measurement and strategic planning can tie the present to the future. Tying performance measurement to the budget gives performance measurement more clout.

The introduction of PPB in any country requires certain budget reforms to make the former effective. The other terms used for these budget reforms are system of national accounting, public sector accounting, resource accounting and new public management (NPM). It is important to note that public sector accounting has a wider connotation in the sense that it includes not only the accounting process in public sector understanding but also the government institutions at all levels. The different dimensions of empirical evidences on budget reforms have been presented under: (i) Resource Allocation; (ii) Structural Budget Reforms; and (iii) Budget Formats.

(i) Resource Allocation:

For any government, budgets are the main instruments for allocation of financial resources. It is held that a budget place a significant role in achieving allocation efficiency and operational efficiency.

Regarding the question of why a state adopted PPB, O’Roark [2001] evidenced that PPB was adopted first in states with high tax rates, which forced administrations to adopt PPB to get more out of existing dollars or perhaps to reduce waste with the goal of lowering taxes. The studies by Alesina and Parotti [1996] and Poterba and Von Hagin [1999] also analyzed how difference in the rules for developing, enacting and enforcing budgets affected fiscal performance across nations and the results indicated an improvement in fiscal performance.
In view of almost all American States having tried some form of PPB, the study by Crain and O’Roark [2004] examined the impact of this budget process innovation on state expenditure. Using panel data for 1970 through 1997, the findings indicated that performance-based budgeting curtailed state spending per capita in at least two states’ spending by 1.3 per cent as a share of state income. However, not all state government programs were affected equally; some budget categories experienced increased spending after the implementation of performance budgeting.

In his review of New Zealand's public sector management framework, Schick [1996] reported evidence that, in spite of the country's reputation as a performance management front-runner, reallocations were not as common as in Australia and other countries. In short, single-case studies suggested that, while in the context of some PPB experiences performance-related considerations, did not appear to be an important part of the budget allocation process.


A comprehensive of these wavers in budgeting practices of the states in the United States have been well documented in Lee Jr. [1997]. The major conclusions are the following: (a) Nearly 48.00 percent of state budgets provided for specific dollar-level ceilings, which were non-existent in 1970, as against the percentage of state budgets providing no ceiling of any kind decreased from 59 in 1970 to 28 in 1995 (p.134); (b) There were policy ceilings on dollar amounts to encourage or retard the growth of certain types of programs increased from 16 per cent in 1970 to 63.0 per cent in the state budgets of the United States. (p.134); (c) Instructions to maintain a minimum level of service was 26.00 per cent of the states in 1995 as against any instruction in 1975; (d) Institutions to maintain current level of services was found in 62.0 per cent of the states as against just 17.0 per cent in 1975; (e) Institutions to include necessary program improvements increased in the states from 26.00 per cent in 1975 to 61.00 per cent in 1995; and (f) A
requirement of a ranking of priorities among programs in the budget proposals was found in 78.00 per cent of the states as against only 28.00 per cent in 1975.

Jordan and Hackbart [1999:68] posit that the recent performance budgeting efforts go beyond the workload productivity and efficiency focus of earlier phases and place greater emphasis on outcomes and accountability. To assist in clarifying the impacts, the study defined PPB as "preparing the budget document with identified performance measures," and performance funding was defined as "the allocation or distribution of a percentage of the appropriated funds contingent upon the assessment of the performance measures identified in the budget." Relationships between PPB and aspects of budgetary practices were analyzed through tabulations and cross-tabulations regression analysis was used to examine the states' organization, fiscal, and political capacity to implement PPB and funding. According to this survey, 72 per cent of the budget offices indicated that performance considerations could affect next fiscal year funding decisions, and 35 per cent said that such effects could occur in the current fiscal year. Interestingly, these estimates were somewhat higher than what the other surveys of the U.S. state executive budget offices had shown. From a more general perspective, the overall finding was that some systems were obtaining better results than others highlighted the need to unveil the specific configuration of factors leading to such differences in outcomes. The study found that performance indicators provided valuable information regarding functions, but they were not fiscally enforced goals. Performance might impact the appearance and preparation of the budget document, but the outcome in terms of funding was not significantly affected. However, the study highlights that "performance budgeting efforts will continue because of the need for public accountability and taxpayer support of expenditures tying performance achievement to allocation would make performance budgets more than a management tool" [Jordan & Hackbart, 1999, p. 69]. Lastly, the researchers quote the CBO [1993] report: "In the final analysis, the budget process is unlikely to be changed substantially until and unless decision makers demand and use information on program performance when making decisions about
allocating resources. Having this information ... is a necessary, but insufficient prerequisite to changing the policy process."

At this stage, it important to document the observations made by Posner [1999], who presents how the federal landscape is littered with management reforms of the past [PPBS, MBO, and ZBB] that failed to make them relevant to the resource allocation process. He also explains how the integration of performance information promises to improve budgeting by shifting the focus of resource allocation debates from inputs and processes to the outcomes of government programs and argues that PPB is widely viewed as critical for the successful implementation of the Results Act. He cautions, however, that PPB cannot achieve some formulaic linkage between budgeted levels and performance levels because the outcomes of most federal programs are influenced by too many factors and actors to be boiled down to straightforward mechanical relationships between dollars and results. Secondly, PPB cannot take the "politics out of budgeting." He advances the argument that shifting the budget debate to outcomes will increase the perceived stakes associated with budget decisions and, hence, the level of political conflict. Lastly, PPB cannot produce budget decisions exclusively focused on performance but rather a process that balances results with other important values at stake in public decisions such as equity and relative needs.


Similarly, a small number of studies report on evidence of performance considerations' influence on budget allocations in Chile [Banco Mundial: 2005] and Singapore [Jones:2001].

To conclude, it is apt to quote Broom [1995]; GASB [1990]; Gore [1993]; and Martin [1997], who assert that the goal of the recent performance
budgeting practice is to link resource allocation decisions with budget outcomes, but few governments have achieved this goal.

(ii) Structural Budget Reforms:

Long back, Key [1940] decried the lack of a budget theory. Despite the efforts of many, the current state of budget theory leaves many unanswered questions. However, the budget process has undergone many changes in order to develop a better system of making budgetary decisions. One of the underlying assumptions in budget theory is that structure matters. Many reforms have made structural changes in the way the budget is presented to budgetary decision-makers.

Many budget scholars have studied the extent to which changing budgeting rules and format change the budget process in a meaningful way [Ahmad, 1989; Fenno, 1966, 1968; Grizzle, 1986; Hammond, 1993; Hickman, 1983; Hirsch, 1968; Jernberg, 1966; Mosher, 1954; Skok, 1980; Stutzman, 1983]. According to these scholars, the format of the budget is the basis for determining what the discussion will be about. It sets the agenda and defines the alternatives to be evaluated. As Fenno [1968: 183] stated: “The form of the budget determines what the conversation will be about. And he who determines what executive-legislative appropriations conversation will be about has an enormous intellectual advantage. He fixes the frame of reference, determines the alternatives, sets the agenda for the discussion, reduces his own uncertainty and increases his chance of winning.”

According to Wildavsky [1974] and Schick [1966], budget format affects budgeting decisions. On PPBS, Schick states, “The case of PPBS rests on the assumption that the form in which information is classified and used governs the actions of budget makers, and conversely, that alterations in form will produce desired changes in behavior” [as cited in Grizzle, 1986: 61]. Those researchers who disagree argue that (i) legislators base their decisions on politics [Lauth:1985]; (ii) legislators often act as barriers to real change in budgetary emphasis because they insist "on knowing how specific monies are being spent and what is being bought with these monies." [Ramsey and Hackbart 1979]; (iii) structuring of support schedules is more important than the overall budget format [Juszczak: 1983]; (iv) budgetary decisions are
incremental and that the budget format has no effect upon budgetary decisions [Carr:1983]; (v) economic and demographic changes are more influential than format in causing shifts over time in the proportion of total budget allocated to broad functions, such as education [Hickman: 1983].

When evaluating the actual effect of format changes, the results have been mixed in nature. In their respective studies, Grizzle [1986], Hickman [1983] and Stutzman [1983] suggested that format indeed changed the discussion. However, Hickman stated that though format was not the primary determinant of dialogue changes, it did play a significant role. Both Grizzle and Stutzman found that format changes made a significant difference in budget discussions. In their studies of the effect of format changes on the nature of the budgetary dialogue, Jernberg and Ahmad’s findings were inconclusive.

Jernberg [1966] began this stream of research by performing a content analysis on three U.S. House Appropriations subcommittees - hearings for five federal agencies covering the period 1949-1964. The federal agencies were the U.S. Forest Service, National Park Service, Bureau of Prisons, Immigration and Naturalization Service and the Internal Revenue Service. These agencies were chosen based on structural similarities to allow for interdepartmental and inter-committee comparisons. The structural characteristics were as follows: (1) domestic oriented; (2) a central headquarters with field operations; (3) a line or operating type agency as opposed to a fund or loan dispenser, rule adjudicator or public enterprise; and (4) the agency existed prior to the changeover to performance budgeting in 1950. Jernberg classified themes of inquiry presented during budget deliberations in each House appropriations subcommittee into four categories - program oriented questions, object of expenditure questions, oversight questions and other miscellaneous questions. He compared the percentage of themes in each category for the two years prior to performance budgeting with the 14 years after the format changed. He found that there had been only slight quantitative advances in the presentation of budget data but that the format had indeed changed with the advent of performance budgeting and that the differences in the themes of inquiry varied by committee. Jernberg [1966:161] states: “Contrary to the Hoover Commission expectations, a
program orientation does not necessarily lead to the making of comparative choices. We found no evidence that committees consciously attempt to evaluate Program A against Program B or C ... etc.”

Grizzle [1986] studied the influence of budget formats for Florida and North Carolina for the period 1979-1981 by classifying the nature of budget deliberations into control, management, and planning orientations, and integrating earlier case descriptions on budget decisions with findings from those studies which tried to link budget outcomes with budget formats used. The study found that format accounted for 64 per cent of the variation in how much emphasis a committee placed upon control while variations in management and planning were 32 per cent and 20 per cent respectively. Her conclusion was that format was important, but it was not the only factor influencing the nature of budget deliberations. She called for an extension to her analytical approach to determine the extent to which formats (as well as other factors) influenced the nature and extent of deliberations.

Ahmad [1989] continued Jernberg’s original premise by extending the content analysis on the original agencies from 1965 - 1984. Ahmad wanted to test the effect of the later budget reforms, PPBS and the Congressional Budget and Impoundment Control Act of 1974 (CBA). Ahmad was interested in the degree to which an executive budgetary reform affected the appropriations dialogue as opposed to a legislative reform. The PPBS was a structural reform in that it changed the structure of the presentation of the budget and required additional analyses and information to be included in the budget documents [Harper, Kramer and Rouse, 1969; Marvin and Rouse, 1970]. The CBA was a structural change in that it formally changed the structure of the legislative institution by creating the Congressional Budget Office, which provided independent information to the Appropriations Committee and it mandated budgetary targets prior to the commencement of appropriations hearings, known as the 302 process after the section containing the provision [Forgette:1996]. Using the same agencies and the same themes of inquiry, Ahmad had three years of data prior to the implementation of PPBS, nine years between PPBS and the CBA and nine years following the introduction of the CBA reforms from which to determine the effects of the two reforms. He compared the mean percentage of themes
in each category for those years prior to PPBS with the first six years after PPBS began and the mean percentage of themes for the three years prior to CBA with the nine years after CBA began. Based on this analysis, he was unable to find a definite relationship between changes in budget structure and changes in the nature of the dialogue although, as against the conclusion of Jernberg, he noticed a difference in the themes of inquiry prevalent based on committee and agency.

