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# 1. Abstract

**Purpose** – This paper aims to give a multiple-perspective view on the future of the Dutch central accounting system. Currently the commitment-cash accounting system is used to produce information in the Netherlands. We make a comparison between the accrual based accounting systems and the cash accounting system, using the insights of different perspectives. The main purpose was to create a vision, explaining which accounting system should be adopted.

**Design/methodology/approach** – Seven stakeholders were interviewed. These respondents have different backgrounds, for example: academic, public and private sector backgrounds. The sample group was chosen based on their high financial expertise regarding accounting systems. The interviews were semi-structured.

*Findings* – Although the Dutch government will not reform on short-term notice, the outcome of the research suggests that an accounting reform towards an accrual based accounting system should be considered as inevitable. The current cash accounting system does not provide sufficient information. Furthermore, the European Union is preparing an accrual based accounting system for all member states, which will be called EPSAS. The EU wants to improve the quality of the accounting information, on which the EMU data is based.

**Research limitations/implications** – The sample group was relatively small with seven respondents. However for exploratory research this could be considered as sufficient. In the interviews multiple perspectives were gathered. Although the respondents all have different backgrounds, for future research a cross-reference between experts with the same background could be made. The proposed EPSAS system will serve as financial reporting tool. In regard to budgeting, no reforms will be made. A future dual system is a possible consequence for the Dutch central government. Further in-depth research could give more insight in the cost and complexity of a dual system and accrual accounting in budgeting.

**Originality/value** – The main contribution of this paper is the vision, which is built in respect to the future of the accounting system in the Dutch central government. By refuting the arguments of the Dutch minister of finance, used in the recent assembly of the committee of national expenditure, this paper can contribute to the discussion about adopting accrual accounting in the whole Dutch government. Beside this discussion, the paper contributes by providing multiple perspectives, such as possible shifts in the balance of power, technical aspects of accrual accounting reforms, etc.

# 2. Introduction

In the 1980s a change in public management took place, resulting in radical reforms, in different sectors of the public management. These reforms included organizational, managerial and accounting aspects of public management. Until these reforms, public accounting systems were generally based on the traditional cameralistic/cash accounting systems (Christiaens & Rommel, 2008). Reporting and auditing of the profit sector is based on the business accrual accounting system. According to Carlin (2005), several governments, who have adopted accrual accounting based reporting, show the advantages of the implementation of this system. Despite this fact, the majority of governments in the world, have not, or only partially adopted accrual based systems (OECD, 2002). Although, especially the majority of the central governments still use the cash based accounting and financial reporting systems, there is an on-going shift towards accrual accounting system in the world.

Reforms in the budgeting and reporting systems toward accrual based systems are subject to discussion. Cash as well as accrual accounting systems have pros and cons, however the discussion, which system is better and which system should be implemented is largely passé (Carlin, 2005). Main arguments in favour of adoption of accrual accounting in the public sector, are the transparency and cost allocation it should provide. In this case a better evaluation of performance is possible (Christiaens & Rommel, 2008). Arguments against adopting accrual based accounting are mainly based on implementation difficulties and costs.

In the Netherlands, two major reforms were introduced, during the 1980s and 1990s, namely from 1983 until 1993, the Accounting System operation was carried out, and in 1999, the Policy Budgets and Policy Accountability operation was introduced (OECD, 2007). After the introduction of the reform, the Netherlands slowly attempted to adopt the accrual accounting system in the central government. The reason pressuring the reform, was the increasing deficit that was exceeding the requirements of the EMU's Stability and Growth Pact of three percent. The Dutch government changed towards accrual accounting in order to create a more result-oriented government (Van der Hoek, 2005). However, over time, the Dutch government subtracted the reform, advocating it would only partially implement accrual accounting. The partial implementation is based on the Accounting System reform carried out between 1983 and 1993, during which the central government allowed agencies and lower governmental organizations to implement and adopt accrual accounting. The partial implementation was organized in the creation of agencies with own special rules. Among these rules, accrual based accounting regulation was adopted. Another reform the Dutch government made, was in 1995, when they adopted the European System of Accounts (ESA) (CBS, 1995), a European initiative to monitor and control the treatment of expenditures on investments.

Several arguments can be found explaining the partial adoption of the accrual accounting system in the Netherlands. In this paper, a vision on the future of the accounting system of the Netherlands will be created, and this vision will be reviewed with experiences of other government as well as own earlier experiences of the Netherlands with implementation of accrual accounting based systems. The research is conducted by interviewing different experts of public accounting systems. The literature in addition to the interviews will provide several perspectives and extra general information. Based on the background information, a broader view on accounting systems, as well as various insights in the main question will be given. This will reflect on the research question, which is based on, whether the Dutch central government should fully adopt the accrual accounting system. Is the accrual accounting system? The paper is divided into several sections, it continues with a literature review, the methodology, findings, discussion and finally a conclusion.

### 3. Literature review

#### 3.1 History of accrual accounting

Financial reporting and accrual based accounting are not new in the public sector. In this section we will analyze the history of accrual accounting in the public sector, and the developments that have lead to current practices. It will give the background regarding this topic. One example of early implementation of financial reporting is Australia. The Postmaster-General department started preparing commercial accounts as early as 1913, and continued to do so throughout time. These commercial accounts included a full balance sheet and profit and loss statement (Standish, 1968). However, accrual accounting has been used significantly less than cash accounting in public sectors throughout the world (OECD, 2002).

The movement towards accrual oriented accounting and financial reporting within the public sector commenced in the second part of the 1980s. A radical shift in organizational, accounting and managerial reforms took place in numerous countries and jurisdictions (Broadbent and Guthrie, 1992; Burkitt and Whymann, 1994; and Barton, 2004). According to Hood (1991, 1995) and Lapsley (1999) New Public Management (NPM) played a dominant role in these reforms. The vision of a rational economic way of approaching business within governments led to the necessity of changing from a traditional cash accounting system towards a accrual accounting system as used in the profit sector (Christiaens and Rommel, 2008). This accrual accounting system would match the outputs achieved with the actual economic costs of these outputs, thus facilitating an improved evaluation of public sector performance (Evans, 1995). When discussing accounting systems, a remark has to be made, regarding a distinction, which can be made in public accounting and budgeting systems. Public budgeting and accounting can be divided in to government accounting and national accounting (Van der Hoek, 2005). Government accounting is at the micro-level, it contains individual government organizations and agencies drawing up budgets an financial reports. National accounting is at the macro-level, it presents macroeconomic, statistical financial data, regarding the national economy. In this paper, the focus will be on government accounting. Another remark has to be made regarding the focus on ex post and ex ante information, the difference between accounting and budgeting. In the past the focus was mainly on *ex post* information. (Jones et al., 2013). Further in the paper, this will be discussed more in-depth.

Major examples of this shift are Australia and New Zealand, with the latter being the first country to fully implement accrual accounting as the common practice at both national and agency level. Although numerous governmental institutions in New Zealand had implemented financial reporting and accrual accounting by the first half of the 1980s, the complete implementation can be attributed to legislation from the late 1980s: The State Sector Act of 1988 and the Public Finance Act of 1989. The former created a new legal framework for the interrelating heads of departments and the corresponding ministers. Increasing the accountability of departmental heads towards the responsible ministers was the main goal of this State Sector Act. The latter embodied modifications to the accountability infrastructure in a broader sense deemed necessary after reconstituting the accountability framework through the State Sector act. Christiaens and Rommel (2008) put emphasis on the same motives. They state that the New Public Management movement aimed at increasing accountability and improving management tools in a convergent way, in addition to an increase in financial transparency. The Public Finance Act included requirements for government- and agency levels for producing audited accrual financial reports (Carlin, 2005). By the start of 1990, all government departments in New Zealand had switched to an accrual accounting basis, leading to the first accrual based governmental reports at the end of 1990.

According to Funnel and Cooper (1998), Australia can also be noted as an early adopter of public sector accrual accounting. However, implementation in the early 1980's took place in individual states rather than whole federation of Australia, and further evolved throughout the late 1980s and 1990s (Christensen, 2002). By the year 2000 all Australian governmental jurisdictions had adopted accrual accounting systems.

The United Kingdom also rapidly implemented accrual accounting methods in the public sector. Through a application within the national health system, accrual accounting spread towards other public sectors. In 1993, 'resource accounting' was planned to be implemented over the next three to five years (HM Treasury, 1993). A timetable was set in place in 1998, preparing the adoption of accrual accounting (HM Government, 1995). Full audited and published accrual accounts for the financial year ending March 31, 2000, were originally planned. However, this process took longer than originally planned (IFAC, 2002).

Table 1 states an overview of the adoption of accrual accounting and financial reporting internationally, among budget-funded agencies from 2002. Modified accrual basis accounting differs from full accrual basis accounting in the sense that it puts less emphasis on comprehensive statements of financial position. Cash basis with supplementary accrual data describes countries with a cash basis accounting system and accrual disclosure reporting models.

	Full Accrual Basis	Modified Accrual Basis	Cash Basis with Supplementary Accrual Data
Australia	х		
Belgium			X
Canada		X	
Finland	X		
Germany			X X
Hungary			X
Iceland		X	
Ireland			X
Japan	X		
Netherlands	X		
New Zealand	X X X X X		
Portugal	X		
Sweden	X		
Switzerland	X X X		
United Kingdom	X		
United States	X		

Table 1

Source, OECD (2002).

