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WORKING PAPER

**THE ADOPTION OF ACCRUAL ACCOUNTING IN FLEMISH
PUBLIC CENTRES FOR SOCIAL WELFARE: EXAMINING THE
IMPORTANCE OF AGENTS OF CHANGE**

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Abstract

This study examines the importance of different agents of change in the adoption of public sector accrual accounting. For this purpose, an accounting index is used and applied on a large sample of Flemish local governments to analyse the level of adoption of the altered accounting requirements. The impact of a number of prominent agents is empirically tested on the level of adoption in a cross-sectional way. The study draws on institutional theory to build a framework for analysis and uses additional interviews to interpret the findings. The research shows that the de facto implementation of the new accounting requirements is limited and strongly influenced by local management's interest and the involvement of professional consultants. In the absence of a sound guidance and monitoring process, the skilful action of dedicated agents of change has become important to implement some far-reaching changes in the organisations' accounting system.

Introduction

In many western countries, governmental change programmes at varying levels have been the focus of policy makers. New accounting systems and techniques have received a central place in these initiatives of change. A considerable number of studies in different contexts has dealt with the adoption of these new forms and presented a critical assessment of the unfolded changes (Pallot, 2001; Ellwood, 2003). Some of this research has stressed the importance of agents of change, such as management consultants, in processes of renewal (Saint-Martin, 1998; Pollit and Bouckaert, 2000). Yet, only a few studies have focused on the role of these agents in the adoption of new accounting forms (Lapsley and Oldfield, 2001; Christensen, 2005). Likewise, limited attention has been paid to the interests and actions of public sector officials in pursuing an accruals-based accounting reform (Humphrey, 2005). This study aims to address this research gap by examining a large accounting reform at the Flemish local governmental level. By means of a large-scale assessment on the reform adoption, the importance of a number of prominent agents is empirically tested and further explained.

The research draws on the recent adoption of accrual accounting in the Public Centres for Social Welfare (OCMWs¹), representing local authorities connected to the municipalities. During the last decade, one of the most far-reaching programmes of reforms was enacted at the Flemish local governmental level in relation to these organisations. Public Centres for Social Welfare are designed to provide a diverse range of social services while being subject to a specific legislative framework. Although these organisations are charged with policy implementation and mainly funded by the municipalities, they operate as quasi-autonomous structures without an immediate hierarchical relationship (van Helden and Jansen, 2003). Through issue of a new Decree in 1997, the centres were required to seriously alter their system of financial and economic management. This reform initiative has become known as NOB (in Dutch: 'Nieuwe OCMW Beleids- en beheersinstrumenten'). Next to diverse changes relating to the planning and control structure, the introduction of accrual accounting received a central place (Windels and Christiaens, 2006).

Starting from the reform legislation, this study investigates the adoption of a regulatory imposed accounting reform from an empirical point of view. However, the analysis of the reform adoption goes beyond a formal compliance check with the accounting regulations. The study aims to examine if there are cross-sectional variations in the extent of accounting adoption of local governments, and if so, what are factors that account for this local variation (Ingram, 1984). Particularly, consideration is given to the importance of different agents of change in the context of the reform (Ridder *et al.*, 2006). To construct a framework that underpins the research questions and a set of related hypotheses, the study draws on the

institutional theory. Recently, institutional theory has shown a renewed interest in concepts of empowered actorhood and interest-driven agency to explain how profound change takes place (Hwang and Powell, 2005). In this view, the rhetoric and action of skilled agents of change is necessary to justify and support the diffusion of new forms and practices. However, little quantitative research has been found that illustrates the importance of such agents in a regulatory driven change environment. By examining the adoption of an accounting reform, this study aims to add empirical detail and explanation as to how different actors can become important agents of change in public sector renewal.

The paper is structured in the following manner. A brief outline is presented of the accounting changes in Flemish local government and its linkages to a New Public Financial Management. The next section discusses the importance of agents of change in processes of renewal and the used perspective for examination based on the institutional theory. These are presented as a basis for the empirical work that is subsequently reported and discussed.

Theoretical context

NPFM in Flemish Local Government

Since the beginning of the 1990s, an ongoing set of reform initiatives has been introduced in Flemish local government. As a start, a first and modest reform initiative was enacted in 1995 in relation to the municipalities. This was quickly followed by a more extensive programme of reforms in relation to the Public Centres for Social Welfare. In order to enhance the administrative activity at the local level, these local authorities were required to implement a large set of modern instruments of governance. This was outlined in 1997 in the form of a new Decree on local government reform, which represented a new managerial model of public administration (NOB). The Public Centres for Social Welfare had the choice to step in between 1998 and 2002 with the implementation of the reform project. As a result, different changes, such as the adoption of activity centres, long-range planning, quarterly reporting and budget controllership have taken place. The transition from cameral accounting to accrual accounting formed the cornerstone of this modernisation project of local government.

The importation of business accounting and budgeting techniques in the public sector has been referred to as ‘new public financial management’ (NPFM) (Guthrie *et al.*, 1999). Generally, a NPFM is pursued to realize some serious changes in the scope, scale and style of public sector administration and activity (Guthrie, 1998). This is driven by the belief that accrual accounting will deliver more accurate information, which should improve organisational planning, controlling and accountability (Chan, 2003). In line with this view, as an integral part of an overall management change, a new accounting and reporting system has been introduced in the Public Centres for Social Welfare. However, profound change not only requires the introduction of new structures, but also an adjustment in organisational practice and in the enduring values and conventions (Lowndes and Leach, 2004). In order to realize these changes the relevant skills and expertise are needed and mobilized into concrete action. This expertise may be brought about by dedicated agents in the organisation’s context or, when absent in the public sector, may be imported from private sector specialists such as management consultants (Lapsley and Oldfield, 2001). It is clear that much is still unknown on the mechanisms of change in public sector renewal.