The study by Pettijohn and Grizzle [1997] explored the extent to which budget reforms (performance budgeting, PPBS and the Congressional Budget Act of 1974) change the nature of budget deliberations in three House Appropriations subcommittee hearings for five federal agencies. Themes of inquiry describing the nature of the dialogue were identified using results from a content analysis covering the agencies over the period 1949-1984. A GLS pooled cross-sectional times series analysis was used to model the influence of the three budget reforms. Other factors potentially influencing the nature of budgetary discussions were controlled by adding economic, political and social variables. Initial findings indicated that with the advent of the budgetary changes, the dialogue shifted toward a more programmatic theme of inquiry.

Taking a somewhat different perspective, other studies evaluated the initiatives' achievements by assessing the extent of influence of performance-related considerations on budgetary outcomes. Connelly and Tompkins [1989] carried out one of the earliest in the state of Missouri. This study relied on data from the state's executive budgets for fiscal years 1979-1985 to conduct a correlation analysis of inter-annual changes in the governor's budget recommendations and changes in programs' performance. It found no significant relationship between the two variables, or differences in the magnitude of the recommended change in allocations between programs that had performance data and those that did not.

Finally, from an international perspective, a 1994 survey of Department of Finance officials in Australia suggests that evaluation findings had significant influence on both budget proposals and cabinet deliberations [Mackay:1996].
(iii) Budget Formats:

The presentation and format of the financial statements was also familiar to those with a general knowledge of accounting. As a result, debates on fiscal results shifted to matters of economic substance rather than on the appropriate accounting form. Second, evidence on the impact of the reforms, in terms of decision making and efficiency, comes from a number of sources. For instance, a 1996 study provided evidence of efficiency gains, measured in terms of the unit cost of outputs. Third, anecdotal evidence indicates that in the past decade, the public sector culture has shifted to that of a managerial culture with a service orientation. This was supported by professionalization of the government accounting and auditing cadre.

Grizzle [1986] studied the influence of budget formats for Florida and North Carolina for the period 1979-1981 by classifying the nature of budget deliberations into control, management, and planning orientations, and integrating earlier case descriptions on budget decisions with findings from those studies which tried to link budget outcomes with budget formats used. Grizzle traces a series of authors who hold that the format in which a budget is cast importantly affects the ensuing budget deliberations and ultimately the allocation of funds. She explains that the first study was by the New York Bureau of Municipal Research in 1917. Next, she makes reference to studies by Mosher who concluded that the way in which information is classified importantly affects the "kinds of treatment and kinds of decisions that can be made at various levels" because the classification framework "conditions our subsequent perspectives, understandings, and decisions made within the framework" (p. 60).

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research attempts to determine the extent to which the format influenced funding decisions and transit performance.

Dwivedi and Jaffna [1988:5] contend that the traditional concept of accountability considers public officials and their organization accountable “only to the extent that they are legally required to answer for their action” Light [1993:3] labels this “compliance accountability” which he describes as an “effort to assure conformity with carefully drawn rules and regulations”.

Joyce [1993b:13] contends that performance budget reform expects executive branch budget offices and the legislative body to change their behavior from emphasizing front-end, micro-level inputs to emphasizing the big picture. The results obtained from public program”.

While he agrees performance based budgeting systems “may be desirable”. Joyce [1993a: 46] reiterates Wildarsky’s criticism stating that “it is impossible to mandate that decision makers…actually use it.”

Although there is much written about the logic of increased administrative discretion, there are few discussion that address how to demonstrate to a legislature or central budget staff the value of relinquishing control over public agencies [Caiden, 1994: 126; Rosenbloom, 1993: 506]

Windarsky, who criticized the political approaches to reform because they didn’t reflect the reality of budgeting, was also critical of reform initiatives on normative grounds. In his opinion should judge budget outcomes in terms of process, not the other way around. Reversing the relationship, as reformers insist, would require that one begin with “a theory that contains criteria for determining what ought to be in the budget, which would be nothing less than a theory stating what the government ought to do.” [1992: 429]. Current views: New theories of accountability and budgeting contemporary theories of accountability and budgeting do offer a means for reforming the debate.

Added to the limitations raised by the politics of budgeting, these approaches further differentiate check on administrative discretion. Relative to budgeting, this literature indicates that reform is affected by multiple and often conflicting accountability claims and that the budget process is characterized by increasingly limited control over annual spending decisions. 

Posner [1999] concluded that shifting the focus of budget debates toward performance is a daunting task because budgeting and program
orientations are not aligned for the most part with strategic or annual performance goals being articulated in annual agency plans. This has forced several agencies to develop initiatives that enable them to systematically relate costs to program outcomes. He stressed the importance of developing performance measures and goals that the policy community perceives to be appropriate and valid.

PPB IMPLEMENTATION

Even though PPB is conceptually a sound proposition, its success entirely depends upon system design, in which men and resources are integrated together to achieve the end results. The empirical studies point towards systems design, policy initiatives and contextual analysis.

Regarding systems design, Havens [1983] emphasizes the need to ensure that the evaluation and budgeting timeframes are made compatible and there is appropriate communication between the organization units that carry out these functions. Joyce [1999] advocates the importance of a clear understanding of agencies and programs, whose performance is to be evaluated and understanding is to be reflected in strategic planning.

Based on data from a 1998 survey, Joyce and Sieg [2000] reported that, while in all the states of the United States, there were at least some agencies conducting strategic planning but only 25 reported practicing it at the state-wide level - many times, following extremely different approaches. Similarly, while all but two state-systems reported tracking input and output measures, only 32 indicated that they were using outcome measures, and 10 had targets attached. But even within each of these groups of systems, there were still striking contrasts in terms of the number and relative weight of the various measures constituting the pool of performance indicators. Finally, the study also found that only about half of the states had made some attempt at developing a statewide cost accounting system (or at least some approximation), and no state had implemented activity-based costing (or anything like it) statewide. The states that were most accomplished were still in pilot stages.
Matland [1995] posits that many frameworks might be used to identify critical factors in implementing public policy. Therefore, Grizzle and Pettijohn [2002] have developed a system-dynamics perspective, which recognizes several factors together based on the Edwards model [1980], which classifies critical implementation factors into four categories: Communication, which should provide clear, accurate, and consistent implementation orders without being too precise; resources, including staff and facilities, as well as information about how to implement the reform and the authority to insure implementation as intended; the dispositions and attitudes of the implementers, which may be grounded in the organizational culture; and bureaucratic structure, whose two main features, are organizational fragmentation and standard operating procedures, or routines for doing budgeting and planning. Edwards suggests that these four categories have a direct effect on implementation success and interact in ways that indirectly affect implementation success.

Edward model makes use of ‘feedback-loop approach’ also instead of ‘laundry-list approach.’ Grizzle and Pettijohn [2000:53] explain this approach in these words: “A plus sign at the head of an arrow means that any change in the variable at the foot of the arrow will result in a like change in the variable at the head of the arrow. Looking at the link between the variables ‘relevant expertise provided’ and ‘reliable performance information,’ for example, the plus sign indicates that policy--implementation theory tells us an increase in relevant expertise is expected to result in an increase in reliable performance information. A negative sign indicates an inverse relationship between the two variables: As the value of the variable at the foot of an arrow increases, we expect the value of the variable at the head of the arrow to decrease.”

Swiss [1983:78] observes that the sole purpose of communication is accountability. A performance standard must be set for each program; program performance must be monitored against that standard; and sanctions must be applied when standards are not met. At one level, the communication of this accountability model is clear.

The studies by Bughton et. al., [1977], Downs and Larky [1986;257], Klay [1986], and Swiss [1983] highlight that it is important to vest the
monitoring function in PPB to an independent organization. In support of this, Grizzle and Pettijohn [2002:54] put forth this evidence: “OPPAGA has devoted the majority of its staff to the endeavor, allocating 36 of its 88 positions to promoting the implementation by providing technical assistance to state agencies and to the legislature to develop PBI measures and budget proposals, and by conducting program evaluation and justification reviews. An additional 14 positions were allocated to building a database (called the Florida Government Accountability Report) to support these two roles. This allocation represents 56 percent of the office’s $6.6 million budget. OPPAGA’s compliance-monitoring function is an important element in the feedback loop, leading to greater legislative acceptance of the budget reform as a useful accountability tool.”

In PPB, dispositions include a vast array of culture, incentives, perception of benefit, compliance and even the management style. In this regard, Ott [1989] and Rainey and Steinboller [1999:17] observe that an organization’s culture derives from the shared beliefs and values of its members and the norms of standards of behavior to which its members are expected to conform. Hence Grizzle and Pettijohn [2002;56] highlight the role of culture in Florida experiments in PPB in these words: “The organization culture of the Florida legislature is important both in understanding the environment leading to passage of the budget reform legislation and determining how PB² [Performance-Based Program Budgeting] will be implemented. If the organizational culture of legislatures views performance budgeting as a reduction in its managerial control by providing a more flexible and automatic allocation process and they ignore performance information, the reform will likely be viewed as a paper exercise and not be conscientiously implemented by the agencies.”

Another dimension of dispositions is the provision of incentives for participants in PPB. Larkey [1995:15] argues that budget reforms, if they are to be successful, must address incentives for participants in ways that are personally meaningful to them as individuals. Edwards suggests that we can manipulate incentives to alter the dispositions of implementers [1980:107]. Recent literature on budget reform considers incentives to be a key element in influencing stakeholder compliance with implementing orders. These
incentives apply both to the legislative and the executive branches. Perhaps Lynn [1998:15] best summarized the relationship between incentives and successful implementation in his review of the Government Performance and Results Act of 1993 at the federal level of government: "To be effective, institutional solutions must organize and channel the self-interested behavior of bureaucrats and legislators in new directions, in the case of GPRA, toward the production of improvements in measured performance. If public managers and their congressional committee counterparts do not tend to believe that the effort required to fully carry out the provisions of the Results Act will advance their interests, then implementation activities will gradually become atavistic and will wither away."

Disposition also includes perceptions on benefit from PPB implementation. Boynton et. al., [1977] believe that the degree of compliance with a regulation depends on each implementer's answer to the question, who benefits from this control? If the implementer believes his organization benefits from the reform, he will be supportive: "Maximum compliance with an externally imposed regulation will occur if, and only if, the effects of the regulation are perceived as supportive of program effective procedures and objectives of the agency, or when it is perceived that failure to provide maximum compliance will have greater costs-negative consequences-than will maximum compliance" [Boynton et. al., 1977: 144-45].

Radin [1998], in reviewing the federal government's implementation of the 1993 Government Performance and Results Act, notes that approaches vary from that of narrow compliance to embracing the requirements wholeheartedly. Given the environment of scarce resources for budgeting and legislators' desires to cut spending and control agency behavior, what strategies have Florida agencies used for complying with the budget reform? He observed that agency staff attitudes and their resulting behavior varied across departments and within departments.

Regarding the role of management style in PPB implementation, Grizzle and Pettijohn [2002:56] observe that management style appears to be an important factor influencing agency disposition to implement the reform. If managers find the performance information useful for managing their programs, they are more likely to support developing a reliable performance-
information system, irrespective of whether the legislature chooses to use performance information. Managers who embrace performance information as a managerial tool would be numbered among those who also support implementing this budget reform.

Another important dimension of PPB implementation has been the bureaucratic structure. Edwards [1980:11] observes: “Organizational fragmentation may hinder the coordination necessary to implement successfully a complex policy requiring the cooperation of many people, and it may also waste scarce resources, inhibit change, create confusion, lead to policies working at cross-purposes, and result in important functions being overlooked.”