Table 2 provides an overview of the current world situation concerning the use of accrual accounting within the public sector. In assessing a hundred countries on their governmental accounting systems PWC (2013) stated that 26 countries use full accrual based accounting. 20 countries use a modified accrual basis. Together representing 46% of the sample size, focusing on countries covering all geographic regions and levels of development. 54% of the nations questioned use cash accounting. Although, these results indicate that still over half of the countries use a cash-based accounting system, it shows the growing importance of accrual accounting in public sectors worldwide. PWC projections indicate that the percentage of countries using accrual accounting will rise to 63% in the next five years.





#### 3.2 Experiences with the accrual based accounting method

As the future is set by the NPM, this has evolved into several trends in the field of public budgeting and accounting. As mentioned before, the main trend focused on this paper is the shift from cash-commitment accounting towards business accrual accounting. Accounting systems have changed throughout the history. The reforms started in the Saxon countries, namely Australia, New Zealand, the United States. (Algemene Rekenkamer, 2003). In Europe, Sweden and the UK followed, making the transition to business accrual accounting in the late 1990s (Connolly and Hyndman, 2006). Both accounting systems have proponents and opponents, however in this paper, the focus will be on the argumentation of proponents and opponents of the accrual accounting system. Proponents argue that accrual accounting is technically superior to cash accounting. (Das, 2008; Guthrie, 1998). According to the report of Smullen (2009), several advantages can be named by the proponents of accrual accounting, of which greater transparency and greater promotion of efficiency and accountability are the main arguments. Business accrual accounting systems tend to give a more complete picture of the financial position of the government. Based on the financial output, decisions of the government can be justified. Proponents also suggest that accrual accounting will create a greater cost consciousness of all stakeholders, because of easier justification of decisionmaking. Guthrie (1998) argues that accrual accounting promotes accountability, both on resources and on the effects of today's decisions and the consequences in the future, regarding the costs and usage of resources. Another argument is the promotion of the overall efficiency of the government policy and the government as a whole. The performance of the government should be easier measureable in terms of time.

The opposition has several arguments naming the disadvantages of the accrual accounting system. According to the article of Monsen (2002), which summarizes the history of accounting, commitment-cash accounting is based on a cameralistic form of public budgeting. Monsen argues that accrual accounting is mainly designed to put into practice in the private sector, because it is designed for business organizations. This raises the question, whether business accrual accounting is able to replace the more cameralistic commitment-cash accounting system. Main argumentation regarding this question is that the public sector is fundamentally different. It is differently shaped and has different characteristics. The private sector's main focus is on business performance, however performance is not the only driver of the government, especially the central government. Newberry and Pallot (2005) argue that long term capabilities of governmental organizations can be decline, because government policies, based on accrual accounting, can tend to overshoot on efficiency, due to

too much focus on effectivity and efficiency. Therefore it has to be taken into consideration that the government's public budgeting and accounting systems has different needs to accomplish. Several examples of the differences between the public and private sector can be given, such as, financial relationships of business accrual accounting do not apply to the public sector environment. Another example is the different nature of the goods produced by the central government sector opposed to the private sector (Barton, 2005). According to Christiaens and Rommel (2008), another argument used to argue against business style accrual accounting is the fundamental difference regarding the way of financing the production of public goods and services. The production of public goods and services are mainly financed through funds appointed by decisions of policy makers. These funds are primarily based on the amount of tax that has been collected. To some extent, the funds are based on other income of the government, such as the sales of property, natural resources, etc. The private sector can be more closely linked to market prices. Sales are based on supply and demand. The eventual volume of production and revenue are a consequent fact of the decision to maximize profit and performance. Barton (2005) argues that certain goods and service are difficult to value due to various conditions. In the article products and services mentioned are public infrastructure services, products with defence purposes, products with heritage and community purposes, products and services related to culture, and environmental purposes. It is hard to establish a market price on these products and services and therefore set the right value. When willing to use an accrual based accounting this will be necessary to establish, because in order to make it part of the financial reporting, values have to be incorporated. Besides the arguments mentioned before, a crucial argument is the failure of interpretation of the business accrual accounting system in the public sector. In the next part of this paper, implementation experiences of other countries will be given.

The early adopters of business accrual accounting faced various problems during the implementation and adoption process. Two pioneers of accrual accounting are New Zealand and Australia. By now, both countries have adopted and implemented accrual accounting fully in their governments. According to Van der Hoek (2005), there are basically four adaptations of the accounting system. The International Organization of Supreme Audit Institutions (INTOSAI) recognizes four financial reporting systems in its 1995 Accounting Standards Framework (ASF), namely Full cash accounting, modified cash accounting, modified accrual accounting, and full accrual accounting.

Australia has made a few misinterpretations of business accrual accounting, during the adoption of this system (Office of the Auditor General, 2009). Several expectations have not been met, such as the National Commission of Audit Report stated (NCAR, 1996). It stated that changes from the use of cash based statements to accrual-based statements reflect a focus on efficient and effective outputs and outcomes (NCAR, 1996), but this fails to recognise the reality that accounting statements are themselves focused on inputs. Outcomes can be easily measured via the use of accrual financial reports rather than cash based reporting, and are usually determined on the basis of separate surveys, for example of customer satisfaction. It also fails to explain how accrual accounting better copes with issues such as the allocation of non-core activity expenditure to core service delivery programs, or how joint costs are measured in better way using accrual rather than cash accounting. The main reason for Australia to adopt accrual accounting, is matching to the reasons other studies have shown in other countries (Christensen, 2002; Carlin, 2005). Performance is the main driver of the reforms. According to Davis (2010), Australia implemented accrual accounting to enhance transparency of performance activities such as output, efficiency, results, and outcomes. In case of the Netherlands (Van der Hoek, 2005), the same reasons can be given. Both countries were trying to structure their financial households. In order to take control over their financial debt, governments were eager to use an accounting and reporting system, which would make the budgetary activities more accountable and manageable. Paulsson (2006) states that Sweden became an early adopter in 1986, supporting the decision of introducing a performance management system (Mattisson et al., 2003). In the study of Portal et al. (2012), the researchers drew a comparison between the reforms of France and Germany. Although France was an early adopter and adopted accrual accounting in full, and Germany was a late adopter, and to some extent eventually abandoned the reform. Portal concludes that in case of the budgetary accounting systems, both countries use systems with a high similarity. As mentioned above disadvantages of the accrual accounting system are the difficulties that arise during the implementation process. Among these difficulties, an important obstacle of adopting accrual accounting is miscommunication, which creates conflicts and confusion among government officials. Different interests among stakeholders can be observed as having influence on this obstacle (Barton, 2011). An other fact that leads to miscommunication is the implementation of several different standards or systems. In the transition process of Australia, the Australian government used two different budgeting systems, resulting in confusion, due to the fact that the two budgeting systems produced two different sorts of results (Barton, 2011). Ball (2012) argues that the goal of governments is to create transparency, in order to create efficiency and the right circumstance to let the government operate more effectively. Barton argues that governments have to set standards, which have specific financial information requirements. The Australian government kept struggling with dilemma regarding the use of a dual system (Barton 2011). Eventually, due to a newly elected government, the budget of 2008-2009 was presented based on only one system. Murray argued in 2008 (Murray, 2008), to align the two different systems used in budgeting and the system used for accounting. In 2008, Australia resolved their issues by implementing one system, which purpose was to provide information needed by government officials for resource management, fiscal policy and accountability purposes (Barton, 2011). In the same year, an improved and revised operation Sunlight was published by the Australian Minister of Finance and Deregulation, in which the government advocates six notes. First, tightening the output and outcomes, which were too broad and unclear. Second, improve readability and usefulness of budget papers. Third, improving the way estimates are calculated in order to prevent fluctuations in estimates. Fourth, increasing the range of areas of budgeting, providing additional information using special accounts. Fifth, improving intergenerational reporting, creating a long-term oversight of investment and costs in terms of capabilities and risk. Sixth, improving the financial framework (Murray, 2008).

Van der Hoek (Van der Hoek, 2005), argues that due to differences in the form of implementation and usage of the accounting systems, it is difficult to compare countries. In the next part, the situation of the Netherlands and their of adoption of business accrual accounting will be discussed.

#### 3.3 How did the Dutch government cope with accrual accounting

The Dutch government was planning to adopt an accrual based accounting system designed to be implemented in all layers of the government in the year 2000. This system should be implemented and adopted fully in a few years, including being implemented in the core central government. It was an important step toward a more result-oriented policy, the government stated. First plans to reform, were created in 1994, with the introduction of the possibility for governmental organizations to apply for the status of agency. In 1999, the Dutch central government set up a plan, named 'Van beleidsbegroting tot beleidsverantwoordelijking', (VBTB) which means 'from Policy Budget to Accounting for Policy'. Although the plan was created to improve the quality of the information of the budgeting process of the Dutch government, it evolved into a much broader operation, aiming to use VBTB as an instrument to measure the government's financial efficiency and expediency. However in 2003 the Dutch finance minister announced that he advocates a

partial implementation instead of fully implement the accruals system. Local, provincial and single-purpose governments have been using accrual accounting already for a reasonable long time, and with success. As an alternative, the government had decided to increase implementation of the accrual accounting system by expanding the number of agencies.

