

**Cardiff Working Papers in Accounting and Finance**

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*Accounting Regulation in the UK: One nation, Two sectors*

A2006/01

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ISSN: 1750-6638  
January, 2006

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## **ACCOUNTING REGULATION IN THE UK: ONE NATION, TWO SECTORS**

### **ABSTRACT**

This paper draws on the work of Streeck and Schmitter (1985) and its subsequent use by Puxty, et al (1987) to analyse the development of accounting regulation in the U.K. public sector. It provides an extension to prior literature through the application of a framework, based on modes of social order, to investigate divergence in the approaches to accounting regulation between the public and private sectors within a single nation state. Despite the advent of 'New Public Management', a different balance of the principles of regulation was established and continues to exist in the public sector when compared with that applied in the private sector, reflected by their respective approaches to due process. The conclusion is that the UK public sector accounting regulatory structure remains rooted in the state mode of social order and hence is different from that found in the private sector, despite the rhetoric of modernisation through the adoption of private sector management practices.

Keywords:

**accounting standard setting; public sector; due process; modes of social order**

## **ACCOUNTING REGULATION IN THE UK: ONE NATION, TWO SECTORS**

The United Kingdom public sector has undergone radical changes in the last twenty years through the adoption of organisational structures, management techniques and modes of accountability developed in the private sector. This transfer has become known as New Public Management (hereafter NPM) (Hood, 1991, 1995) and its accounting and financial aspects have been described as the New Public Financial Management (Olson, et al, 1998). A consequence of these reforms has been the identification of discreet accounting entities that report using accrual accounting methods underpinned by concepts and practices developed in the private sector. Its manifestation in the UK central government has been the introduction of Resource Accounting and Budgeting (RAB) under the Government Resources and Accounts Act, 2000 (GRAA), and, from the outset, these accounts have been advocated as providing a 'more business-like approach' (Treasury, 1994, p. iii). All central government departments, non-departmental public bodies and government agencies have to comply with RAB requirements. The full scale of this project may be judged from the size of the estimated central government resource budget for 2005-06 of £469.1 billion<sup>1</sup>. The cost of implementing the reforms within individual departments is considerable; for example, Keelan (2001) describes the Ministry of Defence alone requiring £200 million and 30,000 man-days of training so far to implement RAB.

Accruals accounting lies at the heart of RAB and it is to conform to generally accepted accounting practice, adapted as necessary, and to have regard to guidance issued by the Accounting Standards Board (GRAA, sec. 5.3 and 5.4). Whole of Government Accounts (WGA) are also to be produced on an accruals basis again using generally accepted

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<sup>1</sup> Source [http://www.hm-treasury.gov.uk/media/172/47/pesa2005\\_complete.pdf](http://www.hm-treasury.gov.uk/media/172/47/pesa2005_complete.pdf) p.11, Consulted on 11 January 2006

accounting principles, adapted where necessary for government accounting purposes. This accounting development is consistent with the idea that, just like a business through its directors, or the economy in general through the market mechanism, the government has to allocate scarce resources; in these circumstances, it may appear logical to adopt the same accounting procedures as those that inform the private sector (for example FASB, 1980; Anthony, 1989; McGregor, 1999; IFAC, 2000). An alternative perspective is that the two sectors of the economy, public and private, are so different that a single approach to accounting standards is not appropriate (for example Jones, 1997; Robinson, 1998; Stanton and Stanton, 1998; Barton, 1999).

The rhetoric accompanying the introduction of RAB and WGA shows that they are not seen as passive recording and reporting systems. According to the Green Paper<sup>2</sup> proposals RAB will enable taxpayers to ‘be better able to see what they are receiving for their money and to judge what value for money they are getting’ (Treasury, 1994, p. iii). Internally, RAB will assist the government to ‘achieve continued improvement in the efficiency and effectiveness of the services delivered’ and will benefit ‘the wider perspective of the overall planning, management and control of public expenditure’ (ibid.). The White Paper<sup>3</sup>, which followed and built on the Green Paper, advocated RAB as providing the chance ‘to make better informed decisions about overall public spending priorities’, resulting in ‘better management of public spending’ (Treasury, 1995, p. i). This process appears not to be a matter of political contention as it continued seamlessly with the change in government at the 1997 General Election. The significance of accounting measures as a determinant of resource allocation decisions lends further importance to understanding how accounting rules for RAB

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<sup>2</sup> A Green Paper is a consultation document produced by the Government which is designed to encourage debate and feedback both inside and outside Parliament.