This research draws on the Public Centres for Social Welfare’s annual reports to examine the adoption of a regulatory driven accounting reform. This examination offers insights in the way Flemish local governments have applied the new principles of accrual accounting. The index methodology has proven to be a useful method for this as it permits a general research into a wide spectrum of elements (Christiaens, 1999). The annual reports are scrutinized on a

number of technical and regulatory aspects but also on elements relating to the adequacy and usefulness of the reporting. Furthermore, this approach allows to scrutinize the importance of a prominent number of agents in the context of the local government reform. Through a large quantitative assessment, their influence on the level of reform adoption can be tested in a cross-sectional way. In this way, the research aims to examine and discuss the importance of key levers in the process of adopting a new financial management.

The Importance of Agents of Change

As many governmental reform movements, this project on public sector accrual accounting has been constituted through a regulatory initiative. In such a case, redesign interventions are not deliberately initiated by local actors who pursue their own interests in relation to existing organisational arrangements and agendas (Fligstein, 2001). Instead, new sets of rules and relations between different groups are imposed by a higher authority, consequently hammered out and enforced. Such an approach to reform involves some risks on the process of adoption. The mere enactment of a new law on local government reform forms a weak basis for the establishment of new techniques and practices. New rules and procedures may bring about technical changes, but only have an indirect impact on the informal processes in place (Burns and Scapens, 2000). Recently, serious questions have risen on the implementation of these compelling new ways of working (Humphrey, 2005; Connolly and Hyndman, 2006). Diverse research has shown significant problems with respect to the adoption of accrual accounting in local government (Christiaens, 1999; Caperchione, 2003; Ridder *et al.*, 2005).

The introduction of public sector accrual accounting has been recognized as an instance of significant change with ruling public sector management traditions (Guthrie *et al.*, 1999). The proposed businesslike accounting forms often are associated with principles and values that differ strongly from the established cultural accounts (Suchman, 1999). In a highly institutionalized context, such as local government, the adoption of new practices and institutions requires a process of adaptation, sometimes referred to as institutionalisation. The innovations need to become justified and aligned with the existing perceptions in order to acquire legitimacy, and more generally, acceptance (Munir, 2005). In this process, dedicated agents of change are assumed to take up an important role (Hwang and Powell, 2005). Powerful actors have to translate the new rules, ideas and structures into the broader cultural understandings that have guided the existing ways of working and thinking (Fligstein, 2001). Several authors have emphasized the role of change agents in public sector renewal (Osborne and Gaebler, 1992; Hood, 1995). However, little research has been conducted on the identity and importance of these agents in the context of large accounting reforms (Humphrey, 2005).

It is widely recognized that management consultants have been important players in the reforms in a number of countries (Pollitt, 2001). There has been some research dealing with the role and influence of private sector consultants in public sector renewal (Saint-Martin, 1998; Lapsley and Oldfield, 2001). Some authors for instance have drawn on the notion of 'epistemic communities' (Haas, 1992) to explain how management consultants have advanced the adoption of new accounting forms (Laughlin and Pallot, 1998; Christensen, 2005). However, academic research has been more interested in the involvement of these agents in the initial stages of conceptualization than in the subsequent stages of implementation and administrative action (Pollitt, 2001). Likewise, little is known on the role and actions of other agents such as public sector officials when implementing profound change programmes. This study addresses this research agenda by examining the importance of a wide set of agents in the adoption of new accounting forms.

An Institutional Perspective for Examination

Traditionally, the introduction of businesslike styles and techniques in government has been regarded as an answer of public sector entities to an external change in expectations and formal rules. As accounting forms an important part of the rule making within organisations, it can help to legitimate these organisations with the controlling external environment (Meyer and Scott, 1983: 235). Local governments would be strongly affected by legitimacy problems and related pressures to adopt rationalized concepts of modern governance (Lapsley and Pallot, 2000: 217). New accounting rules and procedures then only are incorporated as impersonal rules to be in compliance or to fulfil the external expectations (Meyer and Rowan, 1977). Whilst the information provided by the new accounting system is hardly used for decision-making and control. However, the institutional theory has been criticised for this focus on homogenizing institutional analysis and rather simplistic view on agency (Greenwood and Hinings, 1996; Hensmans, 2003). So, a renewed interest has been placed on the independent role of agents in social change and reproduction.

From an institutional perspective, the adoption of a NPFM is representative for a new ‘institutional template for organizing’ (Powell and DiMaggio, 1991: 27). The businesslike principles contrast with the prevailing archetypical template of working and thinking that has become embedded in the local systems and structures. Particularly, in a highly structured field such as local government a tight coupling of traditional assumptions of public administration could produce resistance to change (Greenwood and Hinings, 1996: 1027-1031). As the existing accounting and reporting practices have been in place for decades they somewhat have become sedimented. As a result, a very consistent set of expectations and beliefs have become rooted in the existing institutional context, which are most difficult to break with. Alternatively, the newly proposed practices and institutions may be largely unknown and need to be explained to find entrance. An extended process of institutional meaning making is then required to change the embedded ways of working and thinking.

Institutional theory is very concerned with explaining how and which agents are able to envision and effectuate alternative modes of action (Greenwood and Suddaby, 2006: 29). Several researchers have drawn on ‘accounts of institutional entrepreneurship’ to explain how institutions are purposively created and changed in varying settings (Suddaby and Greenwood, 2005). Institutional entrepreneurs can be seen as strategic actors who use their social skills to facilitate a wide adoption of new practices and institutions, which are often complex or organisationally sensitive (DiMaggio, 1988). These agents dispose of the ability to motivate the cooperation of others by providing them with common meanings and identities in an attempt to alter the existing institutional logic (Fligstein, 2001). Thus, in line with the current research objectives, institutional theory may offer a valuable perspective to examine which agents have played an important role in the process of the reform adoption.

