A Comparative Study of the Institutionalization of the Accrual Accounting System in the United Kingdom and the United States

Dongwan Lim* and Youngsu Jong**

Abstract: In the 1970s, many countries were in financial crisis as a result of the burden of maintaining the welfare state and repeated oil shocks. To solve these kinds of economic and financial problems, many countries have attempted to reform the public sector by implementing an accrual basis accounting system. But there are significant differences among countries in the foundation and evolution of the institution because of differences in institutional structure. In the case of the United Kingdom, institutional structure had been operated seems like there were not veto points. Once a decision had been made in the executive arena, Parliament was unlikely to change it, as the executive government rest on stable parliamentary majorities. However, the institutional structure of the United States works differently from that of the United Kingdom. A lot of decisions made by executive branch could be vetoed by Congress, or vice versa, because they do not share the same resources of power.

Keywords: Accrual accounting, institutional structure, context

INTRODUCTION

In the 1970s, many countries were in a state of financial crisis as a result of the burden of maintaining the welfare state and repeated oil shocks, and budget deficits resulted in an economic slump during the 1980s. Countries simply could not escape low economic growth and the underlying deficits (Schick, 2004). To solve these kinds

* Lim holds a Ph. D from the Graduate School of Public Administration at Seoul National University. His research interests include governmental accounting and budget, public finance, and comparative public administration.

** Jong holds a master's degree from the Graduate School of Public Administration at Seoul National University. His research interests include governmental accounting and budget, new institutionalism, and governance.

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of economic and financial problems, many member countries of the Organisation for Economic Co-operation and Development have attempted to reform the public sector (Hood, 1995). Most countries have sought efficiency, responsibility, and transparency in public areas. Specifically, in the case of budget in the public sector, they have tried to adopt performance-based budget systems to bear more responsibility for the results of resource distribution, multiyear budget systems to cope with the increased demands of governmental expenditures, and total amount budget systems to achieve government autonomy (OECD, 1997).

Recently, many countries have adopted the double-entry bookkeeping and accrual basis accounting system of the civil sector, which provides more inclusive and accurate information about the total amount of government action, the fiscal state of the government, and the responsibility of the public manager. The system also enables public managers to estimate inputs and outputs in the rational delivery of resources and facilitates decision making in the long term (Blöndal, 2004). Because of these benefits, many countries have attempted to found the system continuously. However, in spite of their steady efforts, there are significant differences among countries in the foundation and evolution of the institution. Lüder (1992) examined the conditions for the reform of governmental accounting in his cross-sectional comparative study about Canada, Germany, Denmark, France, Sweden, the United Kingdom, and the United States in 1988-89. According to his findings, Denmark, Sweden, and the United States had positive conditions for governmental accounting system reform, but Germany, France, and the United Kingdom had negative conditions for reform. His analysis seems to be proper in some aspects, but it has some problems in that the United Kingdom adopted the system faster than the United States. This may have resulted in a shortage of analysis about the constraints of institutional structure and the role of actors in the process of institutionalization. Considering these points, in this paper, I wish to explore what makes the difference in the institutionalization of governmental accounting system reform. Countries that are trying to adopt such as institution may gain insights about accounting system reform from this comparative study about advanced countries that have adopted the system already.

COMPARATIVE HISTORICAL ANALYSIS

Studies about the Budget Process

Studies about the budget process have largely focused on decision making in budgeting. These studies can be divided into two categories: studies based on rationalism and those based on incrementalism. The rationalists suggest that the budget process is a process of decision making with economical rationality. Budgeting is actively reviewed as a whole every year, in the sense of reconsidering the value of all existing programs compared to all possible alternatives. It is comprehensive, not incremental (Bailey & O'Connor, 1975; LeLoup, 1978; LeLoup & Moreland, 1978).

The incrementalist concept holds that budgeting is mainly a process of political strategy. General agreement on past budgetary decisions, combined with years of accumulated experience and specialization, allow those who make the budget to be concerned with relatively small increments to an existing base (Cowart, Hansen, & Brofoss, 1975; Davis, Dempster, & Wildavsky, 1966; Mikesell, 2006; Sharkansky, 1968; Wanat, 1974).

However, there has not been a forceful theory of the budget process or of budget reform since V. O. Key (1940) pointed out the lack of a budgetary theory. The two theories cannot sufficiently explain the budget process or budget reform. This study attempts to analyze the reform of the budget process through institutionalism.

Studies about Governmental Accounting Systems

Studies about governmental accounting systems can be divided into those dealing with environmental change, the reform process, and reform results.

First, studies focusing on environmental change emphasize the tendencies of accounting system reform, which is affected by the external environment or reciprocal action with the external society. Cheng (1994) examined the institutional, political, and external processes that affect accounting and financial reporting choice. He explained that American financial reporting is up to citizens, interests groups, congressmen, and inspection commissioners in his politico-economic model of governmental accounting policy choice. Lüder (1992) proposed a contingency model of accounting innovations in the public sector. Based on a comparative study of several countries, the model consists of four modules: stimuli, social structural variables about information users, structural variables describing the politico-administrative system, and implementation barriers. Whether a more informative accounting system is introduced depends on the specific conditions of the modules.

Second, almost all of the studies related to the reform process focus on governmental accounting systems and the reform process in their own country (Chan, 2002; Chevauchez, 2002; Hepworth, 2002; Montesinos, 2002; Montesinos & Bargues, 1996; Pallot, 1996, 2002; Yoshida, 1996). These studies have been introduced in comparative international governmental accounting research or in the OECD, and they use no special framework or only Lüder's model.