<sup>3</sup> A White Paper, produced by the Government, sets out details of future policy prior to possible legislation.

and WGA are developed and applied. It also raises the question of the extent of public involvement in the creation of the rules that underlie the resulting accounting reports.

The regulation of accounting practices in the private sector is well-researched and it has long been recognised that accounting rules are the output of processes that can be viewed as a form of political activity, rather than being concerned solely with technical precision (for example Gerboth, 1973; Horngren, 1973; Solomons, 1978; Walker, 1987; Fogarty, et al, 1994). Rather less attention has been paid to how accounting practices are developed in the public sector, perhaps because there is no direct wealth allocation effect to motivate powerful interest groups such as financial analysts and corporate managers. However the more subtle allocative effects of public sector accounting reforms may be no less real than those arising from similar private sector developments (for example Hopwood, 1984; Power and Laughlin, 1992).

Several broad themes of research relating to the development of public sector accounting regulation can be identified (for more extensive reviews see Broadbent and Guthrie, 1992; Parker and Gould, 1999). One approach, in common with studies of private sector accounting, has been to adopt a focused (micro-level) analysis of influences on public sector accounting using evidence of lobbying activity on particular regulatory proposals. Such studies support the argument that accounting practices are contingent upon forces that are historically and geographically localised (Miller and Napier, 1993). However Walker and Robinson (1993), in their extensive and critical analysis of the lobbying literature, suggest that most empirically-based lobbying studies fail to consider the relationship between the profession-based standard setting bodies and government regulators; this limitation may be particularly important in the context of the public sector where treasury and other departments may have significant influence or even effective control of accounting

regulations. There are no public sector studies included the Walker and Robinson (1993) survey of papers published from 1978 to 1992.

More recently, there is evidence of an increasing research interest in public sector accounting regulation as countries seek to adapt accrual accounting solutions to the public sector. Published work on the lobbying of accounting standard setting bodies in respect of public sector accounting issues includes the examination of infrastructure assets accounting in Australia (Carnegie and West, 1997), the development of Australian accounting standards for central and local governments (Ryan, et al, 1999, 2000), the disclosure of directors' remuneration in New Zealand (Baskerville and Newby, 2002) and accounting for the UK Private Finance Initiative (Broadbent and Laughlin, 2002; Hodges and Mellett, 2002). These studies provide important insights into the application of the existing regulatory process to specific public sector accounting proposals in these countries, but they do not provide an analysis of the forces that have influenced the structure of the regulatory process itself. A further limitation of this type of study is their tendency to identify discrete interest groups that are presumed to have an independent influence on the regulatory outcome without considering the inter-relationships between them (Miller, 1990). Hodges and Mellett (2005) used an interview-based approach to identify more fully the influence of the various actors involved in developing an approach to accounting for contracts underpinning the Private Finance Initiative in the UK and concluded that the outcome was a compromise that maintained the positions and authority of the two main participants, the ASB and the Treasury.

Some researchers have concentrated on a broader (macro-level) analysis of the changes in the public sector that have influenced the emergence of related accounting reforms. A common theme in many of these studies is the influence of a managerial perspective that underlies public sector accounting reforms and that provides evidence of the adoption of

NPM reforms in the U.K. (for example Humphrey, et al., 1993), Australia (Ryan, 1998), New Zealand (McCulloch and Ball, 1992) and internationally (Olson, et al, 1998). The approach adopted in this paper is similar to some of these studies in that it examines the broader influences on regulatory structure, but we seek to differentiate this paper by drawing upon the work of Streeck and Schmitter (1985), as it has been adapted to the accounting regulation environment, to provide an analysis of accounting rule-making in the U.K. public sector based on modes of social order. The use of Streeck and Schmitter's work in the accounting literature has, to date, concentrated largely on its application to the regulation of private-sector (corporate) accounting. We extend its application to public sector accounting regulation and use their framework to analyse differences in the method of accounting regulation between the public and private sectors within a single nation state. This approach is based upon an analysis of due process applied in each sector to expose differences in the structure of public sector accounting regulation from its private sector counterpart. These differences have policy implications that arise from the importance of accounting in providing a justification for decision-making in matters of public sector resource allocation. The accounting techniques may be transferred from the private sector but we argue that the UK public sector accounting regulatory structure remained rooted in the state mode of social order, and hence is different from that found in the private sector, despite the rhetoric of modernisation through the adoption of private sector management practices.