Research design

Constructs and Hypotheses

The paper departs from the assumption that the attainment of profound accounting change is largely function of the interest and skilful action of agents of change (Seo and Creed, 2002: 240). A constructivist perspective on change is taken in which institution building is seen as a cumulative process “in which different sets of agents participate and have a different stake in the outcome” (Beckert, 1999; Hwang and Powell, 2005: 185). In line with institutional theory, a distinction is made between local organisational action and external support that resides in the wider organisational context (Greenwood and Hinings, 1996). A number of hypotheses

are formulated relating to the interest and action of different parties, which might feasibly be associated with alternative implementation scenarios adopted by different local governments. Figure 1 shows the research framework drawn for this study, representing the hypotheses and variables used for analysis, with expected signs for the univariate testing.

INSERT FIGURE 1 ABOUT HERE

As a main driver and primary responsible for innovation, a first set of propositions relates to local executive management and some characteristics that may influence their interest and willingness to engage in transformative change (Dacin *et al.*, 2002). Previous research has shown that management plays a crucial role in the implementation of various accounting instruments (Gurd and Thorne, 2003; Ridder *et al.*, 2006). Yet, there is also research illustrating that managers sometimes impede and resist the diffusion of accounting practices (Jackson and Lapsley, 2003). By examining the differing role and actions of local management, this study aims to provide a greater understanding of the importance of managers and yield better explanations for the success or failure of implementing accrual accounting.

Based on previous research, it is expected that general interest with the reform initiative (Kearney *et al.*, 2000: 538), prior experience with the accounting practices (Ridder *et al.*, 2005: 465-466), active involvement in the field (Teske and Schneider, 1994: 336-337) and support from the council (Jones, 2002: 43) for the managers will positively affect the level of reform adoption. General interest with the reform is measured by the compound average of participation to interregional taskforces and reform related seminars. Prior experience with accrual accounting is dichotomously measured by the extent to which management and its team disposes of related private sector experience or hired experienced employees as a result of the reform. Active involvement in the field is also dichotomously measured by participation as an early adopter, presentations on related seminars or publications in professional journals or books. Ten statements on the interest and involvement of the council are used to capture the extent of local political support.

- H1(a) General interest of local management with the reform initiative positively affects the level of reform adoption.*
- H1(b) Prior experience of local management with accrual accounting positively affects the level of reform adoption.*
- H1(c) Active involvement in the field for local managers positively affects the level of reform adoption.*
- H1(d) The extent to which the council supports local management with the reform initiative positively affects the level of reform adoption.*

A second set of propositions relates to the professional support from external agents largely purposively consulted to enable change within the local organisational context: it is in this milieu that entrepreneurial activities impact directly and most influentially on the reform's agenda. Very often, professional assistance is called in to install or facilitate new systems and structures until these are technically up and running. This study aims to test the role of consultants in the setting up and implementation of the new accounting system. Support from accounting consultants is expected to positively affect the level of reform adoption (Christiaens, 1999). Various studies also reveal the importance of IT consultants in

the construction of new accounting systems (Bloomfield and Danieli, 1995; Järvinen, 2006). As local authorities are usually not familiar with the accounting applications, additional IT support is assumed necessary in bedding down the new system. However, next to structural changes, there is also a need to change the processes by which public entities work (Lapsley and Oldfield, 2001). Previous research has drawn attention to the importance of training courses in which professional experts propose new practices, recipes for compliance and interpretations of laws (Windels and Christiaens, 2006). Furthermore, as a form of “enforced self-regulation” (Hood *et al.*, 2000), the internal audit is expected to foster the adoption of new requirements and best practices.

Support from accounting consultants is measured by a compound average of professional support with regard to the first drawing up of the balance sheet and the preparation of the annual reports. The extent of software support and satisfaction with the new applications is taken for support from IT consultants. Specific training from professional experts is measured by taking the compound average of training received in accrual accounting. Internal audit support is measured by the average number of financial and compliance audits conducted since the start of the reform.

- H2(a) Support from accounting consultants positively affects the level of reform adoption.*
- H2(b) Support from IT consultants positively affects the level of reform adoption.*
- H2(c) Professional training in accrual accounting positively affects the level of reform adoption.*
- H2(d) Support from the internal audit positively affects the level of reform adoption.*

A third set of hypotheses examines the importance of guidance and support activities conducted by wider institutional agents on local governments’ responsiveness to the reform. Next to the establishment of a special helpdesk at a higher governmental level (Cel Nieuw Gemeente- en OCMW-beleid) the external audit is assumed to facilitate the adoption of the new accounting system through periodic analytic reviews. Although these actors are not grounded in specific localities, a significant influence of them can be expected as they are formally appointed to guide, assist or monitor the ongoing implementation process (Boyne, 2000; Andrews *et al.*, 2005). Lastly, the extent of local support from the municipalities, albeit mainly financially, is assumed to strongly affect the modernising local government project (Andrews *et al.*, 2005: 645).

Support from the helpdesk is measured by the average number of differing services consulted. Support from the external audit is measured by 10 statements on the actions and the perceived added value of the external audit. The ratio of the municipal contributions divided by the general fund revenues is taken as a financial surrogate for local municipal support. By taking this ratio a possible bias coming from differences in municipal population characteristics is minimized. In Table 1, the independent variables used for the analysis are briefly summarized.

- H3(a) Support from the special helpdesk positively affects the level of reform adoption.*
- H3(b) Support from the external audit positively affects the level of reform adoption.*
- H3(c) Local municipal support positively affects the level of reform adoption.*

INSERT TABLE 1 ABOUT HERE

This study uses an accounting index to focus on the adoption of a drastic accounting reform. Since Ingram (1984) originally constructed and applied an index in the disclosure of accounting practices of US state governments, the approach has directly or in a modified way been used in a number of accounting studies (e.g. Giroux and McLelland, 2003). Following Coy *et al.* (1993) “the index amounts to a qualitative based instrument designed to measure a series of items which, when aggregated, gives a surrogate score indicative of the level of compliance, disclosure, accountability, etc... in the specific context for which the index was devised”. In this study, an accounting index is set up to examine if the adopted changes in accounting meet the prescribed accounting regulations as retrieved in the reform legislation. However, apart from explicit requirements and some related implicit assumptions, the index also focuses on the range of accounting information disclosed by the local governments. With this last notion the study wants to investigate the usefulness of the reported information and verify the adequacy of the financial instruments for the organisations’ management.