However, Grizzle and Pettijohn [2002:58] plead for cautions treading in PPB implementation in these words: “What makes coordinating the work of these stakeholders so difficult is that nobody is in charge of the process. Negotiating what constitutes an acceptable set of performance measures for a program, for example, can become a frustrating gauntlet for agency staff. Measures approved by OPB may be ignored by the legislature. Legislative staff, who may not have participated in the consensus review led by OPB, may object to measures later in the process.” Hence Grizzle and Pettijohn [2002:58] plead for wide participation in these words: “Wide participation in the process of reviewing proposed measures and standards may be necessary to give the various stakeholders ownership in the budget reform, but that participation comes at a cost in both time and frustration.” However, the skepticism by Kelman [1987:17] is worth noting: “The more that formal authority is shared, the harder it is to get a decision made, because more concurrences are needed.”

Lastly, a critical component of bureaucratic structure in PPB is the institutional capacity to move the implementation forward. Skok [1980] observes that while Pennsylvania implemented PB² in 1970, it was not until 1975 that House Appropriations Committee members used the data the governor presented in his budget document. During the intervening period, the executive branch learned to make the document more understandable and the legislature hired professional staff trained in PB² methods [Skok 1980]. Further, Caiden [1998] and Murphey [1999] cautioned that
performance information would not be used unless the stakeholders were willing to build capacity and cooperate in developing and using performance information.

Lu [1998] evidenced that the failure of PPB over the years was due to its attempt at comprehensiveness and rationality. He explained that this problem led to two obstacles, which were poor quality of performance measures and their rare acceptance by budgetary decision makers. He reviewed various studies on performance measurement in public organizations and concluded that normally input and output measures were the most frequently used in government. The first study was a survey of 102 federal agencies, which reported that 97 per cent use input measures, 98 per cent used output measures, 73 per cent used efficiency measures, and 70 per cent used outcome measures. Of those agencies that used performance measures in making budgeting decisions; 70 per cent reported that they were satisfied, although this could not be substantiated. The second study involved two surveys of state governments. It showed that in 1970, 24 per cent of the state budget offices required agencies to use outcome measures and 29 per cent demanded outcome measures in agency budget requests. These numbers increased to 95 per cent and 86 per cent in 1990 respectively. Both surveys however, used self-reported data.

Willoughby and Melkers [2001:63] attributed improved decision making to Program and Performance Budgeting initiatives in many of the states they surveyed. They concluded that PPB has the potential to promote more informed decision making on the part of public budgeters, but noted important challenges and problems with implementation. They also highlighted the need for change in cultures. In their study, few states indicated any link between performance information and actual appropriations. They stated, "The real test of how effective PPB has been in reforming the quality and process of budgetary decision making remains to be seen."

Study by Melkers and Willoughby [2002] reported data from a national survey of city and county administrators from more than 200 local governments across the country. Findings showed that the implementation of performance measures and the use of performance data in the budget process changed the perceptions and actual communication patterns of local
administrators, elected officials, and citizens. Comparisons were offered between city and county-level respondents. Thy concluded that the performance measurement’s greatest applicability (to date) was in the budget development phase for county governments, and relatively more useful at later stages of the budget process for cities. A useful feedback of information about performance, not only generated with the help of citizens, but relayed back to citizens thus helping to develop a true knowledgeable citizenry. And, while only a handful of officials from this study expressed very strong views about the value and extent of citizen involvement in the measurement process, they did represent an important indication and concern for real “client satisfaction”.

Stokes [2004] explains how Franklin County, Ohio met the challenge of increasing demand for services with decreasing public funds by introducing PPB. The county is delineated into 210 service-producing programs, which are administered by 33 agencies. The programs are funded and evaluated using demand, output, results, and efficiency measures. With the implementation of PPB, the county was able to expose bureaucratic waste hidden in line-item budgets. In the first performance-based cycle, half of all county agencies requested less money than in the previous year, and in the second budget cycle, an additional five departments requested less. He concluded that, in addition to a higher level of accountability, PPB clearly communicated what the residents received in return to their investment in local government.

Jordan and Hackbart [2005] conducted a survey of perceptions of executive budget officers regarding performance-based budget goals, implementation successes, and obstacles. The finding indicated that improving program accountability emerged as the primary goal of performance based budgeting implementation as opposed to changing the budget process and allocation. In fact, the top four ranked goals for performance implementation were program related with increased program effectiveness as the second ranked goal. This was similar to the earlier findings of Jordan and Hackbart [1999] and Broom and McGuire [1995].

The study by Jordan and Hackbert also focused on the relative success of PPB across programs or functions numbering fifteen. The ratings
tended to hover between moderately successful and ranged between 2.00 and 2.62 with regard to legislative services and agriculture. The other important success rates were Governor’s office/Central governments (2.55), parks and tourism (2.50), health service (2.50) and human service (2.47).

From the viewpoint of correlation between success of program accountability goal, and success across program areas, highest correlation was found in agriculture (0.655) followed by human service (0.568) and environmental program (0.577) with state average score of 0.496.

The perception on accountability enhancement through PPB was assigned the highest mean value of 4.90 with regard to performance measurement providing accountability to the executive and the least mean value of 3.81 with regard to performance measurement providing accountability to the legislature.

The notable finding was that PPB should be implemented in all agencies and the assigned mean value was 3.62.

If technology adoption, funding any agreement among budget players (executive and legislative) had higher intensity in the present than in the past as obstacles, the role of political interference, managerial support, development of performance measures, staff commitment, staff training and information overload had lower impact in the present than in the past as obstacles.

The tentative results also indicated that, contrary to previous opinions and observations, the state budget offices did not perceive major differences in the potential for success across state government agencies. Not surprisingly, however, certain obstacles were emerging as greater concerns including funding, technology and agreement among budget players. Finally, the finding suggested that program accountability as a goal, rather than budget allocation, made a stronger foundation for determining performance-based budget success.

The implementation of PPB in different states of the United States differs widely. For example, based on data from a 1998 survey, Joyce and Sieg [2000] reported that, while in all the states there were at least some agencies conducting strategic planning, only 25 reported practicing it at the
statewide level - many times, following extremely different approaches. Similarly, while all but two state-systems reported tracking input and output measures, only 32 indicated that they were using outcome measures. But even within each of these groups of systems, there were still striking contrasts in terms of the number and relative weight of the various measures constituting the pool of performance indicators. Finally, the study also found that only about half of the states had made some attempt at developing a statewide cost accounting system (or at least some approximation), and no state had implemented activity-based costing (or anything like it) statewide. The states that were most accomplished were still in pilot stages.

Melkers & Willoughby [1998] identified the performance-based budgeting as a budget system requiring strategic planning for agency mission, goals and objectives. The study focused on the legal or administrative requirements for the states to conduct performance-based budgeting. The survey found that 31 states 62 per cent had legislation that required performance-based budgeting. Approximately, 16 states representing 32 per cent had some form of performance-based budgeting instituted by administrative requirements such as budgeting instructions or guidelines. Only three states had no mandate whatsoever to conduct performance-based budgeting. The authors found that while states were requiring performance information in budget submissions and the effectiveness and contribution of performance measures to the budget process in the states remained unclear. Most states recognized the incremental nature of development and implementation of performance measurement systems as well as their integration into the budgetary decision-making process.

Finally, a recent survey of “performance budgeting” and “performance funding” in all 50 states by Jordan and Hackbart [1999] looked at performance measurement both during the budget preparation process (performance budgeting) and during the budget approval process (performance funding). The researchers found that 34 states used some form of performance budgeting (29 of these said that performance measures affected the Governor’s recommendations in some way), while only 13 used some form of
performance funding. Only 10 states indicated that they both used performance budgeting and performance funding.

The study by Partricia et al. [2002] focused on the different performance measurement techniques adopted by the agencies in PPB. The study found that concentration and implementation of planning strategies improved the development and use of performance measures. The study also found a very strong link between activities related to planning and the use of performance measures. The regression results also indicated a positive and significant relationship between organizations variables that measured whether performance management reforms had occurred, the information technology skill of the employees and the usage of performance measures in budget reallocations.

Wang [1999] examined conditions for effectively implementing outcome-oriented performance budgeting. Using a survey of local officials in Florida, he found that public officials' consensus on organizational goals and performance measures was necessary for effective implementation. Consistent communication among public officials and legislative support were crucial for this strategy. This study also revealed that performance reporting and management practice enhanced performance budgeting.

Sulek and Lind [2000] analyzed the shortcomings of traditional performance ratios of efficiency and effectiveness due to the emergence of quality of service as an effectiveness indicator. They used a systems modeling approach to construct a single transit performance metric that integrated the issues of service quality, effectiveness, and efficiency. The study, which was applied to small transit systems, revealed that less than 25 per cent were efficient in providing quality transit service.

Hendon [1999] described the implementation of performance-based program budgeting in the state of Florida. Obstacles to implementing this budget reform, such as multiple agency program structures, lack of program cost accounting information, and problems in performance measurement and goal setting were described. The study revealed several obstacles in implementing PPB.

The use of program analysis in budgetary decision making has been a popular recommendation for reform, especially since the planning-
programming-budgeting (PPB) movement of the 1960s [Lee and Staffeldt, 1977; Posavac and Carey, 1992; Rossi and Freeman, 1993; Sylvia, Meier, and Gunn, 1991; Stevens and Lee, 1981; U.S. General Accounting Office, 1995b]. The terms program effectiveness analysis and program productivity analysis were used in the surveys of state budget offices. Effectiveness analysis was defined as determining the relationship between governmental activities and the effects of those activities on society or the environment. Productivity analysis was defined as determining the relationship between program resources (costs) and program goods and services.

All the studies cited above suggested that state governments might have undergone considerable change between 1990 and 1995 regarding which state organizational units conducted program analysis. Sharp drops in reported conduct of analysis were reported for central budget offices. Effectiveness analysis dropped from 66 percent of these offices in 1990 to 46 percent in 1995; productivity analysis dropped from 94 percent to 72 percent. These results indicated a reversal in a pattern that has been evident since 1970, namely budget offices increasing their conduct of analysis.

Abney and Lauth [1987] and Stanford [1992] investigated whether program analysis was used in decision-making. The studies found that (i) executive usage in 1995 was down from 1990; (ii) productivity analysis was used substantially or to some degree in 84 percent of the executive offices in 1995 in contrast with 100 percent in 1990; (iii) the decline in executive usage of effectiveness analysis was even sharper, down from 90 percent in 1990 to 72 percent in 1995; (iv) the 1995 figure was lower than that of every year except 1970; (v) legislative usage remained the same between 1990 and 1995 at 83 percent for effectiveness analysis, but dropped 15 percentage points for usage of productivity analysis (94 percent compared with 79 percent).

Regardless of the debates over service efforts and accomplishments reporting, program measurement has gained popularity during the 1990s (Carter, 1994; Connelly and Tompkins, 1989; U.S. General Accounting Office, 1993, 1994d). But its link to budgeting is unclear. To what extent has program performance been incorporated into state budgeting? Is it a growing component of the budget request process? Since its inception the survey has
divided program information into two categories. Effectiveness measures define and quantify the ultimate effects of government activities on society or the environment, and productivity measures define and quantify the goods or services being produced. In terms of GASB reporting, effectiveness is equivalent to "outcomes" and productivity, to "outputs."

The study by U.S. General Accounting Office [1993, 1994d] revealed that (i) budget offices reported a distinct decline in the use of such information in budget requests, whereas almost all states reported in 1990 that program effectiveness estimates were necessary when agencies asked for new programs or revisions in current ones; and (ii) reported use of productivity estimates in budget requests declined from 86 percent of the states to 67 percent. Why these declines occurred is unclear.