These studies can be classified as follows: First, there are studies that focus on the bases of the country: culture (Likierman, 1996; Montesinos, 2002; Montesinos & Bargues, 1996; Pallot, 1996, 2002), size (Pallot, 1996, 2002), and geographic position (Pallot, 2002). Second, there are studies that focus on the capacity or quality of the civil service (Chevauchez, 2002; Montesinos, 2002, IFAC/PSC, 2002, 2003). Third, there are papers that focus on budget law (Lienert & Jung, 2004; Yoshida, 1996; 函館, 2006).

Third, studies about the effects or results of government budget accounting reform have appeared, following recent developed countries' accounting system reform (Blöndal, 2004; IFAC/PSC, 1994; Robinson, 2000; Warren & Barnes, 2003). Actually, most of those studies, after introducing each country's reform process, explain the accrual basis system as the result of reform. In Korea, for example, Kim discussed the budget accounting system connected with performance management and suggested the meaning of result in his article (Kim, 2003).

These studies pass over the institutional structure and economical or political situation in which the governmental accounting system is shaped, so they cannot explain the difference of the context. Also, there exist significant differences among countries in the institutionalization process of the governmental accounting system, though few studies have attempted to compare those differences.

Context for Comparative Historical Analysis

It would be necessary to digest the evolutionary path of an institution through comparative study in order to adopt and found the proper institution for administrative reform. For this reason, comparative study has continued to share every country's experience in the world, and there are many examples, such as Easton's general system model, Parsons's structural functionalism model, Riggs's prism model as an ecological approach, and Heady's bureaucracy model (Lee & Kim, 2005). In a critical counterpoint to those old models, recently, comparative historical analysis based on new institutionalism has attracted attention as a new method of analysis.

Comparative historical analysis focuses on the context in which events, decisions, and actions occur. In addition, analysis is based on the idea that it is possible to explain causality, finding what, why, and how events evolve, and often the causality that is discovered is used to explain similar cases (Ha, 2003).

There are many examples of such studies. First, Skocpol (1979) analyzed three revolutions-in France, China, and Russia-using comparative historical perspective. The theory and perspective of the analysis in this study is divided to three parts: (1) In socioeconomic structure, three of the revolutions are regarded as social revolution based on peasantry; (2) studying the international environmental which in three of them in world historical development perspective; (3) and analyze that state autonomy had been worked in the occurrence, process, and result of three of revolutions in coherence. In the analysis, as the successful cases for preventing the revolution, the German case, U.K. case, and Japanese Meiji Restoration case are compared to those revolutions.

Locke and Thelen (1995) emphasize the "contextual comparison" in their study, "Apples and Oranges Revisited: Contextualized Comparisons and the Study of Comparative Labor Politics." They say that traditional comparative study is matched comparison through labor politics, which compares apples to apples and oranges to oranges. This old approach only makes certain that the difference of each country in consequence oriented. So they emphasize a new type of comparative study using contextualized comparisons, whose method is to compare apples to oranges. They stress the comparison or context that is shaped in different paths with each other, comparing the labor policies of Sweden, Germany, Italy, and the United States.

Hall (1986) has insisted that state political and economic institutions are understood form different perspectives, comparing the Britain and French economic policies in his article "Governing the Economy: The Politics of State Intervention in Britain and France." He emphasized the context by comparing Margaret Thatcher's economic policy in Britain and President Francois Mitterrand's in France.

Firmin-Sellers (2000) stressed the context to answer the question, why do the Ivory Coast and Ghana adopt different economic policies? in "Institutions, Context, and Outcomes: Explaining French and British Rule in West Africa." In this article, he analyzed the border of Ivory Coast and Ghana, along which Akan ethnic is resident. He explained that the ethnic kept the same economic institutions before separation by colonial rule of France and Britain, but now the ethnic has different economic institutions to different responds this colonial rule.

Loung (2000) pointed out that many studies cannot explain the shape of institutions that focus on present institutions rather than the cause of institutions in "After the Break Up: Institutional Design in Transitional States." He explained why countries shape different election institutions even though they have similar cultural backgrounds, comparing three central Asian countries, including the Soviet Union.

Like these, a comparative historical analysis is useful to find the context and to compare the shape and evolution of an institution. It also means considering not only the appearance but also the context of the institution in each country. The action of actors is formed in the institutional context, and it is embedded in the cultural, socioeconomic, and political structure, which may be beyond the individual recognition. Thus, to explain the choice of actors the importance of the context that shaped historically is becoming standout (Immergut, 1998, p. 22).

A context is not shaped by an individual institution but by a combination of many institutions. Thus, the pattern of an actor's action is dependent on the combination of institutions. Contextual factors affect the function and feature of an institution (Ha, 2003, p. 52).

Institutional Structure and Veto Point

Institutional Structure

The meaning of institution varies by scholar. Institutions establish different rules of the game for politicians and interest groups seeking to enact or block policies. The rules of institutional design provide procedural advantages and impediments for translating political power into concrete policies. In fact, rules arising from electoral results and party systems change the ways in which theses formal institutions work in practice. Together, these institutional rules establish distinct logics of decision making that set the parameters both for executive action and interest group influence (Immergut, 1992).