The Ministry of Finance (2004) published an evaluation report in 2004, in which the results of the VBTB were evaluated. According to this report, VBTB has created improvements on areas such as effectiveness and accountability. In case of accountability, as main improvements the report names, the alteration of the reporting structure and the adoption of goals in the budgeting and financial reporting. However experts and members of parliament still criticized the legibility and regard the financial reports and budgets as too large-scale in respect of size. The goals of VBTB are difficult to realize, because the report states that the flaws of VBTB are of complex nature, and contradict each other. They argue, that when improving accountability by adding information to financial reports, efficiency will decrease, because of an excess of information.

In a report of 2008 an evaluation of the VBTB has been formulated, in which the Dutch government investigates the idea of full adoption of the business accrual accounting in the core government (Ministerie of Financiën, 2008). Based on a pilot started in 2005 and which ended in 2007, performed by the ministry of agriculture, nature and food quality (LNV), three aspects of the accrual accounting system and the implementation of the system were researched. These three aspects cover several points of view of the accounting system related to the Dutch government and its situation. These three aspects will be briefly explained, namely aspect 1 is related to the amount of information provided by accrual accounting. For example, one could think of the information regarding the cost of policy making from a multi-year perspective angle. Aspect 2 is related to operational efficiency in the department in relation to business accrual accounting. The pilot had to prove whether business accrual accounting would be able to measure operational efficiency and could improve it. Aspect 3 is related to the possible consequences and problems full adoption and implementation of business accrual accounting in the core Dutch government will cause. According to the evaluation in 2004, (Ministerie van Financiën, 2004) VBTB has given employees of the government incentive to think about effectiveness regarding performance and reaching deadlines and goals. This is related to Aspect 2 of the pilot. According to the pilot, Aspect 2 is very difficult to measure. The pilot concludes that Aspect 1 and 3 have been explored and that these aspects have shown capability of creating extra value. However, besides advising the government to improve the quality of financial information, the pilot does not recommend to adopt an accounting system based on business accrual accounting. The minister of finance argues that the information from the agencies complement the information generated by the commitment-cash accounting system of government provide sufficient information for decision makers. In 2010, as a reaction of request of parliament member Mastwijk, the government has investigated business accrual accounting, which resulted in a report which should give more insight into three key elements of business accrual accounting in relation to adoption in the Netherlands and was send in a letter to parliament (Ministry of Finance Netherlands, 2010). The first element is the development of accrual accounting in other countries. The second element is based information regarding costs of full implementation of accrual accounting and the third element concerns the difference between the commitment-cash system and the accrual accounting system in relation to reporting to the European Union. Based on this letter, countries that have fully implemented accrual accounting share different experiences.

In 2011 an evaluation report was published evaluating the regulation regarding agencies operating with the business accrual accounting system. The report names 7 conclusions and recommendations, of which one conclusion in particularly is interesting, namely the evaluation shows that awareness of costs increases as a reaction of increased

autonomy of an agency. The reduction of costs can be suggested as a consequence of the awareness of costs. The sense of responsibility created by the employees of the agencies can be named as a possible factor. It was expected that in 2007, approximately 80–85 percent of central government employees should work for an agency. The government had set the goal to finish this process by the end of 2006, but recent history has shown that the goal was too difficult to be achieved completely. No further information can be found regarding the achievement of this goal.

Currently, departmental budgets still provide insufficient insight into policy effects that ministries aim at and into activities they want to undertake, whereas the relationship between expenditures and goals, performance, and means is insufficiently clear. An important reason for these shortcomings is that policy objectives are not yet formulated in a measurable way in terms of effect indicators and target figures. (Van der Hoek, 2005). According to Smullen (2009), recent history of adopting business accrual accounting in countries such as New Zealand and Australia have shown, that the blueprints of implementing accrual accounting have reasons to be questioned. Christensen (2009) argues, that the ambitious expectations of business accrual accounting have not been met until now. Ball (2012) names a possible cause in his paper. He argues that in general the politicians are opposed reforms in the accounting system, stating that politicians in general disfavour changes in transparency, being concerned with their own position and therefore manipulating change in order to safeguard their interest. Regardless of these possible causes of unsuccessfulness, even so, the business accrual accounting system in general proofs to be more efficient and effective, than the commitment-cash accounting system. (Christiaens and Rommel, 2008). However, the business accrual accounting system as it is specially formed for business can be questionable for use in the public sector. A derivation from the business accrual accounting system designed for the public sector can serve as a possible solution and will be researched in this paper.

# 4. Methodology:

In this section of the paper, the methodology will be explained, which will be used to conduct research based on academic and scientific standards. Using the methodology, the research question will be tried to examine, which is: Whether the Dutch central government should adopt the accrual accounting system in the whole of government. This section is divided into four parts, giving a clear view on the methodology. In the first part, the theory development, an explanation of the goal and basis will be given. In the second part, the method of data collection will be explained. During the third part of this section, the method of data analysis will be explained. In the fourth and last part, the quality of the research methods will be discussed.

#### 4.1 Theory development

This paper will conduct qualitative research. It will follow a theory development approach in order to be able to be recognized as empirical research. Among the three types of empirical research, this paper will have an exploratory character, using elements explaining a phenomenon or situation as the primary goal. As main source of data collection, interviews will be used. According to Dunn (2005), there are three sorts of interviews. In this paper, semi-structured interviews were selected for usage. Interviews will give a multiple perspective view on the subject. According to Cooper and Schindler (2003), the best method of data collection which deals with information gathering about opinions, attitudes, feelings, thoughts or knowledge, is conducting interviews.

Based on previous research and on the theory provided in previous research, one cannot conclude that there is only one clear research method used in the scientific field of public accounting and budgeting. Several research methods are used in research papers. This paper will follow the example of the research method used to conduct the research of Christensen (2009). In that paper, qualitative research is conducted. The reason to follow this example is, the resemblance of several parts of the research and it's outcome, compared to the structure and expectation of this paper.

#### 4.2 Method of data collection

The sample consists out of a group of 7 different stakeholders. These stakeholders have different interest and perceptions regarding the transition of the commitment-cash system to an accrual based accounting system, and accounting systems in general. The stakeholders were chosen based on their expertise and their different backgrounds. Seven stakeholders were interviewed resulting in different perspectives and visions on the subject in general and the future of the public accounting system in the Netherlands. The stakeholders will be explained in more detail, in the findings part of the paper. It is of great importance that the stakeholders have expertise on their field, because their respected views on the subject are the core of this paper. The idea of creating a vision is based future expectations of these experts. Besides the expertise of the respondents, the diversity of the backgrounds is of great importance. This will create a multi-perspective view, which contributes in the creation of the vision and answering the main question. The sample group is diverse, in case of opposition and proposition. The respondents were picked from both the public sector and the private sector, all with a financial background and with high expertise regarding financial budgeting and financial reporting.

The respondents will participate in a semi-structured interview. A semi-structured interview is based on prepared questions. Improvisation is allowed if extra relevance will be captured through certain off-topic subjects, however the interviews will be prepared, using questions based on the research design of this paper. Rabionet (Rabionet, 2009) uses six stages to conduct proper qualitative research. Stage 1, selecting the type of interview, which will result in semi-structured interviews. Stage 2, establish ethical guidelines, such as confidentiality and purpose will be taken into account. Stage 3, crafting the interview protocol, introducing yourself as an interviewer in such a way, being able to establish the right conditions and environment, to receive trustworthy comments and answers of the respondents. Another part of the interview protocol, is creating the proper questions, and the proper responses to adaptations for expected topic changes during the interview. Stage 4, conducting and recording the interview. In this stage, a dictaphone will be used to create audio recordings, and after the interview, the recordings will be transcribed. Stage 5, analyzing and summarizing the interview, the data collected need to be put in to perspective. Using qualitative data analysis methods, which will be discussed in the next part of this section. Stage 6, reporting the findings, the outcome of the interviews will be presented. A conclusion can be given about both accounting systems and the different perspectives of the interviewees.

#### 4.3 Method of data analysis

The method used in analysing and interpreting of the data, will be based on qualitative research tools. Before being able to interpret the data, they will need to be analyzed in order to make the data comparable. The analysis of the data will consist of three steps: categorizing, unitizing, and proposition development. First, the data will be categorized into significant categories, depending on relevance in regard to perspective and view on the topic. Second, the data will be unitized, to reduce the data and try to create a more manageable format, by rearrange the categorized data. The third step is proposition development, which means that in the unitized data, relationships and patterns will be searched and tried being found.

#### 4.4 Quality of research methods

The validity and reliability of the research method are important factors regarding the quality of the research method. The validity can be divided into three sorts of validity, construct validity, internal validity and external validity.

Construct validity means that a test measures what it actually wishes to measure (Cooper and Schindler, 2003). This research likes to collect multiple-view perspectives about accounting systems in regard to the Dutch central government. By addressing four different groups of stakeholders, the desired outcome of the research is believed to be met.