The dichotomy between public and private sector accounting regulation has become more marked with the private sector move to International Financial Reporting Standards (IFRS) which are now mandatory for listed companies and optional for others. An agenda is being pursued by the ASB to bring UK accounting standards in line with international ones and the Treasury has decided to align its accounting practices with international ones by making revisions as they emerge from the ASB's convergence programme (FRAB, 2005, p.

17). This paper concentrates on the period when the government introduced a formal approach to developing its accounting policies as this is when the divergence from the private sector system that is still seen today was established.

The next section of the paper gives a description of the Streeck and Schmitter approach and the way it has been used in prior accounting research; this is then updated for developments that took place in private sector accounting standard setting in the UK prior to the introduction of RAB. The third and fourth sections of the paper respectively describe the mechanisms of UK public sector accounting regulation and link this to examples of the due process operated by the Treasury. Section 5 analyses the public sector using modes of social order, based on community, market and state, as a framework for understanding the similarities of and differences between approaches to regulation of the public and private sectors. The concluding section offers an extension to the classification of mixed systems identified by Puxty et al (1987) and Jones (1994) and provides a commentary on the use of modes of social order to identify the coexistence of alternative modes of regulation within a single nation state.

## **MODES OF SOCIAL ORDER**

Streeck and Schmitter (1985; p.1) suggest that the three principles<sup>4</sup> of co-ordination and allocation which ‘seem to have virtually dominated philosophical speculation and social science thought’ are spontaneous solidarity, dispersed competition and hierarchical control and ‘tend to be identified by the central institution which embodies (and enforces) their respective and distinctive guiding principles: the *community*, the *market* and the *state*’ (ibid.). We use this model because it provides a framework within which to explore the forces that

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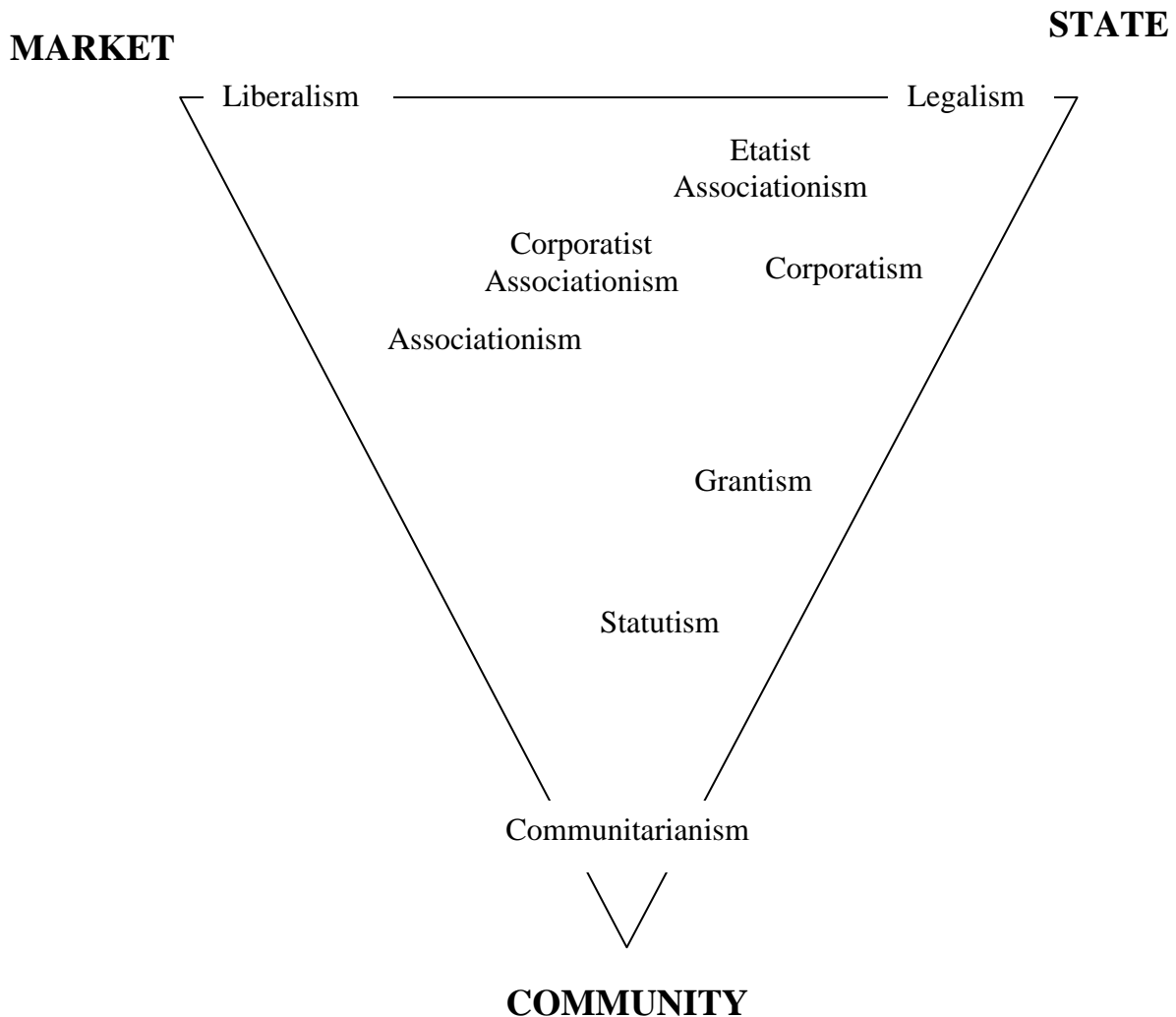
<sup>4</sup> To maintain consistency we have adopted the following terminology in this paper: ‘model’ means the Social Order Model; ‘principles’ refers to the three guiding principles of co-ordination and allocation described as ‘spontaneous solidarity, dispersed competition and hierarchical control’ (Streeck and Schmitter, 1985, p.1); ‘institutions’ refers to the related central institutions (ibid.) of community, market and state.