Practical analyses are carried out on a different level in spite of the same terminology "institution." To solve this problem, it is necessary to analyze the institutional structure to distinguish the level of institution. Actually, the term "institutional structure" is used in a different way in each study, and thus there have kept the studies to how institutions are shaped (Hall, 1986; Ikenberry, 1998; Kasper & Streit, 2000; North, 1990). These studies share the idea that the level of institution is various and so it is formed in multiple levels. This paper does so as well, through systematical and concrete study of the inclusive institutional structure through which the institution attempts to discover institutional factors that affect the institution. Institutional structure is defined as the relationship of various institutions those give and take the affects each other.

With regard to governmental accounting system, the government structure is a major factor of the institutionalization, and it is possible to be classified by the level of administrative body, party system, and mechanism of government organization, which is broadly divided into the presidential system and the parliamentary government system. But most studies have not considered it (Chan, 2002; Chevauchez, 2002; Hepworth, 2002; Montesinos, 2002; Pallot, 1996; Yoshida, 1996).

In the case of the governmental accounting system, it is classified by the position of the treasury, the parliamentary, and the office of audit. While in the case of the parliamentary government system, the treasury and the congress may act in close harmony, in the case of the presidential system, the two run independently. It also affects the budget audit system that the account audit organization belongs to the assembly, to the administrative body, or to nothing (Lienert & Jung, 2004). The difference of the budget process is caused by the difference of the government structure and at last it affects the institutionalization of budget and audit.

So, the study of institutional structure, not each institution, brings to light the factors of adoption and change of the institution more clearly. Thus, to find out the significant distinction of institutional change, it is necessary to study the institutional structure of a country as a different starting point.

Veto Point

With regard to comparing the budget process and accounting system with other countries, it is necessary to consider the distinction of institutional structure in each country. That is to say, it is necessary to consider the difference in the budget process and accounting system in practice, specifically, the relationship of the treasury, the congress, and the office of audit in the financial decision-making process. Here, it is regarded that the difference in government structure as an important factor that brings to distinctions of institutionalization of accrual accounting system, and under that idea, the relation of government structure and budget system is illuminated.

Generally speaking, a country's government reform capacity is dependent on the veto point and the strength of veto in an official and practical institution, in which actors exercise their power and fight against attempts at political and social reform (Immergut, 1992). The veto point could be shaped by institutional structure, such as the politics-administrative system or organizational structure (O'Reilly, 2005).

There are important distinctions between the presidential system and the parliamentary system in terms of the role of actors in the budget process. In the presidential system, the legislative and executive branches are independent of one another, whereas in the parliamentary system, the government is constituted by the ruling party or coalition party, and so it is supported by a majority of congress, and the separation of the two of branches is not clear. For example, many important decisions about the budget occur in the process of annual expenditure approval in the case of the presidential system, but in the parliamentary system, it occurs before the submission of the budget to congress for approval (Lienert & Jung, 2004). In the parliamentary system, the duty of the assembly is to give confidence to the administration, and to perform this duty, the congress often passes the budget without any revision. Thus, regarding the political system, the Westminster model county, such as the United Kingdom, New Zealand, and Australia, has less veto point, and so it is more possible to rapid and overall government reform than the presidential country or assembly government, such as the United States.

The Westminster model originated from the character of the United Kingdom Parliament and government, and it is based on the idea that governing by majority is more democratic than by minority. It is marked by a concentration of executive power, a fusion of power and cabinet dominance, an asymmetric bicameralism, a two-party system, a one-dimensional party system, a plurality system of election, an unwritten constitution, parliamentary sovereignty, and an exclusively representative democracy (Lijphart, 1984; Pollitt & Bouckaert, 2004). The unwritten constitution makes constitutional contents which are made by constitutional law, unbalanced legislative structure makes almost power about the government belong to House of Commons or unitary assembly, and taking the cabinet by leaders of ruling party makes the fusion of executive and legislative branch on the side of cabinet.

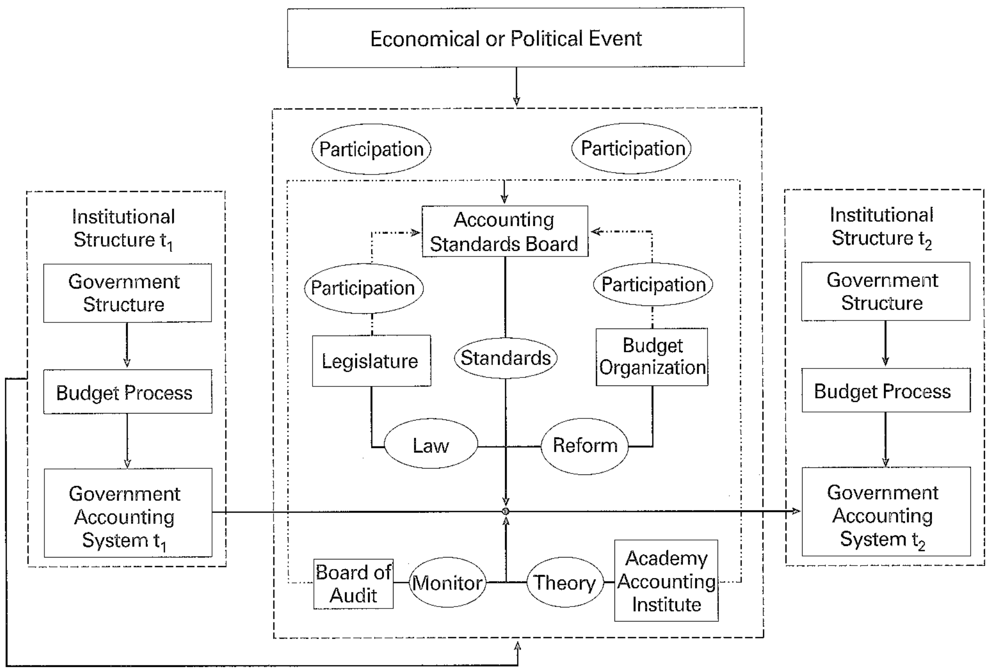
There is another country model, in contrast to the Westminster model, known as the consensus model. The consensus model comes from the idea that the relation of congress and the administration in the Westminster model is just the relation of administration-opposition party, but it could be undemocratic because it comes under the principles of exclusion. The consensus model is marked by executive power sharing, a separation of powers, balanced bicameralism and minority representation, a multiparty system, a multidimensional party system, proportional representation, territorial and nonterritorial federalism and decentralization, and a written constitution and minority veto (Lijphart, 1984; Pollitt & Bouckaert, 2004). All of these various institutions to division of power have same meaning with that the foundation of various veto point. The check in the executive branch inside, the balance of two houses, the weakness of centralization by multiparty system, the proportional representation system, and the veto power for minority might be examples of the veto point. In this system, if the government cannot ensure the past support of congress or the ruling party cannot force the member to follow party opinion in a vote, then decision making in the congress increases the possibility of disturbing the policy decision of the administration. In this situation, the assembly, in itself, becomes a policy veto point and only brings the weakening of consistent reform capacity (Immergut, 1992).