For the construction of the accounting index the study draws on the former concept of the ‘compliance index’ used for examining the municipal accounting reform (Christiaens, 1999: 26-29). The relevant categories and items of the accounting index have been determined with due care and, if necessary, adjusted in relation to the new requirements. In total, the index consists of 9 main components and 90 elements constituting technical accounting and transparency issues. Technical accounting components include issues typically related to the making-up of the annual accounts, such as completeness, valuation, cut-off, classification and mechanical accuracy. Transparency components group elements checking for timeliness, adequacy and usefulness, formalistic requirements and disclosure of the required information. Most elements are measured qualitatively and dichotomously, yet one element is measured quantitatively. As an example² Table 2 presents the details of one component ‘Completeness’ and its 9 constituent elements.

INSERT TABLE 2 ABOUT HERE

Methodology

The research uses three major types of data. Firstly, a questionnaire survey is issued to the financial managers of the Public Centres for Social Welfare. Essentially, the survey represents the operationalisation of the proposed hypotheses described earlier. Secondly, archival data are gathered for the composition of the accounting index. A copy of the annual report and the trial balance in 2001 are used. For a limited number of items, the information is directly obtained from the first balance sheets. Lastly, a series of interviews are conducted with three financial managers and three management consultants to discuss the quantitative findings and the proposed conclusions. The research is based on a random sample of 100 organisations, which started to implement the reform between 1998 and 2001 out of a population of 308 local entities. The data analysis concentrates on the adoption of the accounting requirements and on the importance of a number of agents of change. Apart from the descriptive statistics, ordinary least squares regression analysis is used to test the proposed hypotheses.

For the interviews, a sample of three local governments is selected that satisfied following criteria. All organisations obtained a high level of adoption of the accounting requirements and for this purpose repeatedly called upon professional assistance. Temporal comparability (i.e. adoption within the first three years of the reform) and willingness to support the study

were given from the financial managers. Next to this, three management consultants were approached, who had functioned as senior advisors in the reform project and provided support to a wide range of local governments in the setting-up of new accounting systems. All participants had extensive public-sector experience and significant experience in their present roles. Partly responsible for the implementation process, all interviewees were in a unique position to comment extensively on the role of key agents in processes of change. Generally lasting between one and two hours, six semi-structured interviews were held in the second half of 2006. Based on previous research, an interview guide was drawn up in advance, being modified and elaborated in the course of the interviews. All interviews were recorded and transcribed verbatim.

Data Analysis

While the annual reports of 93 entities could be captured, totally 86 organisations returned the survey. By means of an intensive follow-up (third requests and telephone calls) complete archival data could be gathered and analysed for 83 organisations. This rather high response rate indicates that the obtained results may be quite representative of the population of Public Centres for Social Welfare.

Main results of the index

By use of the accounting index a quantitative impression is gained of the extent to which the local governments have adopted the new accounting system. The main figures related to the accounting index and its 9 components are shown in Table 3.

INSERT TABLE 3 ABOUT HERE

The total extent of accounting scores varies from a high of 80.7 per cent to a low of 43.9 per cent. On average, each organisation demonstrates compliance with 57.9 items or 64.4 per cent of the maximum possible total of 90 the organisation is expected to score. The results indicate that, generally, the organisations signal a moderate level of compliance with the prescribed reform requirements. However, from a theoretical point of view, each organisation could reach an accounting index of 100 per cent, as there appears to be at least one entity scoring the maximum for each item of the index.

When looking closer at the different components of the accounting index a diversity of scores can be observed. For three components, a generally positive score of adoption (>70%) is retrieved (i.e. valuation, classification and mechanical accuracy). For the other components the adoption of the accounting requirements appears to be moderate while two components, timeliness and cut-off, display rather poor results (<50%). When comparing the technical and transparency components, the scores seem generally higher for the implementation of technical accounting requirements (barring cut-off). Remarkably, only 4 per cent of the entities have enacted the annual reports by the Municipal Council before the official deadline³ while 23 per cent of the organisations did not enact before the end of that year. On the whole, these findings suggest that some specific elements of the accounting reform have found entrance while some other aspects appear to have received less attention.

Factors Affecting the Index

Table 4 reports the OLS regression results. The observed F-statistic of the regression is 5.383 and significant at $\alpha = 0.000$ which suggests an acceptable goodness-of-fit. The validity threat of multicollinearity is examined with a Pearson correlation test and by calculating the tolerance and variance inflation factors for all the independent variables. No indication of multicollinearity is found between the different variables. Regression residual tests for normality and constancy of variance and a check on the existence of outliers indicate no significant distortions from the assumed regression conditions. An interpretation of the proposed model seems to be appropriate. The model has two significant variables with the theoretically expected sign, INTER and CONSUL. The variables TRAIN and INAUD signal a positive 'trend' while, although not significant, a negative relationship is shown for six of the remaining variables.

INSERT TABLE 4 ABOUT HERE

The regression provides persuasive results for some of the proposed hypotheses. With respect to local management action, the variable INTER is found as a strongly positive indicator ($\alpha = 0.01$). General interest of local management with the reform initiative through participation to related seminars and dedicated workshops has a significant positive effect on the accounting index. However, prior experience with the accounting practices (EXPER), active involvement in the field (INVOLV) and support from the council (COUNC) are not significant. When looking at the importance of professional support, consulting in accounting (CONSUL) is found as a very important explanatory factor for the accounting index ($\alpha = 0.01$). More a 'trend' ($\alpha = 0.10$) can be observed for the variables INAUD as an indicator for the support from the internal audit and TRAIN measuring the extent of specific training from experts. In this study, support from IT consultants (ITSUP) seems not to be associated with the accounting index. With respect to wider organisational support, the findings indicate no significant relationship for the proposed hypotheses. The guidance and monitoring activities from central government, executed by the regional helpdesk (HELPD) and the external audit (EXAUD), as well as local financial support from the municipalities (MUNIC) do not seem to deliver an explanation for the cross-sectional differences.