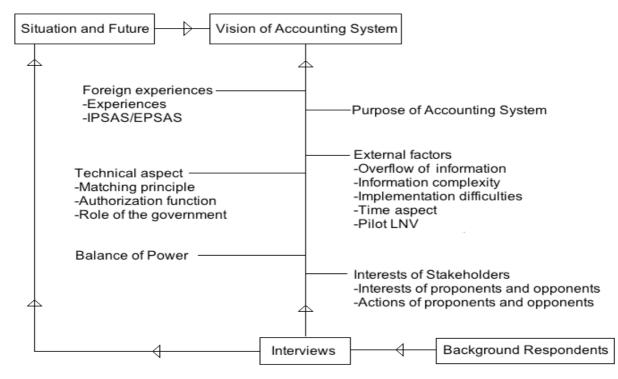
Internal validity concerns that statements can be made regarding the causal relationship of one variable to other variables, due to manipulation of measurement. In this research, this is still unknown (Cook and Campbell, 1979).

External validity concerns the approximate validity regarding presumed causal relationship that can be generalized to and across alternate measurements of the cause and effect and across different types of person, settings and times (Cook and Campbell, 1979).

Reliability concerns the consistency of repeatability of a measurement procedure (Cooper and Schindler, 2003). In qualitative research, an important critique is the argument that during interviews, the interviewer can be subjective in interpreting answers. Due to the use of a strict interview protocol and the recording of the interview, this will be prevented. As controllability, the written transcripts can be checked on subjectivity.

# 5. Findings

Data were collected during interviews, conducted with several stakeholders with different backgrounds. The data was recorded using a Dictaphone and during a later stadium it was processed. This has led to some interesting results and findings. The following model will show how a vision about the future of the accounting system in the Netherlands will be created. The respondents were asked about six categories and their opinions about the current overall situation and future. The most important findings of these 7 indicators, creates the vision.



#### Model 1.

The findings are categorized into six categories. Some of them are divided further into subcategories. The interviewees were selected on their background, resulting in opposing and complementary views on the categories, as well as on the current situation and the expected future. The 6 categories will have overlap, however are segmented into the following, namely Foreign Experiences and situation, Technical aspect and issues, Interests of proponents and opponents, External factors, Balance of power, and Purpose of accounting systems. The aim of this paper is to explore the future of the accounting system in the Netherlands, by combining the different perspectives of categories and the backgrounds of the respondents. The data processed in the categories will give several insights on areas that are related to the subject. For instance, in this paper, findings will be addressed regarding time and comparisons will be made with foreign examples. Outcome regarding several stages of change and implementation are given, as well as a comparison was drawn with other countries. A Vision on the future will be created, by means of discussing the findings of the categories in the next part of the paper and combining the results. Also the backgrounds of the respondents and their general perspective on public accounting system will be taken into account, because it summarizes the different point of view of the interviewees, thus it creates several angles on how the accounting system will be ought to evolve in the central Dutch government in the future.

Before defining the categories in more detail, the backgrounds of the interviewees will be briefly discussed in depth. Seven persons were interviewed, hereafter named as respondents.

Respondent Number	Background Respondent	
Respondent 1	Former Member of Dutch Parliament	
Respondent 2	Professor Emeritus	
Respondent 3	Professor and Government official at the Ministry of Finance	
Respondent 4	Economic Journalist	
Respondent 5	Chartered Accountant	
Respondent 6	Current Member of Dutch Parliament	
Respondent 7	Professor and expert in Australia	

Respondent 1 is a former member of the Dutch parliament. He was the spokesman for his party, regarding the state's budget and national expenditures. He is a proponent of adopting accrual accounting in the Dutch central government. He requested the parliament, in a motion, to research the possibilities and issues in relation to adopting accrual accounting. The motion was accepted and the research was published in report in 2010, however the results of the research were not sufficient enough, according to the ministry of finance.

Respondent 2 is a professor emeritus, whose expertise was business economics in the public sector. He is slightly opposed to accrual accounting, arguing about technically difficulties and issues during implementation of accrual accounting in the central government. He wrote a study book with the topic business economics in the public sector. Besides his academic background, he was politically active in a town council in a local government.

Respondent 3 is professor and a government official at the Dutch Ministry of Finance. As a professor his expertise is auditing and accounting in the public sector. As an expert on this field, he is a senior advisor on audit policy at the Dutch ministry of finance. Besides his academic background, this means he has inside knowledge about the current state and the future. He is a proponent of accrual accounting in the public sector, however is more in favour of a dual system based on accrual and cash accounting.

Respondent 4 is a freelance journalist, who wrote the article 'Believers versus Nonbelievers' in 2010 for the magazine 'the Accountant'. In this article an overview was given of opponents and proponents of accrual accounting in the central government. He interviewed stakeholders regarding the implementation of IPSAS in the Netherlands and the current Dutch cash accounting system. He is in favour of accrual accounting in the public sector.

Respondent 5 is a chartered accountant and is a partner of an accounting firm. His firm is specialized in auditing and accounting, both in the private and public sector. Among the clients of the firm, some operate in the public sector. These clients are local governments and semi-governmental organizations, such as schools. As an accountant, respondent 5 operates with the accrual accounting system. Therefore he has experience with public organizations operating with an accrual accounting system.

Respondent 6 is a current member of the Dutch parliament. His areas of expertise are the state's budget and national expenditure. On these areas, he acts as an expert and as the spokesman on behalf of his party. He is also a member of the committee of government expenditures. As a member he asked the Minister of Finance about the current state of the Dutch accounting system. Respondent 6 is a proponent of adopting accrual accounting in the Dutch central government.

Respondent 7 is a professor residing in Australia and originally from New Zealand. She is known as an expert on the field of Public auditing and accounting. Besides publishing several academic articles and teaching at the university, she advises public governmental organizations. She is also an editorial board member of several high standard literature magazines. She is in favour of accrual accounting, however mentioned several bottlenecks.

### **5.1 Foreign Experiences**

In the category Foreign experience and situation, the findings of 2 subjects are presented, namely the experience in foreign countries, with specific focus on New Zealand, and the discussion evolved around IPSAS and EPSAS. As mentioned before, mostly Anglo-Saxon countries started reforming accounting systems and adopted accrual accounting. New Zealand was the first sovereign nation in the world, adopting accrual accounting in the whole of government. According to the Respondent 7, New Zealand is, based on government structure, better comparable to the Netherlands than Australia. Australia, officially the Commonwealth of Australia, is a federation, consisting out of 6 states, with a high amount of autonomy. New Zealand's government structure is relatively similar to the government structure of the Netherlands, which is a parliamentary democracy. Opposing statements have been given regarding the relationship between similarities of New Zealand and the Netherlands and the implementation of accrual accounting in the central departments of the governments. Similarities between both countries are the government structure, complexity of the society, GDP composition by sector, percentage of taxes of GDP (CIA Factbook). Respondent 1 argues that in a small country with a relative small government, reforms measured in hours could be relatively similar to that of a small country with a relative large government, hence he argues that in New Zealand the level of difficulties of the implementation and adoption of accrual accounting could be relatively similar to that of the Netherlands, whereas other respondents argue that the size of government and the complexity of society has influence on the level of difficulty of reforms. Respondent 2 argues that simplicity always has in impact on reforms and that simplicity was used as an argument by the Dutch ministry of finance to ensure the correct accounting systems was used, the cash accounting system. Respondent 7 stated that in New Zealand the changes were relatively easy, due to the structure of the political system. Respondent 1 states that during the discussion 7-8 years ago, they used the foreign examples, like Australia and New Zealand, to argue in favour of the accrual accounting system. In his argumentation, the leading role of Australia and New Zealand cannot be ignored and should be researched.

In March 2013 (Eurostat), European commission made plans to prepare the implementation of a European accounting system named European Public Sector Accounting

Standards or EPSAS for its member states. EPSAS will be built on a structure that is based on IPSAS, however the European Union will create an accounting system without applying all the IPSAS regulation. According to Respondent 3 too much suspicion among the EU commission toward the governance of IPSAS can be suggested as the main reason to create an own accounting system. The EU commission argues that IPSAS depends too much on business accounting regulation, which is in the opinion of the EU, not suitable for public management. Several vital issues have not yet been solved by IPSAS, lacking solid suitable standards. Hence, the European Union want to have control over the procedures and regulations of the overall adopted accounting system at the accountability side in its member states. Member states will continue to have full autonomy on the budget side of the accounting system. Respondent 2 argues that the European Union, as an autonomous organization, uses a cash accounting system based on IPSAS, to process its income and expenditure. He argues that IPSAS is familiar with a cash accounting variant. This cash basis variant is based on similar rules that will be expected to be applicable to cash and accrual accounting systems. For example, similar rules are applicable in the disclosure of information in financial reporting. Respondent 1 argues that in present time, the European Union had to devise a solid strategy and argumentation in order to create support for the implementation of a mutual accounting system among member states. Respondent 3 argues that the main argument of the European Commission is, to improve the quality of the financial data it receives concerning the EMU debt and deficit of member states, it has to make fundamental structural changes in the system that gathers the financial data. Therefore there has to come one uniform accounting system based on the same principles that provides structural reliable and comparable data. In order to guarantee stability in the European zone, the European Commission argues that it has to monitor the EMU debt and deficit as accurate as possible, consequently comparable and reliable financial data from the member states will make this possible. Respondent 7 argues that EPSAS will be very similar to IPSAS, and she argues that in the future there will be one accounting system for the public sector in the world.