The Frame of This Study

For the successful settlement of the accrual accounting system, relating organizations and actors have to prepare technique in their position. To change the budget accounting system to the entry bookkeeping and accrual accounting system, the central budget organization should develop human and material resources and information systems as a presiding reform organization. The congress should revise the law related to budget accounting. The audit office should monitor the feasibility of governmental accounting standards as an executive organization of governmental accounting.

Scholars and civil groups should suggest a theoretical foundation for the double-entry bookkeeping and accrual accounting system. Above all, the governmental accounting standard board should prepare the standards (Hepworth, 2002; Pallot, 1996). If there is not a mutual consent in all of this process-in other words, if a veto occurs-the institutionalization cannot happen or will take a long time.

Figure 1. The Process of Institutionalization



In the actual process of institutionalization, the establishment of a governmental accounting standards board, enactment of a new law, participation of civil accounting group, period and of institutionalization, and so on, are organized in various ways. It is caused by differences in the central budget organization, the congress, the audit, the scholars, and civil groups related to the budget accounting system. These differences cause different path of institutionalization in each country.

INSTITUTIONAL STRUCTURES OF THE UNITED KINGDOM AND UNITED STATES

Institutional Structure of the United Kingdom

Government Structure

Governmental power and functions in the United Kingdom rest in three branches of government: the legislative, judicial, and executive; however, in this "parliamentary system," the legislative and executive branches are interdependent (Lee, 2002).

The monarchy is the oldest institution of U.K. government, and the government is headed by a prime minister, who is the leader of the majority party in the House of Commons, and an appointed cabinet of about 20 members, who are also members of Parliament.[1] The prime minister is also, by tradition, first lord of the Treasury and minister for the Civil Service. The prime minister's unique position of authority comes from majority support in the House of Commons and the power to appoint and dismiss ministers. The prime minister presides over the cabinet, is responsible for allocating functions among ministers, and, at regular meetings with the queen, informs her of the general business of the government (Lee, 2002).

The Prime Minister's Office supports him in his role as head of government. This includes providing policy advice, tracking the delivery of government commitments and initiatives, and ensuring effective communications with Parliament, the media, and the public. The cabinet consists of about 20 ministers chosen by the prime minister. These may include both departmental and nondepartmental ministers. The cabinet balances the ministers' individual duties with their collective responsibility as members of the government and makes the final decisions on all government policy (Heefferman, 2003, pp. 347-352).

An executive agency is a public institution that delivers government services for the U.K. government. An agency does not set the policies required to carry out its functions-these are determined by the department that oversees the agency. Agencies are headed by chief executives, who are personally responsible for day-to-day operations. They are normally directly accountable to the responsible minister, who, in turn, is accountable to Parliament.[2]

Two political parties—the Labour Party and the Conservative Party—have dominated U.K. politics. The current Labour government, headed by Prime Minister Tony Blair, was elected in 1997. Prior to the Labour Party taking power in 1997, the Conser-

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1. See http://www.direct.gov.uk (January 3, 2007).
2. Abridged from http://www.direct.gov.uk (January 3, 2007).

vative Party had held power since 1979 (GAO, 2000, p. 201).

Budget Process and Accounting System

The governing political party effectively controls the entire budget process. The Treasury serves as the primary control point for spending and tax decisions, with the Parliament playing only a limited role in the budget process. The Parliament cannot increase the government's spending proposals and, in practice, has limited ability to do anything other than accept them (GAO, 2000, p. 202).

In this budget process, United Kingdom had run a cash-basis accounting system based on double-entry bookkeeping until the late 1990s, when three problems were pointed out. First, it is about the short-term planning horizon. It appears the tendency to perform investment spending is rough-and-ready. This condition is a result of the dependency of the budget on the short-term situation. And, as another reason, net investment spending had been decreasing because of the indistinctiveness of the capital budget and working budget. Second, it is about the insufficiency of transparency and prudence of budget, because of insufficient financial information. Third, it is about a focus on inputs. Framing the budget related to the input rather than output and result facing the situation disabled the exact examination (GAO, 2000; Hepworth, 2002; OECD, 1997).