USE OF PERFORMANCE INFORMATION

The realization of the objectives of PPB solely depends upon how the performance information derived from the PPB system is used by the administrators for effective control and decision making. Many studies are conducted and these studies indicate mixed results.

Long back, Schick [1971] concluded that budgetary decision making was not affected by performance measures. Many states either abandoned or modified their PPB systems because of the irrelevance of PPB to budgetary decision making.

Another study by Lauth [1985] assessed the extent of utilization of performance-related information in the context of PPB system was conducted in the state of Georgia. The study was based on a mail survey of the state's Office of Planning and Budgeting's (OPB) planners and analysts, and agency budget officers, which captured their perceptions of the extent of use of evaluation measures for agencies' budget preparation, OPB review, gubernatorial recommendation, Legislative Budget Office review, legislative appropriation, and allotment. The study found that, except for OPB analysts during the OPB review and gubernatorial recommendation stages, most of the respondents reported using the information only rarely or not at all.

A decade later, and after the state's PPB system underwent a number of significant changes, carried out a new study in Georgia. The study by Yu
[1996] examined the extent and type of use of information from the specific program evaluation during the budget allocation process. Based on data from a mail survey of agency, legislative and central budget analysis, the study found that only two out of 20 respondents reported substantial use of that information. Eight reported to be making "some" use. Moreover, instances where evaluation findings were used as a decision aid were rare. The most widely reported use of this information was for justifying “funding level decisions determined by other considerations.”

Similarly, Moynihan [2002] undertook in-depth case studies of three states' "management for results" initiatives: Alabama, Vermont, and Virginia, with a special focus on how these systems' practices were unfolding in these states' departments of corrections. Unlike most other case studies, these attempted to cover systems with different levels of development. But they found "strong evidence of incrementalism" in the three states alike (p. 128). Somewhat in line with Yu's [1996] findings in Georgia, the only exception to this pattern was the use of performance information as a means for defending agencies' budgets and advocating for funding expansions.

By contrast, several qualitative case studies provide evidence of performance information utilization for budget allocation decision-making. For instance, Tucker [2002] reports that, in the state of Texas, the Office of Budget and Planning and the Legislative Budget Board use performance measures extensively to analyze the agencies' budget requests.

Epstein and Campbell [2002] indicate that, in the state of Iowa, the governor and certain legislative committees use performance information to assess different allocation alternatives. Moreover, the authors also cite a number of instances, in both Iowa and Louisiana, where this type of consideration has influenced funding decisions on the creation, expansion or reduction of programs.

The study by Tarmoom [1999] highlighted that Al-Mahweet Governarate's Agricultural Department could provide meaningful information meeting the requirements for applying programs budget. The main reason was attributed to the presence of a number of qualified staff, which was skillful and competent in addition to the existence of financial section in the said
department. However, in the other two agricultural units (Plant Protection Unit and Animals Health Department), there was only partial and insufficient data.

Joyce & Sieg [2000] found that strategic planning was widespread, although the incidence of agency-level planning was greater than that of statewide planning. Further, almost half of the states had made significant progress in developing cost accounting systems. While two-thirds of the states had outcome measures, only 10 of them were using these measures to set targets for performance. Finally, the availability and use of performance information in the budget process was greater at the agency level than it was in the central budget offices or (particularly) in the agencies.

Joyce [2003] discussed “performance-informed” budgeting in the federal budget process, presenting a comprehensive view of how performance information could be used at various stages and described a preliminary research agenda for the future study of this reform. The major conclusions were: (i) the attention of the federal government to strategic planning and the supply of performance and cost information increased substantially in the 10 years since the passage of the Government Performance and Results Act; and (ii) the federal government was not in a better position to make its budget decisions more informed by considerations of performance.

Andrews and Hill [2003] in their effort to determine why few PPB reforms showed evidence of direct behavioral changes—either in terms of the development of, or response to new performance-based initiatives, or allocations that were linked to performance, concluded that PPB approaches were implemented in addition to traditional approaches. He recommended that PPB reforms should be implemented as replacements of, not additions to existing budgetary regimes.

As already noted, few studies have examined the relationship between some of these purported explanatory factors and the extent of use of performance information use empirically. Lee [1997b] used data from a 1995 survey to carry out a logistic regression analysis of the relationship between the extent of utilization of productivity analysis by executive and legislative budget offices and the states' population, per capita income, tax capacity and
tax effort. He found that the only variables showing some degree of association were state population (in the case of executive decision-making) and tax capacity (in the case of legislative decision-making).

Willoughby and Melkers [2000] relied on data from a 1997 survey to compare legislatively- and administratively-sanctioned PBB systems in terms of a number of measures of reform effectiveness. They found no significant differences between the two groups. However, Gilmour and Lewis [2006a] found preliminary evidence of a positive relationship between the quality of the performance measures employed and the magnitude of their effect on the budget. Yu [1996] found a significant association between evaluation quality and utilization - especially at the agency request and gubernatorial recommendation stages of the process.

The studies by Joyce [1997] and Melkers and Willoughby [1998] revealed to the increased use of legislative requirements in providing the basis for performance-based budgeting. Further, they evidenced the notion that there was still a great deal of variation among the states in the presence of performance information and the use of this information for budgeting.

Grifel [1994] indicated that there were three levels of uses for performance measurement data. The first level was accountability reporting by the local government to the public it serves. The second level was the use of data and information for management and improvement of operations. The third level was to use measurement data for budgetary decision-making and allocation of resources. He found that very few entities moved past the first two levels only.

In another study, Poister and Streib [1999] noted that while 60 to 80 per cent of municipal jurisdictions purported use of performance measures, data showed that fewer than 40 per cent made any kind of meaningful use of performance measures in their management and decision processes.

Joyce & Sieg [2005] evidenced that virtually all states (Alabama and Arkansas are the exceptions) had input and output measures, only, about two-thirds (32 states) indicated that outcome measures are available. Only two states, Alabama and Arkansas, reported “minimal” or “no” use of performance measures. Only ten of the states with measures Florida, Iowa, Maryland, Minnesota, Mississippi, Missouri, Ohio, Oregon, Virginia, and
Washington reported that they set targets for performance using those measures.

The study by Byrnes et al., [2002] focused on the use of performance tools and measurement techniques in PPB process. The three key hypothesis of this study were: (i) Agency level usage of performance measurement techniques varied across states because of the differences in the social and political context of the agency; (ii) Agency level usage of performance measurement techniques varied by agency size, agency scope, and the nature of the public service provided. (iii) Agency level usage of performance measurement techniques varied by an agency’s capacity (including skill level, existence of technical support, data availability, slack resources, and information infrastructure) and organizational culture (including centralization of authority, capacity for reform, instability and experience with change variables). The responses were received from 48 states out of 50 states in the United States covering 243 departments out of 876 departments and the response rate was 27.78 percent. The responses were elicited on 6-point Likert’s scale where 6 represented ‘always’ 5 represented ‘very often’; 4 represented ‘fairly often’; 3 represented ‘sometime’; 2 represented ‘almost’; and 1 represented ‘never’.

The regression results indicated that efforts to measure statutory or government-imposed mandates for performance are positively related to the perceived impact on the use of performance measurement in the agencies. The results also indicated high usage at the level of legislator or in institutions having externally imposed requirements for performance measurement. There was no significant relationship between budget and employment changes and the usage of performance measurement.

The relationship between size of organizations and performance measurement has been examined in a few studies.

Ghobadian and Gallear [1996] found that compared with large organizations, small and medium size enterprises (SMEs) were slow to adopt total quality management (TQM). They examined the differences between the characteristics of SMEs and large organizations, the relationship between the size of organization and inherent characteristics of TQM and the effect of organization size on the implementation of TQM. There was a positive
relationship between the size of the organization and the magnitude and degree of TQM activities initiated by the organization.

In addition, Lee and Burns [2000] proposed use of ten variable-performance measurement index in order to gain a better perspective on the overall status of performance measurement in the states. This study suggested that four states (Idaho, Illinois, New York and North Carolina) achieved the highest possible score of ten. They found no typical high usage state and concluded that there was quite a bit of diversity among the states in their use of performance measurement.

However, Byrnes et. al., [2002] found statistically relevant explanatory variables related to the effects of size (budget, staffing) and the use of performance measures. We also were unable to establish the link between scope of agency (human service versus other) in determining greater prevalence or use.

The influence of strategic planning in successful implementation of performance measurement is very well documented in the literature. Strategic planning is the process of deciding on objectives of the organization, changes in these objectives, the resources used to attain these objectives, and the policies that are to govern the acquisition, use and disposition of these resources [Anthony: 1965; and Joyce and Sieg: 2000]. The activities of strategic planning include: a.) Developing and revising as necessary, a statement of mission and/or vision; b.) Developing goals derived from the mission; c.) Objectives that make the goals operational; and d.) Measurements of performance to determine progress toward goals and objectives. One of the indices established for the measurement of this regression included many of the components contained within the process of strategic planning. This index proved a key to the explanatory relationship between performance measurement and planning. The coefficient of the planning index was found to be positive and significant.

The current cross-sectional studies, while they have contributed greatly to our understanding of the rather embryonic efforts toward increasing the use of performance information in budget processes, tend to have at least two limitations. First, they rely on a narrow definition of “program and performance budget” that is limited to a discussion of legislative requirements [Melkers and
Willoughby:1998] executive branch review [Lee:1997; Jordan and Hackbart:1999] or the outcome of legislative resource allocation [Jordan and Hackbart:1999; and to some extent Lee:1997], and do not give as much emphasis to other stages of the budget process, in particular agency budget preparation and (particularly) execution. Second, because they tend to rely on individual (or sometimes two) survey responses, they can yield unreliable results that are heavily influenced by the biases and interpretations of a limited number of survey respondents.

Cross-system studies cover a large number of PPB initiatives at the same time, with the objective of establishing how pervasive certain practices and outcomes are. Unlike single-case studies, these have only focused on the U.S. Even though they have generally centered on the same universe and surveyed the same types of respondents, their specific estimates do not always agree. However, they all suggest that in most PPB systems the use and influence of performance information remains far from substantial.

One of the most cited cross-system works on the extent of utilization of performance information was conducted by Lee [1997a and 1997b] based on the findings from a 1995 survey of U.S. state budget offices. The study found that only 18 per cent of the executive budget offices and 11 per cent of the legislative budget offices consulted reported using effectiveness analysis as part of their budget decision-making processes in an extensive way. At the same time, the percentage of executive budget offices indicating substantial use of productivity analysis was 30 per cent, while among legislative budget offices the percentage fell to 10 per cent.

Joyce and Sieg [2000] found that only 9 per cent of the 47 executive budget offices and 3 per cent of the 38 legislative budget offices that responded reported using the information extensively. The most widely reported use of performance information occurred at the agency level and the percentage stood at 90 per cent, but the data did not specify whether it was part of the agencies’ resource allocation processes.

Other studies have centered on the effects of performance assessments on budgetary outcomes. Some of the best-known articles on this and other aspects of PPB reforms in the U.S. have been authored by Willoughby and Melkers, and are based on two large-scale surveys. The first
survey was conducted in 1997, and covered executive and legislative budget officers from 49 states. The study found that respondents from 39 per cent of the budget offices consulted agreed that some changes in agencies' appropriations could be attributed to PPB. However, a much lower 7 per cent indicated that PPB was being effective in changing appropriations. When asked for their perceptions as to how effective PPB was in reducing duplication of services and affecting cost savings on a 1 to 4 scale, their average response fell somewhere between "somewhat effective" and "not effective at all" [Willoughby and Melkers, 2000 and 2001; Melkers and Willoughby, 2001].