#### 5.2 Technical aspect

In the Technical aspect, the findings of the category technical issues, which came up during the interviews that were conducted, are discussed. The findings can be divided into three sub categories, namely matching principle, authorization function, and the role of the government. The subcategories have a technical background concerning the general accounting system and the possibility and authenticity of the functioning of the accounting system as a whole. Some interesting findings resulted from the interviews.

A fundamental element imbedded in the basis of accrual accounting is the matching principle. The matching principle is explained in accounting as a combination between accrual accounting and revenue recognition. It is one of the basic accounting principles that offsets revenue against expenses, based on their cause-and-effect relationship. It states that in measuring revenue for a certain accounting period, the expenses that were made in the same period in order to generate the revenue need to be matched. Experts argue that financial statements could be distorted, when the matching principles is not taken into account. A consequence could be the manipulation of expenses and costs that should be related to certain revenue so that benefits could be generated. Respondent 2 argues that technically accrual accounting can not be applied to the public sector, where in this case application to Dutch central government was discussed. The argument respondent 2 uses is related to the matching principle. He argues that the central government cannot match the tax income to the expenses made in the same accounting period. There is no direct matching between tax income and the departments that use the resources and make the expenses. Respondent 3 argues that it is

possible, however he acknowledges that the matching principle is a difficult issue, and mentioned that foreign national public sector accountants have serious trouble finding a solution for this problem. However, respondent 3 argues there will be two measurements that try to solve the problem. First, the matching principle will tried to be solved by matching expenditures to the performance of public policies. This will mean a combination of financial and non-financial information will be created. The second measurement is another way of matching, by creating an operating review and matching the budgeted income to the realized expenditures, which are in this case costs and financial transactions. However, he emphasises the first measurement will give structural information. Respondent 7 argues that among members in the international standards board, a move can be seen that intends to try to reduce the instinct of matching. It is an attempt to move away from the matching principle, making the influence of the issue less important in the public accounting.

In a legal perspective, the role of the accounting and budgeting system of a government is that it has to be authorized by the parliament. The parliament has constitutional power over the yearly budget; it has to approve the national budget. After the stage of approval, ministries are authorized to make expenditures consistent with the legal appropriations of each item (IMF). Respondent 2 considers the accrual accounting system based on private sector rules as technically impossible, because he argues that when the parliament authorizes a budget, it authorizes expenditures not costs. In the case of the authorization function of the central government, Respondent 3 argues that the government should use cash accounting to draft the budget and use accrual accounting for the authorization function. Respondent 7 argues that if the parliament has no longer the power to authorize the budget, it loses control of power to the executive branch of the government. The level of power in relation to the accounting system and the provision of information will be discussed further in a special subcategory.

A known fact is that the government has an influence on the macro economic situation on both a national level and on a global level. In this subcategory, findings regarding the role of the central government in relation to the economy and the accounting system will be given. Respondent 2 argues that the government has two roles, namely one in which the government is a consumer and one in which the government is a producer. In his opinion, a specific accounting system belongs with each role of the government. Where the government plays the role of consumer, he argues a cash accounting system should be used, whereas an accrual accounting system is more suitable for the role of producer. Respondent 4 argues that it is technically curious to make use of two different systems for the two different roles the government plays. Respondent 3 uses the same argument as Respondent 4, however he agrees on the fact that the government plays two roles.

#### 5.3 Interests of proponents and opponents

In the category, Interests of proponents and opponents, the findings in relation to stakeholders and their pros and cons of accrual accounting are presented into two sub categories. These are interests of proponents and opponents of accrual accounting in the public sector, and resistance and encouragement of the stakeholders. These two subcategories can be perceived as similar, however in my

During a period of reforms, stakeholders are affected by change. This creates groups of both proponents and opponents. During the interviews several groups were discussed resulting in different findings. Respondent 1 argues that opponents of adopting full accrual accounting were the employees of the ministry of finance. The government officials, he argues, had and have to make drastic changes during reforms. The area of expertise of these officials shifts not in their favour. Respondent 2 argues that although government officials could bring up issues regarding the necessity of reforms, he believes that they will not have a problem adapting. Respondent 7 argues that in New Zealand, the treasury department was, as opposed to the Dutch situation, one of the proponents of implementing accrual accounting. However, other branches of the New Zealand government were suspicious and were acting cautiously, because the issue of power was at stake.

In this paper, two responses of reforms are grouped as resistance and encouragement. These are actions by opponents and proponents that take place during changes in times of reforms. Respondent 7 argues that in the case of the adoption process that took place in New Zealand, both resistance and encouragement were actions used by opponents and proponents. She argues that in New Zealand, the treasury department were promoting the reforms. Opposition of reforms were for instance semi-governmental organizations, such as universities. They were resisting the accounting reforms, arguing that when the consolidation of accounting systems would increase control over them, consequently, the government will in fact control what will be taught at the universities. They argue that universities should be independent regarding what knowledge they offer to their students. Respondent 1 argues that in the Netherlands, the officials of the Dutch ministry of Finance pulled up a smoke screen of arguments to withdraw the early announcement to implement accrual accounting in the Dutch central government. As reason for resistance Respondent 1 mentions anxiety of officials regarding the complexity of the reforms and the amount of extra work the change will bring.

#### **5.4 External factors**

In the category external factors, problems and issues, which are adding value to the discussion of adoption of accounting systems are given and examined. The combined findings are named external factors, because they independently address their own problems, however together have a collective impact on shaping the vision of the future of accounting systems. The subcategories are Overflow of information, information complexity, Implementation difficulties, Time aspect, and the Pilot of LNV.

Policy makers in the public and private sector depend on information in order to make well-justified decisions. Accounting systems collect and process transaction data into financial information, which is communicated to interested parties and stakeholders. Accounting systems have according to Butterworth, (Butterworth, 1972) an information function, which have policy consequences. He argues that information can have implied action. It is very important that information is reliable and relevant. Especially, relevance is of major importance, because one of the concerns of politicians and policy makers is the amount of information. In order for the information to be useful for the decision making process, it must be relevant. Not all information is relevant, and therefore can be relatively abundant. A complaint that often comes to light is the overflow of information. Respondent 6 argues that governmental reports often include multiple analysis of less important factors of certain subjects. He argues that overflow of information leads to recklessness among politicians and ambiguity of information. He fears that politicians will not see the wood for the trees, due to the overflow of information and the increasing ambiguity of information. This could lead to misinterpretation of the importance of information. In the case of accrual accounting, this could be an argument for the opposition, because accrual accounting will increase the amount of information. However Respondent 6 argues that the information resulted from accrual accounting will be of great relevance for the decision process of politicians and policy makers. Respondent 1 agrees with Respondent 6 about the overflow of information. He also suggests that accrual accounting however will result in relevant and important information, necessary for decision-making. Respondent 7 agrees with respondents 1 and 6 about extra information, due to adopting accrual accounting, however she also emphasizes that information will be increasingly complex. The complexity of information is the following subcategory, and is closely linked to the overflow of information.

The complexity of information has an impact on the handling and management of information, because it has an impact on how the information is perceived by stakeholders. A politician, who does not comprehend the information handed to him, cannot take the proper action. Not all policy makers have financial backgrounds, therefore are not familiar with financial statements. The complexity of accrual accounting is higher than cash accounting, because the basis underlying the accrual accounting system is more difficult to comprehend than cash based accounting. The question rises, whether policy makers or politicians should have a financial background or should get extra financial training and education. Are there other ways, finding a solution for the increasingly complexity of information? Respondent 2 argues that training is often meaningless, because of the high efflux of politicians in the political landscape, both on national level as on decentralized level. He remarked that this especially means for regional politicians, who often work on a part-time basis. Respondent 3 argues that he believes that in present day, all politicians and policy makers working on national level must have a financial background, and be aware of financial problems and issues. He argues that the presentation of information originated from accounting systems should get more attention. In order to make it comprehendible, he argues that data should be analysed and the content should be presented in a manner, understandably for stakeholders. Respondent 4 argues that complexity of information should not be a problem for policy makers and politicians, even if they have no financial background. He argues that politicians have the ability to quickly adapt and learn the basic principles underlying accounting systems. Respondent 5 agrees that information becomes increasingly complex, when shifting from cash to accrual accounting. He argues that in the private sector, owners of firms have one focus, which is based on the bank balance. This is easier to comprehend. If the bank balance has increased, the company has achieved a good result. In a sense this is the same as cash accounting. Respondent 5 thinks this is too short-term minded and this does not present the whole picture. Respondent 5 argues that policy makers are not obliged to have a financial background. He argues that as a solution, a policy maker can make use of a proper staff, with financial knowledge. Respondent 6 agrees that information becomes increasingly complex and suggests that members of parliament and policy makers need a financial background and agrees that a possible solution is giving financial training in order to increase financial background. Respondent 7 argues that financial accounting is very complex and she doubt that financial training is sufficient for politicians and policy makers to understand financial statements. She argues that it took her a long time to understand financial statements and she comes from a business environment. According to her, not a lot of politicians come from a business environment and therefore are not familiar deeper understanding of financial accounting.