Institutional Structure of United States

Government Structure

Governmental power and functions in the United States rest on three branches of government: the legislative, judicial, and executive. In this system of "separation of powers," each branch operates independently of the others; however, there are built-in checks and balances to prevent a concentration of power in any one branch and to protect the rights and liberties of citizens.[3]

The legislative branch is made up of elected representatives from each of the 50 states. The Constitution sets up a bicameral body known as the U.S. Congress to raise and spend national revenue and to draft laws. The chief executive of the United States is the president, whose powers are formidable but not unlimited. As the chief formulator of national policy, the president proposes legislation to Congress and may veto any bill passed by Congress. The executive branch of the government is responsible for enforcing the laws of the land, and the heads of the departments, chosen by the president and approved by the Senate, form a council of advisers known as the president's

3. See www.llrx.com/features/us_fed.htm (January 3, 2007).

cabinet. The judicial branch is headed by the U.S. Supreme Court, which is the only court specifically created by the Constitution. The president has the authority to appoint federal judges as vacancies occur, including justices of the Supreme Court.[4]

Two political parties—the Democratic Party and the Republican Party—have dominated U.S. politics. Both major parties have supporters among a wide variety of Americans and embrace a wide range of political views. However, with ideological differences between parties, if there is split-party control of government, the political system can become extraordinarily difficult to manage. The two parties have little incentive to cooperate, and the majority in Congress is sorely tempted to do all it can to bring down the president (Aberbach & Peterson, 2005).

The important character of U.S. government is higher division and fragmentation, and it could be denied that the U.S. government is too fragmented to call it unitary government, which is a universal feature of other countries. Specifically, recently the U.S. government has kept the divided regime of administration and ruling party. The fragmentation of the federal government has not improved since the founding of the United States (Lee & Kim, 2005, pp. 110-113).

Budget Process and Accounting System

The basic architecture of the financial system for the federal government was established by the Budget and Accounting Act of 1921, which created the Bureau of the Budget (BOB) and the General Accounting Office (GAO, now the Government Accountability Office). The GAO belongs to the legislative branch of government. The BOB was transferred from the Treasury Department to the Executive Office to the President. As consequence, the budgeting and financial management system has been fragmented and the role of Treasury Department reduced to the federal government's cash manager and bookkeeper. In contrast, the BOB and its successor, the Office of Management and Budget (OMB), by virtue of their proximity to the president, were recognized as the leading players in the budget process (Chan, 2002, pp. 203-204).

It is remarkable that a function could be divided between the Congress and the administration in the budget process of the United States, which is from the president's framing. And the feature of the U.S. budget process is decentralism, whereby the authority and the role is allocated to many participators for preventing arbitrary decisions. For participation in the budget process, the authorities of the federal budget process are divided by the president and the Congress. The president proposes his budget statement reflecting his policy priorities, but it is only a proposal. The power to make the appropriation bill reflecting their priority belongs to the Congress. Regarding

4. Abridged from U.S. State Department IIP publications and other U.S. government materials.

the executive branch, also, the president does not execute the bill as it is, but uses the veto power to attain its priority (Thurber, 1988).

ANALYSIS OF THE INSTITUTIONALIZATION PROCESS

United Kingdom

Developments in public-sector accounting and budgeting in the United Kingdom might be related to many other reforms that have occurred in the public sector of the United Kingdom. After the economic crisis in 1976, Prime Minister Thatcher seized power and reformed the United Kingdom radically (OECD, 1997). At this critical juncture, the parliamentary members, especially an opposition party, no longer mattered; there was no veto point. Consequently, the locus of decision making shifted from Parliament to the executive. The United Kingdom's accounting reform was driven in such a period.

Resource accounting and budgeting (RAB) began with an announcement by the Chancellor of the Exchequer[5] in his November 1993 Budget Statement (IFAC/PSC, 2002, p. 2). While this was the first mention of RAB, the initiative was based on the Financial Management Initiative of 1982. The statement introduced resource accounting across the central government, and resource accounting would be introduced over next three to five years, with work done to establish the framework of accounting principles and conventions, the handling of practical issues, the implication for public expenditure planning and control, and the parliamentary implications (Likierman, 1996, p. 304).

A public consultation paper (Green Paper, Cm 2626), "Better Accounting for the Taxpayer's Money: Resource Accounting and Budgeting in Government," came out in July 1994. The paper described the main features of resource accounting and budgeting, the expected benefits and the time table, as well as process of consultation. The paper aroused a controversy about who would set the standard. The paper noted that the Treasury would publish an accounting guidance as a supplement to the Generally Accepted Accounting Practices (GAAP) where necessary (IFAC/PSC, 2002).

However, this proposal received much criticism from commentators. In their 1995

5. Kenneth Clarke was Chancellor of the Exchequer from 1993 until 1997 and a minister throughout all 18 years of Conservative rule from 1979 to 1997. When he was a financial minister, the important work for institutionalization of accrual accounting system had been done.

reports, the Comptroller and Auditor General, Treasury and Civil Service Select Committee, and Public Accounts Committee stated that the oversight and approval of accounting standards for the central government should be conducted independently of the Treasury, and the independent body should include members from the Treasury, representatives of departments, the National Audit Office (NAO),[6] and the accountancy profession (IFAC/PSC, 2002, pp. 10-11). The Treasury accepted this opinion so they could easily come to an agreement, because the U.K. electoral system and party practices produce stable parliamentary majorities and the executive government. It enables easy communication among the treasury, the assembly, and the NAO. Specifically, the treasury and the NAO, meeting five to six times for preparing governmental account system reform in a year and still one or two times for a year in recent times, have tried to check the plan and remove the impediments (BAI, 2002).