The second survey was conducted in 2000. In addition to including state executive and legislative budget officers in the sample, it also covered selected agencies in all the states and budget officers and department heads in local governments across the U.S. Overall, the new findings were fairly similar to those in 1997. A key insight was that the state agency and local government officials tended to have somewhat more optimistic views about the actual utilization and influence of performance information than state executive and legislative budgeters.

ACCURAL ACCOUNTING

"Accrual accounting is a method of recording expenses as they are incurred and income as it is earned during an accounting period (in contrast to cash accounting which records cash payments and receipts when they are made or received" [Conolly and Hindmen: 2006,272-273]. Supporters of accrual accounting in government argue that: "If it is good for the private sector, it is good for the private sector." However, many of the supporting claims relating to the use of accrual accounting in the public sector are based on normative arguments [Potter: 1999]. Specifically, Minogue [2000] argues that the accounting reforms in public sector are initiated because: (i) large state bureaucracies are inherently defective and wasteful; (ii) the free market is the most efficient method of allocating scarce resources; (iii) private sector management techniques are a suitable model for the public sector; and (iv) if the preferred approach of privatization is not considered appropriate, then commercialization or pseudo-markets should be introduced as the second
best alternative. As a result, a number of countries have moved from cash accounting to accrual accounting principles and the absence of such a movement would have weakened the new budget reform initiatives [Chan: 2003 and Likierman: 2003]. Lastly, Athukorala [2003:i] recognizes the merits of accrual accounting and posits that (i) at the aggregate level, accrual-based fiscal indicators provide better information about the sustainability of fiscal policies, provide a stronger basis for government accountability, and provide a better measure of the effects of government policies on aggregate economic demand; and (ii) at the organization level, accrual-based financial statements provide better measures of organizational efficiency and effectiveness, and reduce opportunities for fraud and corruption.

The shift towards a comprehensive accruals oriented public sector accounting and financial reporting structure began to take place in 1980s most notably in Australia and New Zealand [Funnel and Cooper: 1998; Ball et. al.: 1999; Christensen: 2002; and Pallet: 2002]. By 2002, it was evidenced that half of Organization for Economic Cooperation and Development (OECD) member countries were using some form of accrual accounting in their financial reporting [Matheson: 2002]. However, OECD [2002] observes that on a worldwide basis, cash rather than accrual accounting is still the mainstay of public sector accounting and financial reporting.

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

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

Another strand of studies relates to cost-benefit analysis of accrual accounting. Evidence from the United States by Brumby [1999] reveals that states that use of accrual information helps borrow at better terms than those states that use solely cash information. Athukorala [2003] opines that implicit savings on borrowing costs caused by the introduction of accrual accounting are 0.04 percent and benefits begin to be realized in year 4. The study by Scott [1997] reveals that substantial costs are saved through accrual accounting and introduction of accrual accounting will yield an internal rate of return of 7.00 percent.
Despite the articulated benefits of accrual accounting, many potential problems have been highlighted [Carlin: 2004]. Some doubt the quality of the new information provided by accrual accounting and the incentives associated with its use, and the view is expressed that the introduction of accrual accounting is the possible source of new difficulties.

It is argued that cash-based accounting has the virtues of simplicity and objectivity, and has served many countries well over at least for the last 200 years [Dorgan: 1996]. Indeed, even Likierman [1992: 23], the individual who was later responsible for guiding the introduction of RAB in the UK central government, once opined that cash accounts "despite their crudeness, have a degree of transparency that accrual accounts cannot give and that many private sector financial reports do not seek to offer". Moreover, [Hodges and Mellett:2002] observe that accrual accounting may be heavily influenced by political processes, thereby undermining its objectivity.

In addition, it is suggested that the changes that accrual accounting requires may be difficult to justify in cost-benefit terms, particularly for small departments [NAO: 2003a]. Hansard [1996] noted that no cost benefit study was conducted prior to the publication of the White Paper in England. Chow and Humphrey [2003] also note that there has been no compliance of cost assessment since its introduction despite the significant costs involved. Similarly, Mellett [1997, 2002] observes that many of the claimed benefits on which the case for accrual accounting is based may not materialize.

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

It has been claimed that the potential for misunderstanding and manipulation of accrual accounting information has made Parliamentary committees apprehensive that understanding will be reduced and Parliamentary oversight weakened [US Government Accounting Office: 2000]. Both Jones [1996] and Pollitt [2002] express further concerns that accrual accounting is based upon the assumption that private sector methods are superior, and assert that government departments are not business organizations and the requirements relating to accountability and control are different. For example, Guthrie [1998:5] argues that, unlike the private sector, the public sector is "not interested in notions of profitability or financial position".

The study by Connolly and Hyndman [2006:272] makes the following observation with regard to accrual accounting, also called resource accounting, in these words: “The actual implementation of accruals accounting is very different, in effect, in cost and in terms of timing, to that presented in pre-implementation government publications. The result is a complex, expensive system that has provided few benefits to date. The very best that could be suggested from this research is that a lengthy continuum of accounting change is underway”.

Implementation efforts involve (i) adjusting accounting systems; (ii) developing accounting policies; (iii) altering processes and procedures; and (iv) executing a significant information, education and training campaign. The costs of these activities are not easily identifiable. Strom [1996] observes that: heritage assets cannot be included due to valuation difficulties and defense assets are to be initially expensed rather than capitalized.

However, accrual accounting is found to be used in several countries. Hiller [1996] documents that: “Throughout the 1980s, Canadian provincial governments significantly changed their financial reporting practices, moving from cash to accrual accounting and from separate account reporting to consolidated financial statements".
Evaluating the public sector accounting reforms, Joyce and Sieg [2000:22] found that (i) about half of the states in the United States made some attempts of developing a statewide cost accounting system; (ii) many states opined that indirect cost allocation might be present within agencies; and (iii) no state implemented activity-based costing or anything like that.

Regarding Sweden, Swedish National Financial Authority [2001] observes: Following a gradual 2-year implementation, accrual accounting was fully implemented in the Swedish central Government from 1 July 1993. Although it involved a significant effort, the implementation was problem-free for two reasons. First, no organizational changes were necessary—the structure of Swedish Government suited the implementation of accruals and results-based management. Second, accruals were initially only implemented for agency accounting and for whole-of-government reporting, but not for budgetary (appropriation) purposes. This reduced complications.

With regard to Germany, Luder [2002] observes that: “German public sector financial management reforms are largely a direct consequence of attempts to reform the public sector through privatization, corporatization, decentralization, devolved management, competition and the output performance orientation. The changes have been relatively slow and careful to avoid uncertainty. They were first introduced in local government, and later in Länder (state) and federal government. They focused on budgeting and managerial accounting.”

As reported by Athukorala [2002:81], the United Kingdom has adopted accrual accounting at the agency level and is looking to produce aggregate consolidated financial statements for 2006. It plans to prepare consolidated financial statements in a staged manner:

- Stage 1 will involve consolidating the un-audited central government accounts using 2001-02 National Accounts (System of National Accounts) information.
- Stage 2 will involve consolidating accrual 2003-2004 central government accounts.
- Stage 3 will involve a whole-of-government accounts consolidation for 2005-2006.

The study by Caperchione [2003], related to the evaluation of innovations in the accounting system of local governments (LGS) in Italy. The empirical study included twenty-five local governments of Italy. Out of 72
local governments selected for the study with response rate of 33.33 percent. The major findings were the following: (i) Accrual-based reports clearly had less rooms than obligation and cash based reports; (ii) Significantly small number of LGS explained the criteria for measuring their various assets; (iii) Eight local government system did not present any capitalized cost; (iv) No local government provided for risk; (v) Seventeen local government system did not provide for depreciation at all; (vi) No local government classified assets and liabilities by maturity; (vii) Only five local government explained the composition of accrued income and prepaid expenses; (viii) Accrual reports were virtually unusable in all local government systems; (ix) The single-entry system of accounting still persisted in many local governments; and (x) Cost accounting systems were not a priority for any local government.

Study by Dees & Paul [2004] describes (at national and sub-national levels) the current and prospective forms of financial reporting and budget preparation for nine countries. All the countries covered by the study have embarked on reforms of the accounting reporting systems towards full accrual accounting for their core national or local governments. Whereas all local government systems have been or are being reformed, the reform process has not yet started in the national governments of Germany, Italy, and the Netherlands. Six of the national governments (Finland, France, Spain, Sweden, Switzerland, and United Kingdom) have begun the reform process, as has the EC. Three of them (Finland, Spain, and Sweden) have essentially completed the reform by creating the necessary legal requirements and the new system is in regular operation. This also applies to the United Kingdom except that whole-of-government financial statements are not yet in place. The accounting method used impacts on the budgetary reporting practices, especially relative to comparative budget to actual statements if the budget is on a different basis than the accounting system.

ACCOUNTING SYSTEMS IN SELECTED COUNTRIES

A general trend of accounting systems in public sectors of different countries are that they are moving towards accrual accounting but a discernible shift has not taken place so far. A few selected countries are cited below.
The survey by Pobre and Bernal-Mango [1987] focuses on government accounting reforms in Philippines. Fund, obligation and cash-disbursement-ceiling accounting methods are used in government. Taxes are accounted for on the cash basis and the accrual basis is used for other revenues and expenses. Government financial reports and statements, like commercial entities, are prepared based on official accounting records. In the case of government organizations, specific laws and regulations tightly prescribe the format and contents. The requirement to prepare and submit balance sheets and operating statements was introduced in 1979. Financial statements include (i) current assets, (ii) contingent assets, (iii) fixed assets, (iv) current liabilities, (v) contingent liabilities, (vi) allotted appropriations, (vii) income, (viii) invested surplus, (ix) contingent surplus, (x) national clearing account, (xi) the total surplus, and (xii) assorted notes to the accounts.

The General Accounting Office [1990] of the United States evidenced that although basically all states reported having accounting systems that provided a multitude of information, only one had a cost accounting system (a system that compared costs with the work or tasks performed).

As state governments have grown in size in recent years, one might expect increases in their abilities to track financial activities. One might also expect the use of computers to be widespread in accounting. A particular advantage of computer databases over paper records is the ability to track and manipulate data in a variety of ways [Burk, 1994; Norvelle, 1994].

The study by Hajar [1999] is an evaluation of GAS used before economic classification. This study has proposed a suggestion to develop GAS in Yemen. It is indicated that the environment of GAS’s development is not available at present stressing that it will not be available also even if economic classification is used (indicating to the economic classification followed now in Yemen). He further states that the matter requires specifying the activities in every government’s unit accompanied by sufficient authorization and decentralization along with specifying and setting certain objectives for each activity in the range of the governmental unit. He also specifies the preliminary requirements for applying the suggested framework to develop GAS as follows: (a) The availability of the political will to grant the
unrestricted financial and administrative independence to governmental units and its centers; and (b) The flexibility of the new budget system design so as to accommodate the future developments ensuring achieving the administrative supervision and performance evaluation.

The study by Al-Shawabikah [2000] focuses on evaluating the extent of Governmental Accounting System (GAS) adjustment in Jordan to the application of PPB and specifying the most important bases that should be available in the system. It arrives at many findings of which that Jordan needs badly to modernize planning of the budget. In addition, performance and program method is the ideal way for modernization because of the possibility of connecting budget with developmental plans, achieving supervision on performance and controlling decision-making in financial management. The accounting system in Jordan is still limited to achieving its expected objectives from it when applying the method of program and performance budget.