impact upon the standard setting process in both sectors of the economy. It enables the identification of aspects that serve to bring together the sectors as well as those that differentiate them. The adoption of NPM by the public sector indicates a policy shift towards the market, but the model identifies aspects where, despite the rhetoric, the reality of application remains firmly in the state mode.

An observed social order does not have to be allocated exclusively to any single principle. Instead the extant position is seen as coming from the resolution of the forces exerted by the three principles acting on a particular scenario. An indicative illustration of the positioning of mixed systems of social order derived from these three principles is shown in Figure 1. The identification of such mixed systems suggests that the three institutions of community, market and state are 'mutually dependent not mutually exclusive' (Jones, 1994, p.123) and that 'however dominant any one of these three may have been at a given moment and/or for a given set of actors, almost everyone would concede that modern societies / polities / economies can only be analysed in terms of some mix of them' (Streeck and Schmitter, 1985, pp. 1-2).

**Figure 1: The Resolution of Ordering Institutions (Principles) and the identification of mixed systems of social order**



Sources: adapted from Puxty et al (1987, p.283) and Jones (1994, p. 124)

Examination of the process that creates accounting standards reveals an underlying order. In some instances the agendas of the actors are aligned, for example the government and the accounting profession may agree on the need to change the public sector accounting base from a cash to an accruals model. In others cases they conflict, for example companies will resist the enforced disclosure of information that they believe is damaging to their commercial interests. The observed position at any time indicates that an equilibrium position has been reached as regards how the rules are set. This equilibrium may prove to be transient

(for example, Gorelik, 1994; Stoddart, 2000), as shown in the U.K. by the replacement of the Accounting Standards Committee (ASC) with the Accounting Standards Board (ASB) and the creation of a system to produce accounting rules in the public sector as part of the RAB agenda.

An appreciation of the processes of accounting regulation in the two sectors of the economy, the private and the public, requires an understanding of the antecedents in terms of their development. While a market-driven, laissez-faire ideology may have resulted in the existing private sector approach to regulation, the public sector comes from a more rigid, hierarchical tradition with the fiscal control exercised by the Treasury being pre-eminent. Despite such differences, similarities must also be recognised. Both draw employees from the same population, there has been an increasing exchange of individuals between the two sectors and both are affected by supra-national bodies such as the European Union and the International Federation of Accountants.

The interplay of the elements of social order contained in the model has been used in previous studies to investigate the modes of accounting regulation between countries and over time. Puxty, et al (1987) apply the model to accounting regulation in West Germany (as it was at the time the paper was written), Sweden, the USA and the UK. They conclude that, although the four countries have commonality in that they are all 'advanced capitalist economies in which systematic and persistent patterns of inequality exist between (fractions of) capital and labour' (p. 274) each displays a different approach to accounting regulation with the UK being seen to be principally Associationist<sup>5</sup> in organisation. Their paper refers to public sector accounting only in the case of Sweden, where it notes that 'there are separate regulations for the public sector, local government and private sectors' (p. 285); such

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<sup>5</sup> Associationism is described by Puxty et al (1987, p.284) as a mixed mode in which 'regulation is accomplished through the development of organisations that are formed to represent and advance the interests of their members. In relation to accountancy, the presence and influence of professional bodies is the most obvious example of the strategy of Associationism'.

divisions also exist in the other countries, but are not brought into the analysis. The social order context of accounting and its regulation is highlighted; a single mode of regulation cannot be predicted across these countries despite their unifying economic and political structures of advanced capitalism.