A white paper (Cm 2929) with the same title was published in July 1995. It contained a commitment about moving to RAB and a proposal for setting up a Financial Reporting Advisory Board (FRAB). First, the government would seek legislative approval for these changes as necessary. There would be also a review of the financial documents presented to Parliament, as requested by the Treasury and Civil Service Committee.[7] Second, building on the suggestions by several commentators, the FRAB would be set up to advise the Treasury on the application of accounting principles and standards to the financial reporting requirements of resource. This proposal was examined by the Treasury Committee in March 1996 (IFAC/PSC, 2002, p. 15; Likierman, 1996, p. 310).[8]

In a memorandum to the committee, the Treasury noted that the FRAB had been set up to introduce an independent element into the process of setting financial reporting standards for the government and would help to ensure that, as far as possible, resource accounting would be governed by GAAP and that any departures from or

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6. The NAO, headed by the Comptroller and Auditor General, was established in 1983. The selection of the Comptroller and Auditor General, who is an officer of the House of Commons, is made by the chairman of the Public Accounts Committee, with the agreement of the prime minister. The NAO carries out financial audits and value for money audits (http://www.nao.org.uk/, January 3, 2007).
7. The Treasury and Civil Service Committee subsequently changed its name to the Treasury Committee.
8. At that time, the NAO, agreeing to the establishment of the independent committee, stressed the necessity of the reconstitution of members (reported by the Comptroller and Auditor General, HC 334 1995/96). As a result, the FRAB had nine members drawn from government departments and agencies, public-sector audit bodies, the accountancy profession, and academia. In 2005, it had 20 members.

modifications to GAAP would be fully explained (IFAC/PSC, 2002).

The initial implementation efforts focused on developing the accounting standards and information systems necessary for financial statement reporting. After consultation with other governmental departments and other interested bodies, the Resource Accounting Manual (RAM) and the first working version of the RAM, which departments have to follow when preparing their resource accounts, was produced in July 1997. The FRAB conducted a comprehensive review and eventually endorsed the RAM. The board is expected to continue to review the manual, and new versions of the RAM are prepared for each financial year (FRAB, 2005).

The most significant development came in July 2000. The Public Accounts Committee and the Liaison Committee gave parliamentary authority for the Treasury to introduce resource-based supply beginning in fiscal year 2001-02 and, at the same time, replace appropriation accounts with resource accounts. And the Government Resources and Accounts Act of 2000, repealing some of the legislation that had been in place since 1866, gave statutory backing to the parliamentary aspects of the move to RAB, as well as enabled clauses for the preparation of Whole of Government Accounts (IFAC/PSC, 2002: 3).

Over the past several years, departments have made progress in implementing resource accounting. For purposes of testing the new systems, the first resource accounts were to be produced for fiscal year 1998-99. Although they were not to be published, the NAO[9] was to audit these dry-run accounts. Subject to departmental progress in preparing their accounts, audits were to be concluded in October 1999. The first full set of published resource accounts was to be for fiscal year 1999-2000 (GAO, 2000, p. 205).

United States

The institutional structure of the United States works differently from that of the United Kingdom. Many decisions made by executive branch can be vetoed by Congress, or vice versa, because they do not share the same resources of power.[10]

9. The NAO had, for some years prior to the introduction of resource accounting, adopted professional accountancy training as its main training mechanism, and it had also forged a close relationship with the accountancy profession (Hepworth, 2002, p. 140).
10. The seeds of fragmentation are sown into the fabric of the Constitution itself, especially in the vesting clause that introduces Article I, "The executive power shall be vested in a President of the United States," and Article II, "All legislative powers herein granted shall be vested in a Congress of the United States, which shall consist of a Senate and Houses of Representatives" (Aberbach & Peterson, 2005).

American presidents since Franklin D. Roosevelt (1933-1945) have regarded financial management, including accounting policy, to be an executive function. However, the Congress considers accounting an extension of its oversight function. After all, the U.S. Constitution requires congressional appropriations, which are required to provide periodic financial reports to Congress (Chan, 2002, p. 204).

Accrual accounting in U.S. originated with a recommendation of the first Hoover Commission. The commission proposed the adoption of performance-based budgeting and business accounting principles in 1949. Later, the 1950 Budget and Accounting Procedures Act authorized the GAO[11] to prescribe accounting rules and procedures to be followed by executive departments and agencies, whose accounting systems also had to be approved by the GAO. The 1950 act also mandated that executive departments and agencies should observe the accounting rules and principles made by the GAO. But those rules and principles had not been observed by them (Chan, 2002).

Budget and Accounting Procedures Act did not use the term "accrual accounting." So, the second Hoover Commission used the word clearly and recommended accrual accounting, which shows the states of asset and liability. But executive departments and agencies do not follow it because there was no force. The President's Commission on Budget Concepts supported accrued expenditures and this position, and it issued a budget report in April 1968. The GAO published an accounting procedures illustration series in 1969 and issued Accounting Principles and Standards for Federal Agencies in 1972, though executive departments and agencies opposed them (Lee, 2000, p. 58-59).