In times of reform, changes lead to issues and problems. During a transition process of systems, implementation problems occur. These problems require tackling and proper handling. However, in some cases, instead of solving problems, issues can be prevented, by avoiding the problems. Experiences of other countries, having already implemented accrual accounting, can be considered as very helpful. They can act as a benchmark. Pitfalls during the implementation phase can tried to be avoided or altered in such a manner that problems can be considered as being diverted and solved. In New Zealand, according to Respondent 7 three major pitfalls occurred. First, due to too much autonomy of departments, too little cooperation among departments, and a lack of supervision of a general government body, multiple accounting systems were created. Departments developed their own systems, resulting in multiple systems, which could not cooperate together with systems of other departments. She argues that with better supervision, one unified system would have been created, resulting in a more beneficiary accounting system. Second, during the

implementation, consultants were hired to support the reforms, however due to lack of unity, department hired their own consultants. The result was that the hiring of extra consultants was very expensive. Third, New Zealand tried to implement business accounting standards, which caused problems. Business accounting standards are created for the purpose of business in the private sector. They are not suitable for the public sector, because they are not sufficient. In the public sector other areas require different coverage of other accounting standards. Respondent 6 argues that the implementation process does not have to lead to sudden uncontrollable changes. He suggests that accounting reforms in the Netherlands could be scheduled and implemented in phases. For example, approaching the reforms with a detailed plan based on concrete steps.

In this next subcategory, findings regarding the aspect of time in relation to the reforms in other countries in the past two decades are given. Is there a correlation between certain time aspects and the reforms? NPM started in the 1980s and continued in the 1990s (Hood, 1995), leading to reforms in governmental systems among several countries worldwide. (Barton, 2011) From a global perspective, the world economy has seen significant growth in the 1990s (Worldbank, 2005) In this decade; a lot of policy related reforms have been made, which stimulated economic growth. Due to the possibilities of the entering of new markets, such as China and East-European markets, the world economy had the potential to positively develop. The growth of the Dutch economy, as being part of one of the developed countries continued until 2000s, when the Internet bubble broke (VNO-NCW, 2010). In 2003 when Minister Bos retracted the earlier decision of adopting accrual accounting in the whole of government. Where the general consent was pro accrual accounting, during early 2000s, this shifted towards a more conservative look on accounting. In this period of time, the economy of the Netherlands was recovering from a recession. The question can be raised whether the state of the economy was acting as a major factor, which influenced the decision of the minister of finance. In times of economic growth and prosperity structural changes will be accepted more easily. In reverse, one could argue that in times of economic decline, when the government has to save on the budget and make expenditures cuts, it can justify a structural reform.

As a reaction one could ask, whether the current state of the economy has influence on a decision, regarding the adoption of accrual accounting in the central government, in the future. The Dutch economy is currently recovering from a recession. It seems that the Dutch economy is currently stable. The Dutch statistics bureau CBS states that in the last quarter of 2013, the Dutch economy increased, resulting in a small growth of 0,7% (CBS.nl). The Dutch planning institute CPB estimates the total growth for the Dutch economy on 0,75%. (Nu.nl) Respondent 1 argues that in times that the government has to make budget cuts, it has to make these cuts based on justified information. Respondent 1 argues further that when the Dutch economy will increase its stability, the possibility that reforms pass will increase significantly. Respondent 6 argues that the current uncertainty of the state of the Dutch economy and the overall forecast creates uncertainty regarding the accounting system reforms. He believes that the current time has a great influence on the decision of adopting accrual accounting, in a negative way. Respondent 4 argues that in the 1990s the private sector flourished and that this gave the policy makers and politicians the incentive to reform the public sector, concentrating on private sector aspects. Respondent 3 agrees with respondent 1, arguing that in financially harsh times technical and structural changes will not have priority. Based on the estimated cost and benefits in 2003, he argues that the ministry of finance decided that informative value would not outweigh the costs. Respondent 7 argues that the political composition as a time aspect has a impact on the future. It depends who has the power, how the political balance is in the parliament.

In this subcategory, the findings regarding the pilot of LNV will be given. In 2004 the motion of parliament member Mastwijk was approved. The motion asked the Dutch

government to set up a test pilot. This pilot should test the applicability of accrual accounting in a central government department. The ministry of agriculture was chosen to perform the pilot. The pilot should give insight and transparency regarding the financial and policy information output of accrual accounting. The Dutch parliament was curious whether a different accounting system would come up with major changes in the financial data and information. Respondent 1 argues that the pilot cannot be recognized as a proper undertaken pilot, because the Ministry of agriculture did not fully adopt accrual accounting. They kept using the cash accounting system and transformed the outcome of the cash accounting system into accrual accounting information. Respondent 3 agrees and argues that it decreases the scope of the pilot. The costs of the pilot were too high and therefore the government chose not to fully adopt accrual accounting as a pilot. Respondent 4 agrees and questions the result of a pilot. The information resulted from the pilot did not result from an accrual accounting system, which was the goal of the pilot.

#### 5.5 Balance of power

From a legal perspective, the power to rule a sovereign nation is separated into several branches. In many countries, in the constitution, the governance of the state has been recorded. In the Netherlands, power has been divided into three branches, namely executive, legislative and judicial branches. As part of the legislative branch, the parliament has a duty to represent the people. On behalf of the people they make decisions and approve legislation. Among one of the responsibilities, the Dutch parliament has to approve the budget presented by the executive branch of the Dutch government. This will be called the authorization function. From a legal perspective, this means the parliament has power over the executive branch of the government. One could speak of the right of budgetary control. In the current situation of financial reporting, the Dutch central government uses a cash accounting system to set up the annual budget and uses this system for the accountability of the past periods. The right of budgetary control is based on rules regarding approval criteria and the cash accounting system. When reforms take place, which affect the authorization function of the parliament, this will consequently encounter on heavy resistance by policy makers and politicians. The separation of power is a delicate subject and requires solid justification and argumentation, whenever changes will be asked. Respondent 2 argues that accrual accounting would create a different structure in the budget. Respondent 2 argues that based on judicial reasons this budge will be technically impossible, because the parliament cannot authorize. However he argues that when there will be an adjustment on the statement of income and expenses, without matching, there is a possibility to keep budgetary control of the parliament. For investments a special item can be created which will be added up to the expenses and which can be authorize. Depreciation will be incorporated into the investment item. Respondent 3 agrees with Respondent 2, and adds that these issues are technically very difficult, however he expects these issues are not insurmountable. Furthermore Respondent 3 argues that statistical institutes, such as CBS and Algemene Rekenkamer sharing the opinion of proponents of accrual accounting, increasing the power of proponents. He argues that in the past economist of micro side and macro side were on opposite sides regarding accounting systems. Respondent 7 argues that in New Zealand the power shifted from the parliament towards the executive branch of the government. She argues that in New Zealand the Department of Treasury gained more power due to their technical superiority in comparison to the policy makers and politicians in the parliament. As a concern one could remark, that in the Netherlands the Ministry of Finance could gain more control over the financial decisionmaking. However one could remark this is a political issue and should be handled as such.

#### 5.6 Purpose of accounting systems

In this category, findings regarding the purpose of the accounting system will be given. Information is generated as a result of processing financial data and transactions. As mentioned earlier, solid information is needed for policy makers and politicians to make justified decisions. There are two types of information, namely forecasted, planned information and information reviewed and report concerning a past period. In audit, a distinction can be made between financial planning and financial reporting, leading to budget information and accounting information. In the discussion of adopting a different accounting system it is required to make distinction between these sides of financial information. In view of creating future perspective of the accounting system in the Dutch central government, both sides of the creation of financial information have to be defined and explained, because there is a possibility of using different systems. In the case of the Dutch financial audit system this would mean that only one side would change during a reform, namely the accountability side, when EPSAS would be implemented. As mentioned earlier, the European Union is preparing a proposition regarding implementation of an accrual accounting based system in all of its member states. EPSAS is a structure that will deal with the accountability side of financial reporting. Respondent 3 confirms this, stating that only the financial reporting is of importance, because the EU wants to have comparable financial data, in order to have solid data on which the EMU-balances will be based. When EPSAS will be adopted, this would mean that the budget side of the Dutch State Finances will not change and remain calculated based on the cash accounting system. Respondent 5 argues that only one system for both sides should be used. He questions whether two systems would be causing extra confusion. Respondent 7 argues that control, such as budgetary control and expenditure control, is the first purpose of financial reporting in the public sector. Respondent 3 agrees and according to him this should be the starting point when implementing EPSAS. Furthermore he argues that the Dutch government will cooperate with the member states to ensure that EPSAS will be a effective and efficient system.

#### 6. Discussion

In this part of the paper, the major findings of the respondents will be linked to the literature. First, the respondents were asked about the current situation. Second, the most noteworthy findings and the findings related to the foreign experience will be discussed and put in a mutual context. Third, overall aspects and the future will be discussed in the view of the author. The results will be summarized into a vision on the future of the author. What will happen in the future? Is the accrual accounting system an option for the Dutch Central government and should it be implemented? What obstacles are preventing the system from being adopted?