Discussion and Conclusions

Research Findings

According to Connolly and Hyndman (2006) the implementation of accrual accounting can be depicted as a process featuring an introduction stage (setting-up of system and reporting framework), a development stage (resolving application and user problems) and a maturity stage (information usage and system refinement). Within this process the local governments can be situated somewhere on the continuum of the development stage or at the end of the introduction stage. The research findings show a quite divergent adoption of the new accounting regulations with some more attention for the technical accounting aspects (i.e. mechanical accuracy, classification, and valuation). The notable lower scores for the cut-off component reflect an inadequate use of the suspense and transitional accounts. The results of

the transparency components clearly indicate that various entities have struggled to find an appropriate reporting framework for the new accounting information.

At first sight, many annual reports appear untransparent as much information is presented with little clarification. From an institutional perspective, one could assume that the local governments merely have tried to be in compliance with the new regulations. However, many organisations seemed to have put much effort in the disclosure of the required information (through numerous tables and figures). Only, it appears that limited attention has been paid to the usefulness of this information as some principal characteristics such as comparability, comprehensibility and relevance often are not met. At the same time, many organisations show serious difficulties to enact the annual reports on time. It is far from clear how the enacted annual reports can be adequate instruments for decision-making and control. Hence, questions rise on the causes or reasons for these rather ineffective reporting styles. Albeit that there are a number of notable exceptions, which have shown a high level of reform adoption.

The cross-sectional differences in adoption signal the importance of different agents of change in processes of renewal. This research confirms that local management's interest and expectations on changing financial management have a strong influence on the adoption processes (Ridder *et al.*, 2006). Furthermore, substantial evidence is found for the importance of external consultants in providing professional assistance in accounting. While of minor significance, support from the internal audit and professional training also tend to have a positive effect on the level of adoption. These findings are fairly consistent with results from previous research on governmental accounting change (Christiaens, 1999). However, further research needs to clarify these particular results, as differential modes of cooperation with several other agents seem not to account for cross-sectional differences in adoption.

Clarifications from the Interviews

The financial managers revealed that the existing interests and capabilities at the local governmental level were generally inadequate to match the significant increase of legislative requirements. In many organisations, the new accounting obligations were considered as a substantial amount of supplementary work next to the daily operations. The offered support from the helpdesk and the provincial workshops was appreciated but perceived as insufficient to cover all problems in the start-up period. For many new and often technical issues, these instances could not offer any ready-made solutions. A similar remark was made in relation to the external audit, which appeared to be understaffed to provide an extensive support. Many organisations did not dispose over the time or the personnel to perform the internal audit obligations. Governments that decided to quickly attract additional employees not only were hampered with the existing administrative procedures, but also with a rather unfavourable employment situation. In this perspective, the importance of consultants was recognized because of their professional support, their technical know-how and their ability to quickly provide the requested services. Some managers also stressed the image and the legitimating role of consultants as the innovations needed to be 'sold' within their organisation.

The consultants were aware of the problems and difficulties at the local governmental level and developed a prominent role in provisioning reform assistance. External support services were mainly called in by organisations, which had problems with the setting-up of the accounting system or with the reporting obligations. In many authorities, the development of several new accounting aspects, such as the initial balance sheet and the valuation rules, had come up for discussion. The consultants were approached to offer an acceptable answer to the fairly complex and incomplete legislative requirements. Some organisations requested further assistance for a number of complementary changes in their processes of management control. In this way, the consultants experienced a changing role from developers of new

accounting forms towards instigators and sometimes coaches of best practices. However, several local governments remained somewhat reluctant to invoke the aid from external consultants or other professionals. These organisations seemed not very concerned to move into an extended adoption of the new accounting and reporting requirements.

The interviewees realized that the establishment of a profound change scenario only holds true for a certain group of organisations. To a large extent this seems function of local management's interest and motivation to change the existing situation. In many organisations, local political and executive management were not accustomed to work with accruals-based accounting information for decision-making and control. Through this reform initiative, they neither developed a strong need or appetite to work with this kind of information. Clearly, the Public Centres for Social Welfare did not face a lot of pressures to engage in new styles of working or to move towards best practices. As a result, a rather moderate level of reform adoption seemed to have found entrance. However, several interviewees believed that the local governments gradually would become acquainted with the new accounting forms. Some consultants claimed that only the entities which were really involved in an *ongoing change trajectory* could be considered as modernizing organisations that eventually would profit from the aspired for benefits of this reform project.

Interpreting the Evidence

With this project on local governmental reform, the legislator has prescribed a large set of new accounting instruments without considering sufficiently the processes of implementation. In line with institutional theory, this research illustrates that a top-down replacement of an accounting system is not a neutral merely technical undertaking. The local governments need to accommodate and incorporate the new ways of working. This could be expected in the case of a regulatory reform, where new practices and institutions not routinely emerge to complement some latent needs or opportunities (Suddaby and Greenwood, 2005). As many local governments are largely unacquainted with the new accounting principles, they need to develop the right skills for implementing the changes (Lowndes and Leach, 2004). This research shows that this is not merely a question of expertise but also a matter of sufficient interest and capacity to turn the legislative requirements into concrete action.

Clearly, local management's interest in the change project seems a critical success factor for the adoption of public sector accrual accounting. Their participation to reform related seminars, workshops and training sessions has a significant effect on the extent of adoption. The organisation of varying reform events as well as management's engagement to these initiatives is considered important. Furthermore, attention is drawn to the provisioning of an appropriate capacity for action when implementing a drastic reform. This implies that each organisation disposes over sufficient resources (in terms of time, finance, personnel, etc) and adequate competences (in terms of knowledge, skills, expertise) to effect the desired changes. From an institutional perspective, this involves a learning process in which organisations have to acquire new skills and practices, but also accommodate new institutional expectations (Greenwood and Hinings, 1996). It is at this point that professional agents of change such as private sector consultants can play an important role. Local governments, which have drawn on the professional expertise of consultants, clearly have made significant progression vis-à-vis the other organisations. Yet, why did these consultants play such an important role?