In 1978, Congress passed the Inspectors General Act, which created inspectors general and strengthened the audit function. In 1982, Congress passed the Federal Managers' Financial Integrity Act, which required the heads of agencies to prepare an annual statement, including a separate report on whether the agency's accounting system conforms to the principles, standards, and related requirements prescribed by the Comptroller General. But the heads of agencies, including the OMB,[12] did not adhere

11. The GAO, headed by the Comptroller General with 15-year term, is the government's accountability watchdog. It serves Congress and the public interest by keeping a close eye on virtually every federal program, activity, and function. The GAO was created by the Budget and Accounting Act in 1921. The act made the GAO independent of the executive branch and gave it a broad mandate to investigate how federal funds are spent. Later legislation clarified or expanded the GAO's powers, but the Budget and Accounting Act continues to serve as the basis for its activities. In 2004, the General Accounting Office changed its name to the Government Accountability Office (http://www.gao.gov/about/history/splash.htm, January 3, 2007).
12. On March 12, 1970, President Richard M. Nixon submitted the plan of government reorganization to the Congress, and the Bureau of the Budget changed it name to the Office of

to the principles, standards, and related requirements. The OMB's refusal to follow the standards of the GAO was a matter in the Congress, so the chief of the OMB, David Stockman, suggested the possibility of not adopting the accrual accounting system to meet the standards of the GAO in 1983 (Lee, 2000, p. 77). It shows the veto point by administrative sector, because of that American institutional structure has been constituted by dual legitimacy in the presidential system and the GAO has belonged to the Congress.

In 1980s, the GAO's accounting system reform was promoted by the Comptroller General, Charles A. Bowsher (1981-1996).[13] His background included success both in the private and public sectors. Before taking charge of the GAO, Bowsher had served as an assistant secretary of the navy and as a partner at the Arthur Andersen accounting firm, so his understanding of the civil accounting system was deep, and he tried to adapt it to the public sector. The GAO urged federal agencies and departments to modernize outmoded financial systems. As a result of this, in 1984, revised accounting principles, standards, and related requirements for executive agencies were published in appendix 1 of Title 2, "Accounting," of the GAO Policy and Procedures Manual for Guidance of Federal Agencies. It required the head of agencies to make a statement of financial position, statement of operation, statement of changes in financial position and statement of reconciliation to the budget (GAO, 2001). However, the OMB, maintaining the opinion of the chief in 1983, vetoed Title 2, so the governmental accounting system could not be reformed in that time (Lee, 2000). Hereby, it shows that the decision of the OMB could be a veto point.

In 1986, the incoming director of the OMB, James C. Miller, created the Joint Financial Management Improvement Program (JFMIP) to deal with the differences, disagreements, and conflicts. The JFMIP was a joint and cooperative undertaking of the OMB, GAO, the Department of the Treasury, and the Office of Personnel Management. The program was administered by a steering committee, which was composed of representatives of the four offices and the executive director of the JFMIP. Under the guidance of the steering committee, the executive director and staff developed, directed, and undertook programs and projects for the JFMIP on a day-to-day basis.[14]

Management and Budget. The function of the OMB is, first, the reform of government organization, information, and management systems; second, the development of information systems to supply material related to performance to the president; third, the improvement of the government's budget, account, and financial reporting; fourth, the reform of government budget and accounting procedures; fifth, oversight of budgeting and coordination of every department's budget needs (Hwang, 1996, p. 80-84).

13. See http://www.gao.gov/about/history/gaohistory_1981-1996.html (January 4, 2007).

14. See http://www.whitehouse.gov/omb/ (January 4, 2007).

But the conflict remained in spite of the JFMIP, and the OMB's different rules created confusion among the agencies (Chan, 2002). The veto of the executive allowed the executive to block the application of the GAO's proposal and therefore to maintain the status quo.

The 1990 Chief Financial Officer (CFO) Act, which was expanded by the Government Management Reform Act of 1994, was designed to meet the financial management improvement goals. The act established chief financial officers across the government, called for improved financial management systems and controls, including cost accounting, and required the preparation of audited annual financial statements for the 24 largest agencies and for the government as a whole (GAO, 2000, p. 98). But the act did not alter the traditional role of the Treasury in preparing the annual reports of the U.S. government or the GAO's status as the government's auditor. However, it added a complication to the already complex jurisdictional issue of who should set federal accounting standards. The act authorized the OMB to determine the "form and content" of the financial statements of federal agencies but did not change the GAO's long-standing role in prescribing accounting standards (Chan, 2002). In this confrontation, the head of the Justice Department presented an opinion that the GAO could not enforce accounting standards on the executive, although it audited federal agencies (Lee, 2000, p. 80). The opinion convinced the secretary of the Treasury, director of the OMB, and Comptroller General to reach an agreement to sponsor a Federal Accounting Standards Board (FASB)[15] in October 1990. The FASB recommends accounting standards after considering the financial and budgetary information needs of the Congress, executive agencies, other users of federal financial information, and comments from the public. The Treasury, OMB, and GAO then decide whether to adopt the recommended standards. If so, the standards are published by the OMB and GAO and become effective. While the Chief Financial Officer Act improved financial management and accountability among agencies, the Government Performance and Results Act (GPRA) aimed more directly at program performance. Improved financial information was necessary to support the strategic planning and performance measurement requirements of the GPRA (FASB, 1996).