The surveys by Public Sector Performance (New Zealand) Limited [1999:16] and ADB [2000:47] focus on accounting system in Mangolia. State-owned enterprises and the central bank are required to prepare IAS compliant financial statements. Government organizations use modified accrual accounting (revenues are rarely accrued due to budget financing arrangements). Aggregate government reporting is on a cash basis. Government organizations prepare and submit two major financial statements to the MOF on a quarterly and annual basis: balance sheets and associated notes, and budget performance reports. The contents and formats of these financial statements do not meet IAS or IPSAS requirements. Moreover, non-financial assets (e.g., inventories and physical assets) and some expenses (e.g., utilities) of government organizations are commonly reflected in the financial statements of other entities (e.g., the inventories, physical assets, and utility expenses of the MOF are reported in the financial statements of “Building No. 5”). This issue of entity-definition limits the ability of financial statements to reflect entities’ position and performance.

The study by ADB [2000:22] documented accounting in Uzbekistan. Uzbekistan uses sector-neutral accounting. That is, with few exceptions, accounting standards, regulations and procedures apply equally to public sector organizations and to private sector organizations. Budget organizations
account and report in accordance with the *Accounting Law 1996*, national accounting standards (NAS), Accounting Instructions for Budget Organizations and operational classifications of revenues and expenditures of the State Budget. NAS are being made IAS-compliant. The *Accounting Law 1996*—which applies to private and public sector organizations—states that the basic accounting principles are the maintenance of accounting records on the basis of the double-entry system; going concern; monetary measurement of transactions, assets and liabilities; reliability; accrual measurement; prudence (conservatism); substance over form; comparability; neutrality; matching principle; and historic cost.

The empirical study by Vatukola et. al., [2000] focuses on accounting mechanism in Indonesia. The State Financial Accounting Agency is responsible for government accounting arrangements. In the absence of public sector accounting standards, financial report preparation was, until very recently, largely based on a 1925 treasury law and private sector accounting standards, some of which are not suitable for public sector reporting. Work is currently underway to implement GFS in the central Government. In an effort to provide legislative support for public sector financial management reforms, government submitted three bills to parliament in September 2000 (covering state finances, state treasury, and state audit). The State Finance Law was approved on 6 March 2003 and is awaiting Presidential assent. Among other things, this law: (i) requires preparation of central and local government balance sheets and budget realization reports; and (ii) provides a basis for accounting standard setting arrangements and procedures.

The studies by ADB [2000:8]; Jiwei [2002]; and Lihua [2001] deal with accounting system in China. With the exception of government organizations, all organizations use double-entry bookkeeping and all transactions are recorded on the accrual basis. Not-for-profit organizations (e.g., schools, kindergartens, hospitals) have recently moved from cash accounting to a modified accrual accounting basis. Government budget accounting system reform began in 1998. It took account of the PRC’s successful enterprise accounting reforms and international public sector accounting practices. Among other things, as a consequence of the initial reforms: (i) the cash accounting basis is required to be used in general budget accounting; (ii)
administrative units may use either the cash or accrual basis, depending on their specific circumstances; (iii) double entry bookkeeping has been implemented; (iv) the previous focus on fund sources, applications and balances has been replaced by new accounting elements comprising assets, liabilities, net assets, revenues and expenditures. For example, the Change in Fund Activity Statement became a statement of assets and liabilities, and various statements about financial flows were added. The adoption of the accrual basis for general budget accounting is now being considered. In particular, accounting principles used in enterprise accounting systems may be gradually introduced. To this end, clear requirements are needed for fixed asset depreciation, overseas investment, income tax and other issues related to their economic activities. For national accounts purposes (SNA 1993), a national balance sheet has been prepared annually since 1997, but is incomplete and has not yet been published. The biggest issue is valuing non-financial assets.

The study by ADB [2002:80] on Fiji Island notes that the financial statements of core ministries and departments are prepared using cost accounting basis in accordance with finance instructions and regulations, but the government has installed a sophisticated accrual-based computer based system to move towards accrual accounting basis.


ADB [2002:50] focuses on accounting system in Azerbaijan. Government activities are generally accounted for on an accrual accounting basis at the organizational level and on a cash basis for consolidated budgeting and reporting—the cash basis was introduced with support from international institutions, particularly the IMF and the World Bank. Government organizations prepare monthly cash reports and quarterly accrual reports that are submitted to the Ministry of Finance (MOF). In 2001, the MOF began publishing consolidated quarterly reports incorporating revenues, expenditures, expenditure arrears, stock of government and government-guaranteed debts, and new loans contracted or loan guarantees issued. A revised Budget Systems Law has been drafted and is being considered.

Inter alia, Arthukorula [2003:33] documents about the countries adopting Soviet Accounting System in these words: “The ‘Soviet accounting system’ catered to the needs of central planning; in particular, the system provided accounting information, including (i) financial information, (ii) tax information, and (iii) statistical information. It emphasized standardization and uniformity so that information could be compared across sectors and industries. The system did not use market-based accounting concepts such as going concern, consistency and substance over form. Furthermore, provisions for doubtful debts or obsolete inventories were not estimated — doubtful accounts were written off only when they were clearly not collectable. Accounting consisted of adhering to prescribed charts of accounts (Uniform Accounting Systems, UAS) that were designed to meet the requirements of the central planning system. The primary function of accounting was to record the factual data necessary to assess plan accomplishments, rather than to assess an organization’s financial situation. Public and ‘private sector’ organizations used the system, which employs double-entry bookkeeping and reflects many aspects of accrual accounting.”

The surveys by the Government of Sri Lanka [1992] and ADB [2002:63-64] bring out the accounting reforms of Sri Lanka. The financial statements of private and public sector organizations that are classified as specified business enterprises are prepared using the accrual accounting basis. The Government is considering the introduction of accrual budgeting
and accounting as part of the ADB-supported Public Expenditure Management Reform Program.

Lastly, the Athukorala [2003:36] provides an overview of accounting status in these countries as set out in Figure 3.1, which highlights the significant differences in these countries.

### FIGURE 3.1
**SELECTED ADB DMCS: DIRECTION OF GOVERNMENT ACCOUNTING**

<table>
<thead>
<tr>
<th>DMC</th>
<th>Current Basis</th>
<th>General Direction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fiji Islands</td>
<td>Modified cash</td>
<td>Accrual</td>
</tr>
<tr>
<td>Indonesia</td>
<td>Modified cash</td>
<td>Accrual</td>
</tr>
<tr>
<td>Marshall Islands</td>
<td>Modified cash</td>
<td>Accrual</td>
</tr>
<tr>
<td>Philippines</td>
<td>Modified accrual</td>
<td>Accrual</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>Modified cash</td>
<td>Accrual</td>
</tr>
<tr>
<td>Azerbaijan</td>
<td>Accrual</td>
<td>Accrual</td>
</tr>
<tr>
<td>China, People’s Republic of</td>
<td>Modified accrual</td>
<td>Accrual</td>
</tr>
<tr>
<td>Mongolia</td>
<td>Modified accrual</td>
<td>Accrual</td>
</tr>
<tr>
<td>Uzbekistan</td>
<td>Accrual</td>
<td>Accrual</td>
</tr>
</tbody>
</table>

Arthukorala [2003: 36]. *Accrual Budgeting and Accounting in Government and its Relevance for Developing Member Countries, ADB.*

Added to this, the accounting reforms in New Zealand are no worth noting. Stace and Norman [1995] observed that the adopting of accrual accounting was the ‘unqualified success story’ of the reform process. In a survey of the broad range of public sector reforms, a ‘Scoreboard’ was produces-accrual reforms received the highest grade among government managers.

Hajar’s study [1999] titled the “Governmental Accounting System in the Republic of Yemen – Application and Requirement for Change.”

This study’s an evaluation of GAS which was used before economical classification. This study has proposed a suggestion to develop GAS in Yemen. It is indicated in this study that the environment of GAS’s development is not available at present stressing that it wont be available also even if economical classification is used (indicating to the economical classification followed now in Yemen). He further stated that the matter requires specifying the activities in every government’s unit accompanied by sufficient authorization and decentralization along with specifying and setting certain objectives for each activity in the range of the governmental unit. After that, accounting system and make every unit able to provide the required
information including those which could be used as signs or indications of performance evaluation.

Then he specified the preliminary requirements for applying the suggested framework to develop GAS as follows:

I. The availability of the political will to grant the unrestricted financial and administrative independence to governmental units and its centers and

II. The flexibility of the new budget system design so as to accommodate the future developments ensuring achieving the administrative supervision and performance evaluation. Thus, first, the government’s objectives should be specified and in the light of that GAS’S objectives a specified.

The study has concluded the following:-

- GAS has not witnessed any development since decades though it serves the governmental units in many aspects such as the effective supervision on conducting tasks, evaluating performance and other related aspects. The main reason, as he stated, refers back to adopting the items budget (traditional) applied at present in Yemen which does not give chance to modernizing modern administration styles, performance evaluation and using computers

- The style followed at present in Yemen for preparing and executing the budget (the style of items budget), shows expenditures according to spending aspects and not on the bases of the objective of spending it. Then the accounting measurement is restricted to spending and collecting process which does not help in making the state abide by executing certain objectives as expenditure is not related to achievement.

Finally, the study has arrived at the following recommendations:-

- As budget is the most important accessible data for GAS, it should be prepared at the earliest based on the objectives required from every governmental unit

- It is required to identify the cost of every activity or practice according to measurement unit or performance indications in
order to make the units objective to execute its goals instead of executing instructions and plans

Al-Shawabikah’s study [2000] entitled “The Extent of the Governmental Accounting System’s Adjustment to the Application of Program and Performance Budget “in Jordan. The study focused on evaluating the extent of Governmental Accounting System (GAS) adjustment in Jordan to the application of PPB and specifying the most important bases that should be available in the system. It arrived at many findings of which that Jordan needs badly to modernize planning of the budget. In addition, performance and program method is the ideal way for modernization because of the possibility of connecting budget with developmental plans, achieving supervision on performance and controlling decision-making in financial management. The accounting system in Jordan is still limited to achieving its expected objectives from it when applying the method of programs and performance budget. Then setting the bases through which the GAS in Jordan could be developed was done in a way which suits and copes up with PPB method.

Näsi et al. [2001] explain that, considering the current purpose of governmental accounting of providing the general public with a reliable picture of the overall financial situation of governments, it is important to have a comprehensive Balance Sheet, i.e., listing all public assets. Nonetheless, they raise the question on the usefulness and relevance of information on certain type of public assets to the stakeholders to whom the Balance Sheet information is primarily addressed. “Needs of the stakeholders, be they legislative, managerial or public knowledge, are better served by excluding some assets from the balance sheet, for unreliable measurement reasons or for their lack of monetary relevance. This may make the financial statements more understandable and therefore more useful for decision-making”, [Näsi et al., 2001: 13].

Caperchione [2003] surveyed the local government accounting system reform in Italy. This study focused on a sample of 23 local governments that produced these reports for the first time in 1998, and highlights a series of problems that emerged with regard to both communicational efficacy and fair presentation. The conclusions summarized the major gaps between the reform’s objectives and actual effects, and explain the reasons for these gaps
and formulate some suggestions in order to re-design the system. Recommendations for a more substantial improvement can then be represented by the adoption of a full accrual system, to be used for both budgeting and reporting; the consequent dismissal of the traditional cash accounting system; and a more comprehensive use of performance measures. Clearly, these kinds of innovations would require a high degree of consent, in order to be correctly implemented. Thus, such a reform can only be introduced if LGs are allowed to contribute to designing the reform, and are helped throughout the implementation phase. Finally, a new accounting system can really work only if accountability and responsibility mechanisms are introduced: should this not be the case, no accounting system will ever have major effects on the performance of Local Governments.