#### **6.1 Current Situation**

In this part of the discussion, the view of the respondents regarding the general current situation will be given, with the focus on the situation in the Netherlands Besides the current situation, the respondents were asked how they would perceive the future of the Dutch situation. Together with the findings of the 6 categories a combined discussion should result in a general vision of the author. Starting with the position of the executive branch of the government, namely as stated by the Dutch minister of finance in a commission assembly. During the assembly of the committee of national expenditure, questions were asked referring to the current state of accrual accounting in the Netherlands. The minister commented that the current administration has no plans to reform the accounting system. As a reason he mentions the outcome of the pilot of LNV. The cash accounting system is superior to an accrual accounting system regarding the provision of comparable and reliable information. (Notaoverleg, 2013). Three respondents argue that the pilot of LNV cannot be recognized as a reliable measurement instrument, because the accrual accounting system was not fully implemented in the ministry of agriculture. This was too costly and time consuming. As a false substitution, the outcome of the pilot was based on altered cash accounting figures (Brief evaluatie pilot LNV, 2008). One could argue that the pilot does not provide sufficient evidence to make justified conclusions. Furthermore, during the assembly, the minister continues to argue that an accrual accounting system would increase the risk of falsely recording consumptive expenditures as investments. It is possible that policy makers and or politicians would be able to abuse the system. However, solid regulation could prevent the abusive application of the system, adding that one could argue that whenever there is no trust basis in the application by a human user, one could argue there is no trust in the human. Consequently one could argue, there can be no trust in any system, handled by a human user.

For these 2 main reasons, the minister sees no short-term opportunity for the Dutch central government to reform the accounting system. Respondent 6 is a member of parliament and as such he asked the current administration to research the option of EPSAS and the adoption of accrual accounting system in a motion, which was denied by vote in parliament. Respondent 3 confirms this situation and states that a shift has taken place towards increasing support of the statistical bureaus. He argues that in the past a discussion took place between micro and macro economists. The macro economists were opposing the idea of reforming the accounting system. The argument for macro economists as well as micro economists is to improve the quality of the financial data, in order to create solid EMU-numbers. Across the European Union, the financial information should be more comparable and reliable. As a result, this should increase the confidence in the financial European system and in the European Union as a whole. EPSAS is a financial reporting framework, which is based on IPSAS, however the European Commission wants to maintain autonomous control over the accounting system. The idea is that the accrual based accounting system shall be implemented

in all of national governments of the members of EU. The argumentation relies on creating comparable, reliable and relevant to establish solid EMU data.

#### 6.2 Experiences in foreign countries

Australia and New Zealand were among the countries that assumed a leading role in the process of implementing accrual accounting in the world. A recent PWC report projects that in the next 5 years, the countries that are using an accrual based accounting system will increase to 63%. Respondent 7 argues that there is an increasing popularity among stakeholders who are proponents of accrual accounting, such as academics, politicians, economists. She argues that accrual based accounting systems will eventually be implemented. However there is criticism concerning the application and other issues that can affect public management and control. These critiques can be divided into technical and operational issues and will be discussed in the future view. Foreign experiences can serve as an example for the Dutch government. Most remarkable outcome from the interviews, concerning foreign experience, is the fact that Respondent 7 argues that long-term perspective, which should increase due to accrual accounting, did not happen in New Zealand. She argues that government should be aware of business style principles in accrual accounting cannot be applied on public sector accounting. Respondent 7 argues that supporters of accrual accounting name advantages in order to persuade the opposition. As mentioned before, the advantages are greater transparency, greater promotion of efficiency and greater accountability. The outcomes of the advantages are according to respondent 7 questionable. As an example where the outcome is questionable she mentions New Zealand. Ball (2012), who is one of the proponents of accrual accounting and was involved in adopting accrual accounting in New Zealand, is advocating transparency, where Respondent 7 questions it. One could say if accrual accounting would lead to more information with an increasingly quality, it should increase transparency. However one would argue that an overflow of information, increasing complexity of information, would lead to less understanding among the politicians and policy makers and would lead to less transparency. The argument is that only experts are able to understand the complexity of the outcome of the accrual accounting system. A result of this argument is that the expertise will shift to parties with financial background. According to respondent 7, in New Zealand the balance of power shifted toward the parties with knowledge about accrual accounting. The balance of power shifted from legislative branch of the government toward the executive branch of the New Zealand government. Respondent 7 argues that the members of parliament become due to the complexity and overflow of information dependable of the cooperation and expertise of the New Zealand treasury department. In a way, a loss of control of the parliament shifted toward the treasury. If so, one could question this shift of power. For a sovereign country, the separation of power is very important, because it affects the society as a whole.

In the 1980s when NPM introduced itself, reforms started and successfully continued until the late 1990s (Connolly and Hyndman, 2006). One could argue that due to the overall global economic growth, countries were more willing to change. All respondents agree on the assumption that during economic prosperous times, stakeholders tend to be more willing to adopt and implement structural changes. Especially when the benefits of an altered system will not immediately be visible by the public and politicians. New Zealand adopted the accounting reform during difficult period. In this period there was low economic growth (OECD, 2014), however other economical factors declined. Compared to the rest of the average OECD countries, the growth of New Zealand was relatively small. In these circumstances one could argue whether it was necessary for the government to make these reforms or it was a bold move. Should the time aspect be of value? Several respondents argue that the economic circumstances have played a role in the decline of the idea of accounting reform in the Netherlands in 2003. When compared to the economic situation of New Zealand, this contradicts to the actions of the New Zealand government to handle the difficult economic situation. In the article believer vs. non-believers (accountant, 2010), an interviewee comments that he cannot understand that in economic difficult times, in which the government had and has to cut the budget and national expenditures, the governments accounting system does not provide information with sufficient quality. An accrual accounting system would provide extra information, a greater picture.

#### 6.3 Vision of the author

In this part of the discussion, overall issues and general problem will be addressed. On top of this, a future perspective of the author will be given. During the research process some remarkable results came to the surface. In this part, we will share the perception on the future of the Dutch situation, in respect to budgeting and financial reporting and in relation to the findings and literature.

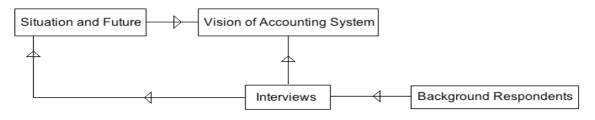
When starting to analyse the accounting system of the government, a public sector organization, first the purpose of the accounting system needs to be established. In case of the purpose of the accounting system, all respondents agreed on the fact that an accounting system needs to provide and record relevant, reliable and comparable and high qualitative information, on which the policy makers and politicians base their decision-making. If the information is sufficient and meets the requirements of the stakeholders, one could argue that the discussion of which accounting system delivers this outcome can be claimed as superfluous. Critics of the cash accounting system however state that cash accounting alone cannot provide this information (Carlin, 2005). However, the adoption of an expansion package of accrual accounting related systems could increase the size and quality of the information outcome. If this would mean partially adopting accrual accounting could lead to an increase in the quality of the information outcome and if this consequently would be perceived as sufficient enough to operate and make decisions by all the stakeholders, then it would be superfluous to implement full accrual accounting. Baring the recent events regarding EPSAS in mind, one could argue that in case of financial reporting eventually an accrual accounting system will be adopted. The European Commission argues, in order to be able to present reliable and trustworthy EMU data, the members of the EU should adopt a mutual accounting system based on accrual accounting. Respondent 3 confirms these recent developments. One could argue that a cash accounting system does not produce the trustworthy outcome to present EMU data. Critics of the accrual accounting system argue that the purpose of an accounting system in the public sector is providing information in order to create financial control. Respondents 2 and 7 agree and argue that in a Trias Politica, the parliament has, due to its authorization function, budgetary and expenditure control over the executive branch of the government. According to Respondent 2 and 7 this should be the main foundation for an accounting system. Proponents of accrual accounting argue that accrual accounting will increase the expedience of investments and expenditures. Respondents 2 and 7 argue that with a business style accounting system, which is an accrual based accounting system and which is basically not suitable for the public sector, the focus is on expedience and efficiency of expenditures, and should be on expenditure control. However one could argue that when adopting an accrual based accounting system, the start should be to keep in mind budgetary and expenditure control. This could be adopted in the regulations. Another way of improving the expedience and the efficiency of expenditures, without interfering with the technical and legal issues, is to maintain the budget structure and implement an accrual based accounting system in the financial reporting. This is the main idea behind EPSAS. One could argue that this would mean that the government would make use of a dual system, which could cause confusion and can bring extra costs. Respondent 3 however,