The importance of consultants can be understood in relation the wider governmental approach to this reform. At the higher governmental level, a number of support initiatives have been undertaken to assist local governments with the adoption process. However, these initiatives predominantly focused on the technical conversion of the accounting system and some related problems. Organisations that were looking for more general professional

assistance or more extended support could not be helped. These authorities were more or less driven towards private sector specialists with their problems. Generally, the legislator seems to have provided insufficient support activities with respect to the reform implementation. Indeed, a large group of local governments have not consulted private sector consultants and clearly have shown some lower levels of adoption. Some of these organisations seemed to have considered this reform initiative as a rather technical change project.

Conclusions

This study suggests uncomfortable lessons for current Flemish public policy on local government change, its implementation and monitoring. The present aspirations towards a new public financial management appear to be very different to the existing accounting and reporting practices at the local level. What has been found is a set of diverging annual reports that are mainly drawn up to be in compliance, but with little considerations to aspects such as timeliness, adequacy and usefulness. These results on the reform adoption may be attributed to a lack of adequate considerations and preparations in relation to the adoption process. In line with the institutional theory, this research indicates that profound public sector change involves a process of change, unfolding over time, in which different agents have a significant role to play (Hwang and Powell, 2005).

This involves a dedicated interest from the local management in the reform initiative as a sort of necessary condition for the implementation process (Ridder *et al.*, 2006). By a number of related activities management's interest and engagement can be ensured and strengthened. Next to this, adequate guidance and support activities should be provided by skilled professionals, such as management consultants (Pollitt, 2001). Generally, this important part of the adoption process seems to be underrated. With respect to the provisioning of adequate support, the Flemish higher government may take up a more proactive role. Furthermore, a sound monitoring and control process should be developed in order to ensure a more profound and widespread adoption of the reform requirements (Power, 1997). With regard to this, the current efforts by the external audit largely are considered as insufficient. Without sufficient guidance and adequate monitoring, the anticipated objectives of this large reform may become seriously obscured or even forgotten.

The adoption of accrual accounting, and more widely NOB, in the Public Centres for Social Welfare is still ongoing. Whether this reform project will ever deliver the aspired for benefits remains to be seen. What is known is that the adoption of the new accounting forms is considered as a complex and time demanding process in many organisations. This research has examined the adoption of the accrual accounting requirements and the importance of different agents of change. However, further research is needed to analyse the specific role of these change agents in more detail and to examine how local political and executive management eventually is using the new accounting instruments.