Study by Dees & Paul [2004], the Organization for Economic Cooperation and Development or OECD (in collaboration with the World Bank, the Inter-American Development Bank, and IMF) developed a very comprehensive survey on Budget Practices and Procedures. This study was “Reforming Governmental Accounting and Budgeting in Europe”. To facilitate convergence in the accrual-based reforms, this book describes (at national and sub-national levels) the current and prospective forms of financial reporting and budget preparation for nine countries. All of the countries covered by the study have embarked on reforms of the accounting reporting systems towards full accrual accounting for their core national or local governments. Whereas all local government systems have been or are being reformed, the reform process has not yet started in the national governments of Germany, Italy, and the Netherlands. Six of the national governments (Finland, France, Spain, Sweden, Switzerland, and United Kingdom) have begun the reform process, as has the EC. Three of them (Finland, Spain, and Sweden) have essentially completed the reform by creating the necessary legal requirements and the new system is in regular operation. This also applies to the United Kingdom except that whole-of-government financial statements are not yet in place. The accounting method used impacts on the budgetary reporting practices, especially relative to comparative budget to actual statements if the budget is on a different basis than the accounting system.
The clear pattern was for the local governments in each country to precede the national governments; in none of the countries was national governmental accounting reformed first. “The norm for budgeting is that the accrual accounting either has no influence on budgeting (which retains its basis of cash or cash plus changes in financial assets and liabilities) or the influence is implicit (the accrual accounting is used to report on realization of the budget but the budget itself does not significantly refer to accruals)

Joyce and Sieg [2005:22] found that about half of the states in united state had made some attempt at developing a statewide cost accounting system. Most importantly, no state has implemented activity-based costing (or anything like it) statewide. The states most accomplished are still in the pilot stages. Texas notes that one pilot agency, after completion of the pilot phase, is implementing activity-based costing agency-wide. Another note that, “ABC is a good management tool which can be used to achieve higher efficiencies.” Joyce & Sieg [2005:24].

Lu [2007] examined the implication of GASB 34 for the linkage between reporting and accountability (Georgia experience). The research find shown that Statement 34 introduces significant impacts on reporting. However, its implications for accountability and better financial management are yet to be as significant as hoped.

Jorg et al. [2007] described and analyzed the reform and current situation of governmental accounting in Portugal, especially discussing the accrual basis implementation. In particular, it shows that not only governmental accounting reform in Portugal has been going towards international harmonization, but also problems that have arisen are common to others faced by several countries. So the study finding was, the delay in the implementation of the new governmental accounting framework we have pointed out, among other factors, problems associated with the introduction of accrual accounting, namely:

(i) Listing and valuating public domain assets;
(ii) Understanding the accruals concept and subsequent application of the economic perspective in the recognition of costs and revenues;
(iii) Conventions assumed for the new system that increase the subjectivity of the Net Result meaning, already per se very problematic to understand within the governmental entities;

(iv) The need to have a conceptual framework that would clarify how to adapt the business accounting statements and concepts to some specificities of the Public Administration context; and

(v) The need for more intervention of the PAASC in providing guidance.

One practical consequence of these problems has happened recently when The Court of Accounts, as the entity to which Local Government entities must present the reporting statements, sent back about 80 per cent of the 2002 accounts presented by municipalities, because they were not fairly presented in accordance with the requirements of the new accounting system. Therefore, as Christiaens [2004] did for Belgium, we observe that in Portugal there are important remaining conflicts and implementation problems of adopting accrual accounting in an existing traditional environment of budgetary cash-based accounting.

Study by Government Accountability Office (GAO) US [2007] this study looked at the use of accrual budgeting in Australia, Iceland, New Zealand, and the United Kingdom. It also looked at two other countries—Canada and the Netherlands—that used accrual budgeting more selectively at that time and were considering expanding the use of accrual budgeting. And reported that these countries had adopted accrual budgeting more as part of broader public management reforms to increase transparency and improve government performance rather than as a way of increasing awareness of their longer-term fiscal challenges. None used accrual budgeting for social insurance programs.

This study concluded that the deterioration of the nation’s financial condition and fiscal outlook since 2000 confirm that the Congress should consider requiring increased information on the long-term budget implications of current and proposed policies on both the spending and tax sides of the budget. In addition, the selective use of accrual budgeting for programs that require future cash resources related to services provided during the year would provide increased information and incentives to manage these long-
term commitments. While the countries in our study have found accrual-based information useful for improving managerial decision making, many continue to use cash-based information for broad fiscal policy decisions. This suggests that accrual measures may be useful supplements rather than substitutes of our current cash- and obligations-based budget. Presenting accrual information alongside cash-based budget numbers, particularly in areas where it would enhance up-front control of budgetary resources would put programs on a more level playing field and be useful to policymakers both when debating current programs and when considering new legislation.

They mentioned that, ‘Since accrual-based budgeting would not provide policymakers with information about our nation’s largest fiscal challenges—Social Security, Medicare, and Medicaid—fiscal sustainability reporting could help fill this void. The reports could include both long-term cash-flow projections and summary fiscal gap measures for the whole of government that would show both the timing and overall size of the nation’s fiscal challenges’.

Accrual budgeting and fiscal sustainability reporting are only means to an end; neither can change decisions in and of itself. The change in measurement used in the budget provides policymakers and program managers with different information, but the political values and instincts of policymakers may not change. While recognizing fuller costs could help to inform policymakers of the need to reform, it will require action on their part to address them. Any expansion of accrual-based concepts in the budget or increased reporting requirements would need to be accompanied by a commitment to fiscal discipline and political will.

Finally, the consideration of the study was that the Congress should consider requiring increased reporting of accrual-based cost information alongside cash-based budget numbers for both existing and proposed programs where accrual-based cost information includes significant future cash resource requirements that are not yet reflected in the cash-based budget.
PPB FOR LOW INCOME COUNTRIES

This kind of studies has been undertaken at the time when there is mounting concern, in both developing countries and in donor countries, to achieve visible, tangible and sustainable development ‘results’. Most OECD countries practice one or another form of performance budgeting. Some middle income developing countries have been doing so for some time, with increasing sophistication. Low income countries with Poverty Reduction Strategy Papers (PRSPs) are now beginning to do so. The Centre for Aid and Public Expenditure (CAPE) research program has looked at progress in seven countries – Bolivia, Burkina Faso, Cambodia, Ghana, Mali, Tanzania and Uganda. A synthesis of this study brings together the conclusions.

The study of Tanzania by Rønsholt et. al., [2003] documents a multifaceted set of budget and public administration reforms in the late 1990s. These included the introduction in 1998 of performance budgeting, a public finance management reform, the decentralization of responsibility of delivering basic services to local government, the launch of a performance management system for the public services and a PRSP. At about the same time, Tanzania devolved to accountable executive agencies responsibility for delivering a range of public services, including road maintenance, civil aviation, statistics, and business registration Caulfield [2002]. In Tanzania, there is strong political and administrative support for the strategy of poverty reduction and for the performance budgeting and management processes that support it. The governing party, as well as the government itself, keeps close watch on developments. Strong coordination of the poverty monitoring and of program performance assessment is provided by a well staffed inter-ministerial technical committee.

On the budgetary side, Tanzania still operates a cash budgeting system, but protects priority poverty-reduction program expenditures from in-year expenditure cuts. It thus operates a quasi-program budget. Most aid inflows, however, other than budget support remain unconsolidated. Annual budgets are derived from annually updated medium term expenditure frameworks. Ministries’ budget bids must be accompanied by annual reports on past performance, statements of medium term program objectives and
targets for the future, and annual action plans. The latter concentrates on input and activity levels. Performance budgeting, in this sense of routine accountability and planning for performance as well as of expenditure has become part of the culture.

In the mid-1990s Tanzania, [Caulfield, 2002] set up 8 executive agencies modeled on the UK’s ‘next steps’ agencies. They are charged with functions such as road construction and maintenance, meteorology, cartography, revenue collection and airport operation. They are in the public sector, but outside the civil service and thus able to offer better salaries to professional staff. They are subject to annual performance agreements and are required to render annual performance reports.

The case study by Williamson [2003] deals with budget reforms in Uganda, which embarked on ‘output-oriented budgeting’ (OOB) in 1998. The key ingredients of OOB were (i) a medium term framework for public expenditure planning which was consistent with macroeconomic policy constraints and objectives, (ii) a Poverty Action Fund – a budget within the budget giving high priority (against a background of the continued use of cash budgeting) to designated pro-poor programs, (iii) budget framework papers prepared by sector working groups (coordinated by line ministries) in the context of each annual budget exercise which annually review past performance and define short- and medium-term sector achievement targets. These reforms do not comprise program budgeting, however results are loosely linked to sector allocations within line item budgeting. Budgets are still presented and voted in terms of inputs.

The study by Montes [2003] reveals that Bolivia has the longest experience of seeking to implement results-oriented public expenditure management on a nationwide basis of all countries in the sample. A key decision point was the adoption in 1990 of the ambitious law on financial management and control. The country study concludes that implementation, though impressive in some areas, has on the whole been unsuccessful because of a lack of political will and the persistence of politicization and patronage systems in civil service appointments and management. These problems have been compounded by the lack of overall oversight, control and enforcement of performance budgeting and management reforms, and thus
by the reluctance of ministries and agencies to accept the requisite disciplines. A series of subsequent reform initiatives, including a major, donor–supported Institutional Reform project of 1999, have also yielded disappointing results because they have projected technocratic solutions onto a screen of unreceptive political economy. The study also showed that the reforms in Bolivia provided for decentralized decision taking on service delivery, subject to rules about financial accountability and results reporting and planning.

Ghana is a country with extensive background in elaborating results-focused sector and national development strategies and which is endowed with considerable sophistication in its appreciation of budget management issues. In 1998 it embarked on an ambitious Public Financial Management Reform Project (PFMRP), which comprised a results-oriented medium-term budget (1999), an integrated financial management system and a revamping of the audit service. The medium term expenditure framework (MTEF) was successful as a planning exercise because of the active participation of ministries and agencies in its compilation, but, like the other components in PUFMARP, it fell down on implementation, follow-up and follow-through.

The study by Oduro [2003] revealed the following problems in implementing performance budgeting and management: (i) a lack of political will and of administrative initiative to pursue them; (ii) macroeconomic instability and a perennial problem of containing the fiscal deficit; (iii) low morale and a lack of culture of achievement and accountability in many parts of the civil service connected with the superimposition of successive policy and strategy initiatives; and (iv) the fragmentation of responsibility for the strategy, management and performance of public expenditure programs.

Defects in Ghana’s public expenditure management were highlighted in the ‘tracking’ studies carried out in 24 HIPC countries in 2001 and 2002 jointly by the IMF and the World Bank [Roberts:2003]. The purpose of these studies was to establish the likelihood that the additional resources to governments from HIPC debt relief would, as promised, be devoted to higher levels of expenditure in pro-poor programs. Countries’ fiscal accountability was scored on the basis of nine criteria. Ghana’s score was the lowest of the 24 countries.
On only one criterion were its practices judged satisfactory. This was not for lack of systems, but was the result of a widespread laxity in their implementation.

Roberts [2003] observes that Burkina Faso with Uganda is among the first countries to complete an interim and a full PRSP.

Mesplé-Somps at el [2003] conducted a study on Burkina Faso, which showed that the practice of program budgeting in annual budgets remained incomplete and largely ineffective.