argues that this solution would bring the best of both systems and would provide the highest qualitative information. A possible critique of this solution is the outcome in the research regarding the information overflow and information complexity. The current policy makers and politicians receive an overflow of information, in forms of reports, policy notes, etc. It is impossible to consume all this information. Therefore a degree of importance is necessary. The output of accrual accounting will increase the amount of data and consequently the overflow of information. Besides the overflow of information, the complexity of the information generated by accrual based accounting systems will increase. According to respondent 7, politicians and policy makers, without a financial background, will have great difficulties with processing the information from accrual accounting. Respondent 5 argues that the simplicity of a cash accounting system creates favouritism among stakeholders with little or no knowledge regarding accrual based accounting systems. Furthermore he argues that decision makers should have people with financial expertise at their service. Respondent 2 and 3 disagree about the complexity of accrual accounting and argue that politicians have the capacity to learn the basics to understand the output of accrual accounting. It can be considered as an option to train the financial basics to policy makers and politicians. Respondent 7 questions whether this is feasible. She emphasizes that complete financial programs take multiple years and she stresses out that the amount of time financial specialists used for studying complex financial situations and systems takes an enormous amount of time. Respondent 5 argues that people tend to use cash accounting in their daily life, to record their own private financial situation. He continues to argue that among his clients, business owners tend to think in cash position rather than balance position. He argues that cash is more touchable. Respondent 5 argues further that a firm with a good capital position can be subject to bankruptcy as well, because the liquidity position is essential. He argues that therefore companies are thinking cash flows in order to be able to make investments and pay liabilities. In a sense, this does confirm the argument of Respondents 2 and 7 about the focus of an accounting system, especially in the public sector, namely budget and expenditure control. As mentioned before in this paper, in the assembly of the committee of national expenditures, the minister of finance explained was asked about the current state of the central governments accounting system and the plans for the future (Nota-overleg, 2013). The minister stated that the current government has no future plans to adopt accrual accounting. His argumentation was based on two reasons, which were given earlier in the paper. These are the fear of abuse of an accrual based accounting system and the outcome of the pilot of LNV. During the interviews these two reasons were discussed. First, the fear of abuse originates from the idea that malpractice can take place, by falsely recording consumption costs as investments. Respondent 6 who is a member of the committee, agrees with the minister, about the possibility of abuse, however he argues that with supervision and regulation, abuse should be prevented. Furthermore, he argues for a slow incorporation of accrual accounting based on a step-by-step plan. One could even argue that when the stakeholder, who is responsible for the safeguarding of the system, cannot be trusted, this can be suggested as a consequence of mistrust in the stakeholder, not the system. Second, the outcome of the pilot of LNV is questionable. The findings of the pilot suggest that the short-term benefits do not outweigh the costs and effort of implementation. Respondent 1 disagrees and argues that the future benefits are very difficult to estimate. Furthermore, one could argue that the pilot of LNV can be used as a reliable source of information. The accrual accounting based outcome was generated by the cash accounting system of the ministry. The ministry never adopted or implemented an accrual accounting system. So, one could conclude that the pilot was based on adjusted figures from a different accounting system. This can be considered as highly questionable. As an addition to this issue, in the evaluation of the pilot, the minister of finance at that time, Wouter Bos, suggested that the pilot could not provide sufficient data, in order to research the expedience of the department. The reason was based on the duration of the pilot, which was too short.

Based on the argumentation of the current minister of finance, which can be labelled as questionable, one might argue for a revision of the idea of implementing accrual accounting in the central Dutch government. Accrual accounting can also be implemented as an addition to the current cash accounting system. This would increase the quality of the management information.

# 7. Conclusion

In this section of the paper, the research question will be answered. The conclusion will consist out of three parts. First a summary of the results will be given. In this part the research question will be answered. It gives a short recap of the results of the interviews and the situation and future. See Model 2. Furthermore, the conclusion continues with the limitations and ends with the implications to future research.



#### Model 2.

#### 7.1 Summary of results

The main question in this paper is based on the subject surrounding the area of accounting systems in the public sector. Should the accrual accounting system be adopted in the central government of the Netherlands? A comparison between the current cashcommitment accounting system and accrual accounting system was given. The current situation is explained and clarified. The current Dutch central government is using the cashcommitment accounting system for budgeting and financial reporting, which is according to van der Hoek (2005) is not providing sufficient information. The main question can be interpreted in different ways, consequently it can answered in different ways. Regarding the future situation, as the minister of finance in the assembly stated, the current administration will not adopt accrual accounting. The minister defends this decision using two arguments. In this paper the two arguments were named abuse of the accrual accounting system and the outcome of the pilot of LNV. In the discussion of this paper, these two arguments are considered as questionable. In the vision of the author, the arguments can be determined as disproved and therefore the decision of the minister can be deemed questionable. A revision of the decision to research the possibilities of implementing an accrual based accounting system is advisable. In the current economical time, in which the government has to make budget cuts and needs extra control on its financial expenditures, one can argue that increased management information would be most welcome.

During the interviews, the general consent among respondents was that an accrual accounting based system is a technical superior system. A remark has to be made regarding the difference between business accounting and accrual based accounting. Experts in the field of public accounting question the applicability of business accounting to the public sector (Barton, 2007., Carnegie and Wolnizer, 1995., Newberry, 2002, 2003). They argue that the private sector is fundamentally different in the purpose, nature and function over management in the public sector. Therefore stakeholders demand different output of the system, in the form of financial information. The superiority of the accrual accounting system is established (Carlin, 2005), however one cannot duplicate the business accounting system for the public sector. (Barton, 2011). Respondent 7 argued that it is not a technical discussion, but a political discussion. Based on the findings and results, one could conclude that it is a question of time whenever accrual accounting will be adopted. It is questionable, too which extent it will be adopted. The current developments regarding an overall European accounting system, suggest

that in case of financial reporting, an accrual based accounting system will be implemented. This would mean that the Dutch central government shall make use of a dual accounting system. Fully adopting accrual accounting, would mean adopting accrual accounting at the budget side as well, creating legal issues and balance of power problems. The main purpose of an accounting system is to provide the policy makers and politicians with reliable, relevant and comparable information, on which they can make, justified decisions. If the implementation of an accrual based accounting system will increase the amount of qualitative information and therefore the performance measurement (van der Hoek, 2005), this would be advisable. However, if a dual system produces the same effect, and it would avoid legal issues and balance of power problems, the author would recommend a dual system, even if it were more costly. The claims whether accrual accounting is more transparent and long-term oriented can be considered as more theoretical rather than practical outcome. It is yet to be proven.

#### 7.2 Limitations

In this paper exploratory research was performed. Several limitations can be addressed to the paper regarding the performance of this research.

First, the general limitations of qualitative research will be given, such as subjectivity, implicit assumptions, interests, worldviews, prejudices and one-sightedness of the researcher (Collins et al., 2004). Seven stakeholders of public accounting were interviewed. The sample group can be perceived as too small, however during this research, an exploratory view was to be created. The creation of a multi-perspective view was the goal of this paper. With this sample group, consisting out of stakeholders with all different backgrounds, seven different perspectives could be compared. From this point of view, the sample size was large enough.

Another limitation is the researcher bias. During the interviews, the research could be biased, influencing the course of the interview. This might increase the error of the research, however this is tried being avoided, by preparing an interview protocol based on semi-structured interviews.

Critical acclaim during this research is that of the opposition of accrual accounting claiming that proponents of accrual accounting, who are salesmen of the system and thus can be considered as subjective, are using abstract claims, such as long-term and transparency. However, these abstracts are very hard to determine and therefore very hard to research and to prove. Respondent 7 argues that in New Zealand these abstracts were used to sell the system to the public and the stakeholders. She claims there is little prove of the outcome of these abstract, such as extra transparency and policies becoming increasingly long-term-minded.

Further limitations can be remarked regarding ethnicity, respectively to the amount of foreign experience and the amount of women in the sample group. Out of the group of seven respondents only one female and only one foreign expert was interviewed. Regarding feminism, this can have a biased effect on the interview. However there was no significant difference between the interviews of respondent 7 and the rest of the respondents. The key indicator to make a comparison was the technical knowledge of the respondents. This can be acclaimed as sufficient for exploratory purposes.

#### 7.3 Implications for future research

The process of answering the main question has led to some interesting perspectives on the subject, both from public and private perspectives. In this paper the focus was on the Dutch central government. In the current time of increasing globalization, the world is continuing getting smaller. Nations increase their cooperation with each other. The Internet has led to an increase in transparency and intensified the contact between the people and the government. A following step is to increase transparency in the public financial sector. The future plans of the European Union to adopt an accrual based accounting system are part of this plan. The application of EPSAS would mean that all member state would implement an accrual based financial reporting system. This will create two research gaps. First, in order to implement the EPSAS system, scientific research has to be conducted to determine whether such a system is feasible, regarding complexity and costs for all nations. All the member nations have to reform their accounting system. There must be mutual agreement about the interpretation of the new system and regulations. Second, an implementation of EPSAS will mean that accrual accounting will only be implemented at the financial reporting side of accounting. One could argue that using a double accounting system would create extra costs. Further research can be conducted concerning accrual based accounting systems at the budget side.

Regarding the limitation in this paper, of too little foreign experts participating in the research, further research can be conducted exploring the relationship of the accounting system in the Netherlands to accounting systems of comparable nations. Nations such as Australia and New Zealand can be benchmarks in the dos and don'ts concerning the adoption of accrual based accounting systems. Interviewing more experts of these nations would bring more perspective to the Dutch situation.

An interesting outcome serving as a motive to be further investigated, is the correlation of government spending and the accounting system. One respondent cooperates with Dutch semi-governmental and decentralized governments, who have adopted accrual accounting. He argued that government spending is still based on spending the full amount recorded in the budget in order to receive a similar amount in next year's budget. Has an accounting system, in general, influence on performance and efficiency? Have accounting reforms impact on government spending? These questions can be possible motives to future research. It will create an addition to the research of this paper, gives it in-depth complementary knowledge.

During the processing of the outcome of the interviews, an interesting research gap came to the surface. In the interviews, the respondents argued that in economical prosperous times, a structural change, such as an accounting reform, should be easier be performed. However, New Zealand reformed in harsh economical times, in order to tackle economical problems. The question rises whether external economic circumstances have influence on structural governmental reforms, or will the harsh economical circumstances act as a motive to perform the structural reforms? This is interesting, however I believe hard to research.

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