FIGURE 1
RESEARCH FRAMEWORK

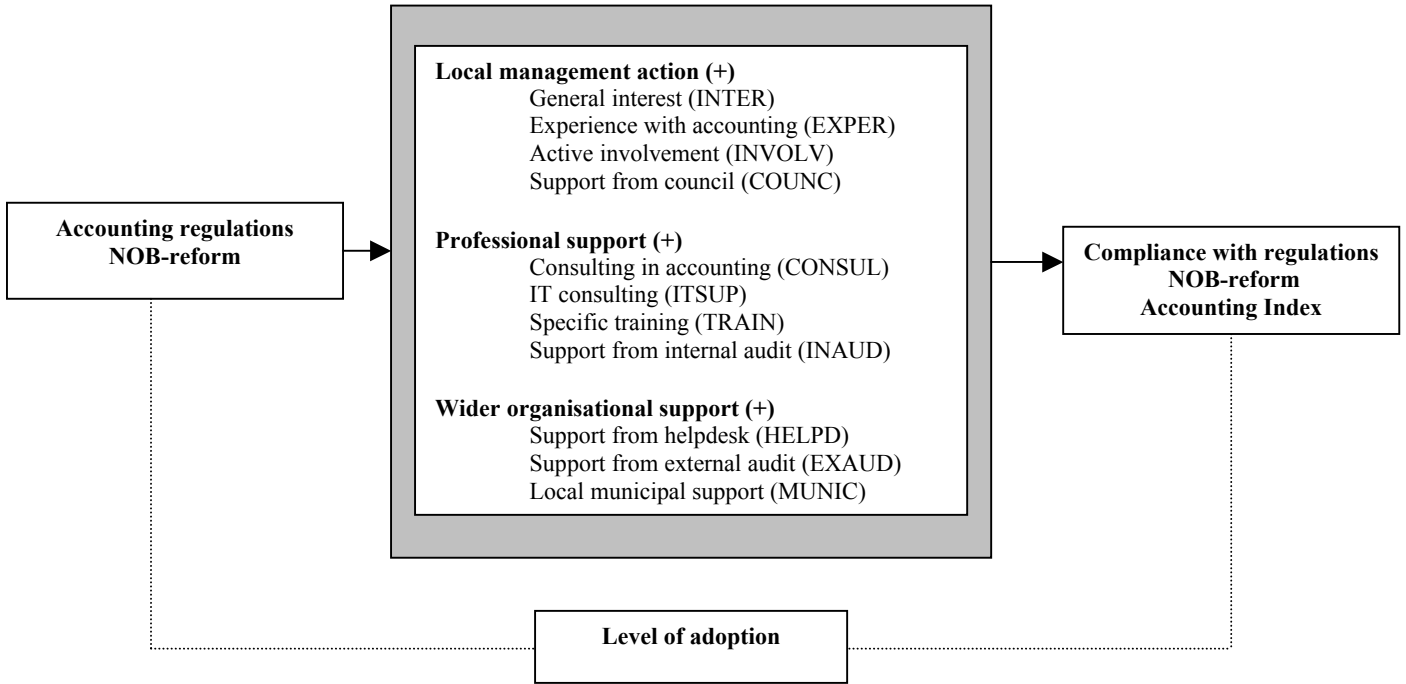


TABLE 1
VARIABLES USED FOR ANALYSIS

Variables	Definition	Prediction
<i>Panel A: dummy variables</i>		
Active involvement	(INVOLV) Dummy variable, where 1 = participation as early adopter, presentations on seminars or publications in professional journals or books	(+)
Experience with accounting	(EXPER) Dummy variable, where 1 = employees with related private sector experience or additionally hired	(+)
<i>Panel B: continuous variables</i>		
General interest	(INTER) Compound average of participation to reform related seminars and interregional taskforces	(+)
Support from accounting consultants	(CONSUL) Compound average of consulting support with regard to the preparation of the first balance sheet and the annual reports	(+)
Support from council	(COUNC) Compound average of perceived support from the local council (10 Likert items)	(+)
Support from IT consultants	(ITSUP) Compound average of IT support and satisfaction with new software applications	(+)
Specific training	(TRAIN) Average number of training courses received in accrual accounting	(+)
Support from internal audit	(INAUD) Average number of financial and compliance audits conducted since the start of the reform	(+)
Support from special helpdesk	(HELPD) Average number of consulted services from the special helpdesk	(+)
Support from external audit	(EXAUD) Average level of perceived support from the external audit (10 Likert items)	(+)
Local municipal support	(MUNIC) Municipal contributions divided by the general fund revenues, FYE 2001	(+)

Note: FYE = fiscal year ended.

TABLE 2
A DETAIL OF THE ACCOUNTING INDEX

Component (1): Completeness (9 points)	Measure	Source
Inventories disclosed	Dichotomously	Balance sheet consolidated
Doubtful debtors and writing downs recorded	Qualitative	Trial balance consolidated
Provisions pensions recorded	Dichotomously	Balance sheet consolidated
Provisions others recorded	Dichotomously	Balance sheet consolidated
Exceptional cost/revenue recorded	Dichotomously	P/L account consolidated
Contingencies (rights and obligations) recorded	Dichotomously	Trial balance consolidated
Vacation salary	Dichotomously	Trial balance consolidated
Interco balance sheet activity centres (416_486)	Dichotomously	Trial balance per activity centre
Interco P/L account activity centres (618_73)	Dichotomously	Trial balance per activity centre

Note: P/L account = profit and loss account

TABLE 3
 MAIN MEASURES OF THE ACCOUNTING INDEX AND THE DIFFERENT
 COMPONENTS

	Mean (%)	Std. Dev. (%)	Min. Score (%)	Max. Score (%)
Accounting Index	64.4	9	43.9	80.7
<i>Technical Components</i>				
Completeness	54.4	16.6	11.1	94.4
Valuation	70.7	21.1	33.3	100
Cut-off	28.7	26	0	80
Classification	74.4	12.9	39.3	100
Mechanical Accuracy	75.5	10.3	47.1	94.1
<i>Transparency Components</i>				
Timeliness	40.4	32.4	0	100
Adequacy & usefulness	51.8	13.9	22.7	86.4
Formalistic Requirements	61.9	19.5	23.3	100
Disclosure	68.6	24.3	12.5	96.7

TABLE 4
ORDINARY LEAST SQUARES LINEAR REGRESSION RESULTS FOR THE
PROPOSED MODEL

R	R ²	Adjusted R ²	Std. Error of the Estimate				
0.674	0.455	0.370	0.071				
ANOVA	Sum of squares	df	Mean Square	F	Sig.		
Regression	0.300	11	0.027	5.383	0.000		
Residual	0.360	71	0.005				
Total	0.660	82					
Model	Unstandardized Coefficients		Standardized Coefficients		Collinearity Statistics		
	β	Std. Error	β	t	Sig.	Tolerance	VIF
(Constant)	0.693	0.070		9.875	0.000		
INTER	0.024	0.007	0.340	3.524	0.001***	0.824	1.214
EXPER	0.020	0.017	0.111	1.138	0.259	0.812	1.232
INVOLV	-0.011	0.019	-0.058	-0.589	0.558	0.790	1.266
COUNC	-0.058	0.077	-0.072	-0.751	0.455	0.828	1.208
CONSUL	0.154	0.026	0.545	5.835	0.000***	0.882	1.134
ITSUP	-0.013	0.048	-0.025	-0.277	0.783	0.916	1.092
TRAIN	0.013	0.007	0.178	1.902	0.061*	0.881	1.136
INAUD	0.018	0.010	0.174	1.937	0.057*	0.954	1.048
MUNIC	-0.039	0.039	-0.091	-0.991	0.325	0.911	1.097
HELPD	-0.026	0.050	-0.052	-0.510	0.611	0.732	1.366
EXAUD	-0.117	0.072	-0.154	-1.625	0.109	0.855	1.170

Note: Significant at 0.01 (***), 0.05 (**), and 0.10 (*). One tailed test for directional predictions.

Notes

¹ An OCMW (literally: Official Centre for Mutual Welfare) is a governmental entity providing a number of additional municipal services such as health care, care for the elderly, social support, etc. Each OCMW is related to just one municipality and vice versa. In Flanders, being the largest District in Belgium, there are 308 OCMWs. To improve the readability of the article the term OCMW is translated to ‘Public Centre for Social Welfare’.

² More details relating to all components and elements of the accounting index can be provided on request by the authors.

³ The annual reports should be deposited at the provincial governor, ultimately on 30th April.