Mali introduced program budgeting in 1998. As a HIPC country, it made an early start on preparing an interim PRSP in 2000. It has also made progress with, though it has not yet fully implemented, a medium term public expenditure framework.

The country study of Mali by Raffinot at el. [2003] makes it clear that these initiatives have not yet given rise to effective performance–based expenditure management. New budget classification and management systems have not superseded previously existing ones, but have grown up in parallel, and have not displaced historical practice. The adoption of results-oriented approaches has also been impeded by a generalized shortage of resources of finance and trained staff in public administration and the public services, and by rigidities and over-centralization in traditional expenditure management.

The study by Dom at el [2003] shows that Cambodia has not only produced a credible PRSP but has, in the education sector and to a lesser extent in health, managed to institute creditable systems of results-focused budgeting and performance management. The country case study identifies a major gap in the failure so far to develop operational plans for health, at the national and provincial levels, that translate strategic indicators and targets into funded activities. The Cambodia case shows that major progress in the direction of the effective use of performance budgeting and management techniques is possible against a background of generally confused and ambiguous rules and practices governing the national budget and public expenditure management, and with civil service pay and management conditions that encourage informal charges for services and other rent-seeking. It also illustrates well the costs to sector managers and service
providers of the persistence of these practices. Cambodia, like Bolivia, shows how, in these circumstances, effective results-oriented practice at the sector level is heavily reliant on the continuous support of external donors, and thus precarious.

Helleiner [2000] argues that performance measurement approaches are irrelevant for low income countries, and that continuing effort to measure policy change and performance has been driven mostly by the needs of the donor community.

So the seven case study countries’ experiences of, and success with, performance budgeting and management are various: Roberts [2003] summarizes these country experiences: (i) Tanzania and Uganda have made sustained and successful, multi-sector endeavors to implement a results focus into both budgeting and performance management at both central and local levels; (ii) Bolivia and Ghana have made extensive and repeated efforts to introduce a results focus, but have been at least partially frustrated by implementation failures and political factors; (iii) Burkina Faso and Mali have begun systematically to introduce results-based program budgeting and to de-concentrate and decentralize hitherto highly centralized administrative structures, but progress in institutionalizing a focus on results is limited by shortages of experienced staff and information; and (iv) in Cambodia, there is impending public financial management reform. Initiatives for performance budgeting and management are still mainly confined to education and health. Responsibility for much service provision lies with provincial authorities which enjoy de facto autonomy of decision.

None of these countries has created a fully comprehensive performance budgeting and management system, but all have introduced and are developing elements which are actually or potentially producing benefits of a kind which can to contribute strongly to the implementation of their respective poverty reduction strategies. Their experiences seem to disprove the thesis that a results orientation has no part to play in the management of public expenditure in poor countries.

Al-Husaini and Gowda [2008] conducted an empirical study on the budget reforms in Yemen. The major findings of the study included the following: (i) There is substantially low level of progress in the implementing
the budget reforms leading to the delay in meeting the deadline of 2015 for complete budget reform process; (ii) If the officials of GBSS and COCA know that the budgets are not implemented in their respective units, the officials of ministries and departments are ignorant about implementation; (iii) There is a moderate progress in classification of accounts from different perspective, but the progress in introducing is the least in accrual accounting, which forms the prime base for introducing PPB; (iv) The workshops conducted to train the officials is highly ineffective leading to the prevalence of ambiguities and absence of clarities on conceptual understanding of budget reforms compounded by lack of initiatives and control mechanism; and (v) The long term objective of introducing PPB through accrual accounting by 2015 has been almost neglected by the individuals and institutions involved in budget reforms of the Republic of Yemen. They also made the following suggestions: (i) Intensive training of officials on the mechanisms in budget reforms and handing over the task of implementing to an international expert team; and (ii) Drawing up an effective action plan to implement budget reforms and enforcing it and enforcing them.

PRE-CONDITIONS FOR PPB

The main reason why this body of research has not made greater strides in identifying the pre-conditions of PPB success is that it has seldom addressed the question directly. What most authors have done, in this regard, is relying on their own field experience or on their informants' perceptions to point to a multiplicity of factors that could facilitate or interfere with the success of these reform efforts. However, very few have gone one step further and examined the relationship between such factors and the reforms' outcomes empirically.

Among the potential explanatory factors that these studies suggest, some are associated with different aspects of the systems' design, whereas others are related to how the initiatives are implemented, or to the context where they emerge or operate. For example, with respect to the systems' design, Joyce [1999] notes the importance of clearly understanding what the objectives of the agencies and programs whose performance are to be evaluated are. An effective way to attain this, he suggests, is through
(preferably government-wide) strategic planning. Havens [1983] emphasizes the need to ensure that the evaluation and budgeting timeframes are made compatible, and that there is appropriate communication between the organizational units that carry out these functions. Joyce and Sieg [2000] and GAO [2003] point to the need to reach an appropriate level of integration among budget, performance, and financial reporting structures. Joyce [1999], Schick [2001], and GAO [2003] emphasize the importance of having accurate measures of cost, and adequate cost accounting systems. Joyce and Sieg [2000] and Melkers and Wiiloughby [2001] highlight the importance of the performance assessments' thoroughness, quality, and credibility. Melkers and Wiiloughby [2001] mention the potential effects of incentives to use the information. And Perrin [1998] points out the limitations of performance measurement as a resource allocation aid and stresses the need to complement it with more thorough evaluation methods.

With regard to how the reforms' implementation strategies can affect their development and outcomes, Griefel [1993] and Melkers and Wiiloughby [2001] underline the importance of sustained top-level support and leadership. Forrester and Adams [1997] and Radin [2000] highlight the need to achieve an appropriate alignment between the budget reform and organizational culture, and Melkers and Wiiloughby [2001] note that one of the most common obstacles is the insufficient allotment of material and human resources to the implementation of the reforms.

Finally, several authors call attention to the need to contextualize the analysis of the reforms' achievements by paying attention to a number of environmental factors. These include, among others, the political culture, economic status, and institutional relationships (e.g., between the President's or governor's office and the central budget office) of the country, state, or city where the system operates [Willoughby and Melkers:2000]; the government's fiscal capacity [Lee: 1997b; Jordan and Hackbart: 1999]; and the relative degree of rigidity of the budget [Joyce: 2003].

Taking a somewhat different perspective, Willoughby [2004] cites data from a 2000 survey to assess the prevalence of certain obstacles to the successful use of performance information across the U.S. states. Approximately half the systems reported having significant problems with the
lack of an adequate link between the performance measurement database and the accounting/budgeting database. About 40 per cent expressed equal concern about the lack of interest from the leadership in using performance information; slightly less than 30 per cent mentioned the lack of cost information about the programs and nearly 20 per cent the lack of training of the staff responsible for collecting and maintaining the data. Not surprisingly, all these differences become even more apparent when the initiatives' history and more detailed characterizations offered in individual case studies are examined.

In his regression analysis of the extent of use of specific evaluations' findings during the budget allocation process in the state of Georgia, Yu [1996] found a significant association between evaluation quality and utilization - especially at the agency request and gubernatorial recommendation stages of the process. He also reported preliminary evidence that the extent of participation of budget analysts in the evaluation process might have an effect, while their educational background and work experience did not.

Surveying state budget offices, Jordan and Hackbart [1999] found that staff capacity was the most important factor associated with states' use of performance funding. The legislative staff's role in supporting or undercutting the budget reform may be more important in determining whether the legislature uses performance information in its deliberations: "I personally think that the behaviors of staff, specifically the two appropriations committees' staffs, are the one factor that will most determine the future of the reform. If they embrace it and help their elected bosses to adjust their routines to learn to use performance information, and to make tradeoffs without line items, then it will likely take root. Otherwise the Legislature won't know how to do PB² at their level and they will continue current institutionalized routines, thereby signaling that the reform doesn't make a difference when it counts."

Florida’s GPAA provides more flexibility to managers; it provides citizens with the opportunity for input and feedback; and, it provides a mechanism for employees to recognize their contribution to the overall purpose of state government, receiving some rewards for their efforts in the
process. It is no panacea, however, and it provides its own set of challenges that require ongoing work and commitment.

Except for these few studies, the empirical relationship between the conditions associated with PPB reform success and the initiatives' achievements remains largely unexplored. On the whole, whenever cross-system studies identify factors that might be facilitating or obstructing the operation of the systems, they discuss them separately, without establishing a direct link with the initiatives' apparent achievements. On the other hand, with their "thick" characterizations of the systems examined, single-case studies provide more elements to explore this connection. However, for the time being, they have been more concerned with documenting the systems' characteristics, background, and/or apparent achievements, than with building cumulative knowledge and advancing the understanding of the conditions under which PPB reforms produce their best results.

The ability of a state budget office to perform the tasks expected of it necessarily depends upon the capabilities of its personnel. Two key aspects are the level of education and the academic disciplines of the personnel [Hackbart and Ramsey: 1994; Lee: 1991b; Lee and Staffeldt:1976; Yunker,1990].

Further, Jordan and Hackbart [1999] investigated that the level of education for budget office personnel over the 25-year period. The proportion of professional staff with less than a baccalaureate degree has been under 10 percent since the beginning of the survey, with the current figure at 4 percent. The percentage of staff with no more than a baccalaureate degree has shown a steady decline (from 72 percent in 1970 to 47 percent in 1995). As would be expected, master's degrees are becoming standard. Nearly half of the professional staff members now have a master's degree. Doctorates remain relatively rare only 3 percent in 1995, while the figure was 2 percent 25 years earlier.

The academic disciplines of professional staff in state budget offices show minor fluctuations between 1990 and 1995. Accounting continued its downward slide, dropping 17 percentage points, from 29 percent of the staff in 1970 to 12 percent in 1995. This decline is possibly the result of push-and-pull forces. Accountants may have been pulled away from the public sector to the
private sector where salaries are higher, and may have been pushed out of state government to make room for other academic disciplines, most notably public administration. Further, they observe: “Business and public administration together accounted for 51 percent of the staff in contrast with 52 percent in 1970. However, business administration was more than twice the size of public administration in 1970 (37 percent compared with 15 percent), whereas in 1990, the two disciplines were evenly balanced. Economics remained at about 10 percent of the staff.”

CONCLUSION

Program and Performance Budget (PPB) has emerged as a strategic tool for achieving the success of the government programs during 1990s in the developed countries. Its relevance to developing countries has been catching on for two reasons: firstly, the governments are spending huge amounts targeted to increase the living standards of the masses. Secondly, the governments will have to watch the emerging benefits to masses with a focus on cost-benefit analysis. In this direction, much research has flowed down especially from the United States. The research evidences indicate that the introduction of PPB has changed the budget formats from line-item budget to performance-based budgeting to a substantial level. However, the role of PPB in resource allocation seems to be not very substantial and it is writ large with several doubts. Accrual accounting which the fulcrum of PPB, has been widely accepted in developed countries and substantial progress has been made in this direction. It is also important to note that the developing countries have been showing keen interest in PPB and they are very much responsive to account classification and accrual accounting. Much headway has been made in developing and refining the performance measures, especially in developed countries. The developing countries adopting PPB have relied upon the accounting, classifications and accounting systems developed by the International Monetary Fund (IMF). The use of Performance information in decision making by the government authorities has not reached a satisfactory level, but the spirit with which such information by the decision makers is evidenced at a higher level. Lastly, the stumbling blocks for implementing PPB in developing countries seem to be low
knowledge level of PPB in administration, and heavy demands for work and positive results from the officials. However, it is important to note that social interest should prevail upon self interest and PPB seems to be the panacea for all ills of mismanagement of government programs attempting to achieve social welfare.