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15. The 10 members of the FASB are drawn from the GAO, the OMB, the Treasury, the Congressional Budget Office; members from the accountancy profession and academia serve on a part-time basis and are funded by appropriations from the three sponsors and the Congressional Budget Office. To enhance the FASB's independence, a majority of members are not federal government employees. The FASB is supported by an eight-member technical staff (as of December 31, 2005), supplemented by contractors from time to time (IFAC/IPSASB, 2006, p. 8).

The FASB issued its "Overview of Federal Accounting Concepts and Standards"[16] in 1996 (FASB, 1996). These standards had various implementation dates through fiscal year 1998, and some standards have been amended and additional standards have been made (IFAC/IPSASB, 2006, p. 8).

These efforts prompted steady improvements in federal financial accounting. Major agencies covered by the acts issue agency-wide financial statements, and the U.S. government prepares and subjects to audit the consolidated financial statements of the government as a whole. However, audits of the 1997 and 1998 consolidated statements revealed serious deficiencies-including systems weaknesses, problems with fundamental record keeping, and weak internal controls-that prevented the government from accurately reporting a significant portion of its assets, liabilities, and costs. Because of these deficiencies, the GAO was unable to express an opinion on these financial statements but expressed a clean opinion of 12 out of 24 agencies (GAO, 2000, p. 98).

Comparison

In the United Kingdom, the discussion about reform of accrual accounting system was prompted by the 1993 report of the Treasury, which suggested that the central government adopt resource accounting and budgeting (Hepworth, 2002; IFAC/PSC, 2002; Likierman, 1996). However, in the United States, the discussion of accounting system reform was initiated by the 1949 proposal of the first Hoover Commission, and genuine discussion of the adoption of accrual accounting began with the second Hoover Commission (Chan, 2002; Lee, 2000).

The two countries had similar conflict in the institutionalization of the accrual accounting system. The conflict focused on who would set governmental accounting standards. At first, the United Kingdom tried to establish a research group under the Ministry of Finance, but other actors related to the institution were against the move.

16. The preface highlights the objectives of federal financial reporting and the financial information to be reported by federal agencies. Subsequent sections summarize each of the statements of reporting concepts and accounting standards. These sections are organized as follows: The first three sections present the FASB's overall financial reporting conceptual framework, with the third section also covering managerial cost accounting standards. Next, accounting for the federal government's revenue and other financing sources is discussed, followed by several sections covering accounting for its assets and liabilities. The final section addresses reporting on the federal government's investments in certain property, plant and equipment, human capital, research and development, and nonfederal physical property acquired by grants to states and local governments (FASB, 1996).

Nevertheless, the conflict was resolved relatively easily in the background of the parliamentary government, establishing the FRAB in 1996. Now in the United Kingdom, the FRAB sets governmental accounting standards and the Ministry of Finance publishes them (IFAC/PSC, 2002; Likierman, 1996).

In the case of the United States, it was little different: There was a rule that forced the audit to make the standards, but the OMB and the GAO objected. This conflict could not be solved easily in the background of the presidential system. Then, in 1990, the federal advisory board, whose members included the Department of the Treasury, the chief of the OMB, and the chief of the GAO, was established to the government on accounting standards. The standards become effective with the signatures of the Ministry of Finance, the chief of the OMB, and the chief of the GAO. The U.S. federal government has to observe the new standard differently than in the past (Lee, 2000).

The United Kingdom adopted the accrual accounting system in the 1998-1999 fiscal year, and the United States did so in the 1996-1997 fiscal year. The United Kingdom took about five years from suggestion to adoption, but the United States took about fifty years.

CONCLUSION

This study is an effort to help explain differences in the institutionalization of an accrual accounting system of two countries. However, it is only a partial explanation, purporting to make up for the weak points in the contingency model for public sector accounting innovations by Professor Lüder, focusing on veto points in institutional structure and context, considering that the model has paid much less attention to these aspects.

In United Kingdom, the political executive can count on decisions being routinely confirmed by Parliament. Because the executive government rests on secure parliamentary majorities, executive decisions are easily sanctioned by the parliamentary. Furthermore, the situation of reform after Thatcher, who held the reins of power after the economic crisis, enabled the country to institutionalize the accrual accounting system easily (IFAC/PSC, 2002; Likierman, 1996). But in United States, the GAO's proposals were not supported by the executive. Consequently, the executive has become a bottleneck in the process of institutionalization of accrual accounting. The United States has a separation of powers between the executive and legislative branches of government, with the Congress closely connected to the GAO. Accordingly, the reform of the accrual accounting system was tardy. In spite of that, the institutionalization of the accrual accounting system was the result of the efforts of the chiefs of the

GAO and OMB in 1980s, during which time the New Public Management was stressed (Chan, 2002; Lee, 2000).

The implication of these findings is that the difference between the two countries comes from the distinction of the institutional structure and political situation. Institutional structure with more veto points may be less able to effectively play reform because they face greater difficulties in altering their institutions. The more fragmented state could therefore have a harder time because of the complexity of the institutionalization process. However, the institutional structure is just a factor of constraint, not a determinant. At a critical juncture, the institution could be adopted though institutional structure has lots of veto points.

The institutional analysis elaborated here emphasizes the importance of institutional structure and context. The process of institutionalization for accrual accounting was linked to institutional structure and context. In order to understand the factors that facilitated or impeded institutionalization, it is necessary to consider the ways in which institutional structure and context mediated specific contests.

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