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APPENDIX 1
ELEMENTS OF THE ACCOUNTING INDEX
(only for the reviewers)

Components (Total 90 points)	Measure	Source
Technical components		
1. Completeness		
Inventories disclosed	Dichotomously	Balance sheet consolidated
Doubtful debtors and writing downs recorded	Qualitative	Trial balance consolidated
Provisions pensions recorded	Dichotomously	Balance sheet consolidated
Provisions others recorded	Dichotomously	Balance sheet consolidated
Exceptional cost/revenue recorded	Dichotomously	P/L account consolidated
Contingencies (rights and obligations) recorded	Dichotomously	Trial balance consolidated
Vacation salary	Dichotomously	Trial balance consolidated
Interco balance sheet activity centres (416_486)	Dichotomously	Trial balance per activity centre
Interco P/L account activity centres (618_73)	Dichotomously	Trial balance per activity centre
2. Valuation		
Symbolic valuation	Dichotomously	Balance sheet consolidated
Total assets = total liabilities	Dichotomously	Balance sheet per activity centre
Accruals/deferrals first balance sheet	Dichotomously	Balance sheet consolidated
3. Cut-off		
Deferred charges recorded	Dichotomously	Trial balance consolidated
Deferred income recorded	Dichotomously	Trial balance consolidated
Accrued charges recorded	Dichotomously	Trial balance consolidated
Accrued income recorded	Dichotomously	Trial balance consolidated
Suspense accounts	Dichotomously	Trial balance consolidated
4. Classification		
Sign assets correct	Dichotomously	Balance sheet consolidated + per activity centre
Sign liabilities correct	Dichotomously	Balance sheet consolidated + per activity centre
Sign P/L account correct	Dichotomously	Balance sheet consolidated + per activity centre
Classification of subsidies	Dichotomously	Trial balance consolidated
Sign total assets and liabilities positive	Dichotomously	Balance sheet per activity centre
Classification of interco accounts	Dichotomously	Trial balance consolidated
Software 21-24	Dichotomously	Balance sheet consolidated
Cumulated results and municipal contribution	Dichotomously	First balance sheet
Amounts receivable within one year	Dichotomously	Trial balance consolidated
Debts falling due within one year or financial debts	Dichotomously	Trial balance consolidated

Components (Total 90 points)	Measure	Source
Trade creditors	Dichotomously	Trial balance consolidated
Taxation, salaries and social security	Dichotomously	Trial balance consolidated
Other amounts payable	Dichotomously	Trial balance consolidated
Accruals/deferrals	Dichotomously	Trial balance consolidated
5. Mechanical Accuracy		
Total results 1	Dichotomously	P/L account consolidated
Total results 2	Dichotomously	P/L account consolidated
Total results 3	Dichotomously	P/L account consolidated
Reconciliation results t-1	Dichotomously	Annual accounts consolidated
Reconciliation results t	Dichotomously	Annual accounts consolidated
Reconciliation capital	Dichotomously	Annual accounts consolidated
Reconciliation reserves	Dichotomously	Annual accounts consolidated
Reconciliation cash municipal contribution	Dichotomously	Annual accounts consolidated
Reconciliation result municipal contribution	Dichotomously	Annual accounts consolidated
Reconciliation results cash flow	Dichotomously	Annual accounts consolidated
Accumulated amortizations subsidies	Dichotomously	Trial balance consolidated
Promised subsidies	Dichotomously	Trial balance consolidated
Reconciliation inventories	Dichotomously	Annual accounts consolidated
Reconciliation interco balance sheet	Dichotomously	Trial balance per activity centre
Reconciliation interco P/L account	Dichotomously	Trial balance per activity centre
Reconciliation P/L consolidated	Dichotomously	Annual accounts consolidated + Trial balance per activity centre
Reconciliation provisions	Dichotomously	Annual accounts consolidated
<u>Transparency components</u>		
6. Timeliness	Quantitative	Query
7. Disclosure		
Disclosure budgets	Qualitative	Annual accounts
Mutation table fixed assets disclosed	Dichotomously	Notes
Details amounts receivable	Dichotomously	Notes
Details investments	Dichotomously	Notes
Details accruals and deferrals assets	Dichotomously	Notes
Details accruals and deferrals liabilities	Dichotomously	Notes
Details investment subsidies	Dichotomously	Notes
Details provisions	Dichotomously	Notes
Detail amounts payable	Dichotomously	Notes
Details other revenues	Dichotomously	Notes
Details staff costs	Dichotomously	Notes
Details impairments	Dichotomously	Notes

Components (Total 90 points)	Measure	Source
Details other operational costs	Dichotomously	Notes
Details other financial revenues	Dichotomously	Notes
Details exceptional results	Dichotomously	Notes
Valuation rules disclosed	Qualitative	Notes
Details O-accounts	Dichotomously	Notes
Interco balance sheet eliminated	Dichotomously	Balance sheet consolidated
Interco P/L account eliminated	Dichotomously	P/L account consolidated
Profits or losses previous years	Dichotomously	P/L account consolidated
Profits or losses to next year	Dichotomously	P/L account consolidated
Withdrawal and addition municipal subsidies	Dichotomously	P/L account consolidated
Eliminations resulting in consolidation	Dichotomously	Annual accounts consolidated
Previous year figures	Dichotomously	Annual accounts consolidated
8. Formalistic Requirements		
Annual report general	Dichotomously	Annual accounts
Annual report descriptive	Dichotomously	Annual accounts
Annual report financial	Dichotomously	Annual accounts
Scheme of financial flows	Dichotomously	Annual accounts
Enactment officially disclosed	Dichotomously	Annual accounts consolidated
Classification activity centres	Dichotomously	Annual accounts
9. Adequacy and Usefulness		
Guidelines annual accounts	Dichotomously	Annual accounts
Landscape annual accounts activity centre	Dichotomously	Annual accounts
Analysis budgetary accounts	Dichotomously	Annual accounts
Analysis annual accounts	Dichotomously	Annual accounts
Pictorial & graphical presentations	Dichotomously	Annual accounts
Different colours	Dichotomously	Annual accounts
Pages consecutively numbered	Qualitative	Annual accounts
Table of contents	Dichotomously	Annual accounts
Binded annual accounts	Qualitative	Annual accounts
Trial balance	Dichotomously	Trial balance consolidated
Redundancy	Qualitative	Annual accounts

Note: P/L account = profit and loss account