Parker (1988) carries out an international comparison of the UK, USA, Australia and Canada, identifying the common link between the countries as being that they are all Anglo Saxon in their mode of corporate financial reporting. In line with Puxty, et al (1987) he also designates the UK as principally Associationist. There is no mention of the public sector. In line with the previous study, a common core, in this case the form of financial reporting, does not impel the countries towards a common mode of regulation.

Willmott, et al (1992) apply an approach based on modes of social order to the manner in which accounting for research and development expenditure is regulated in four countries. They note that countries exhibit differences in the interplay between the forces of dispersed competition, hierarchical control and spontaneous solidarity within which the institutional arrangements for accounting regulation take place. Although convergence is found as final outcomes emerged, their conclusion is that national regulations cannot be fully explained through corporatist arrangements and that 'it may be more appropriate to view each national situation as a medium as well as an outcome of a global regulatory process' (p. 50). In contrast to this view of convergent supra-national forces, we identify continuing differences between the public and private modes of regulation despite the claimed unifying forces of NPM.

The model has also been used in a historical context to investigate changes in accounting regulation over time. Richardson (1989) explores the relationship between the corporatist structure of accounting regulation and the internal social order of the Canadian accounting profession in Ontario. He concludes (p. 429) that the Streeck and Schmitter model

can be applied and expanded by examining the forces which affect the origin, reproduction and transformation of accounting regulation. However, his paper focuses principally on intra-professional conflict and solidarity rather than on their relationship to the resulting accounting regulation and it does not refer specifically to developments of public sector accounting. Jones (1994) concentrates on the line between community and state, plotting the changes in accounting regulation at the University of Oxford. He suggests (p.122) that it is possible to determine several mixed modes along the community-state axis that he labels statutism and grantism<sup>6</sup>, thus explaining the interactive effects of the modes of social order and the possibility of a number of shifting points of resolution as circumstances change. Jones and Mellett (forthcoming) use the model to examine accounting for health care over a two hundred year period and extend it to include the influence of individuals as catalysts.

The uses of the Streeck and Schmitter model for international comparisons contain only a single passing reference to the public sector while those studies using the model in a historical context each deal with activities within a single sector. Hence, this paper's use of the model to identify divergence between the regulation of accounting in the public and private sectors of an individual country represents an additional application. This approach can help to identify tensions within a single nation state and thus provide an indication of the extent to which the NPM agenda has in reality infused the culture of those implementing it.

Both Puxty et al (1987) and Parker (1988) identify the mode of private sector accounting standard setting in the UK to be principally Associationist. There is interaction not only within and between members, but also with external parties, such as the state, whose involvement is necessary to enforce its outcomes. However, these conclusions require modification to encompass subsequent changes under which the Financial Reporting Council

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<sup>6</sup> Statutism is typified by *ad-hoc* interventions by government to reorder and restructure administrative and financial systems of normally self-governing, autonomous, communitarian institutions. Grantism is typified by recurrent government intervention, through an intermediary body, which provides financial aid (Jones, 1994, pp 122-3).

(FRC) and its subsidiary, the ASB, became responsible for producing the accounting standards which are adapted by the Treasury for public sector application. The ASB is recognised under the Companies Act 1985 and took over the task of setting accounting standards from the ASC in 1990. It can issue accounting standards on its own authority, subject to a majority vote of seven of its ten members. The FRC is also the parent company of the Financial Reporting Review Panel (FRRP) that examines departures from established accounting requirements and, if necessary, can seek a court order to remedy them.

The FRC and its companion bodies are not Government controlled, but are part of a private sector process of self regulation and this is reflected in their constitutions, membership and financing (FRC, 2001). The dominance of the accounting profession has been reduced since 1990 as it now provides only one third of the funding, with the remainder split equally between the government and the private sector in the form of listed companies and the banking and investment communities. This dilution is reinforced by the presence on the council of sufficient members drawn from the corporate sector to reduce the practising accountant representation to a minority. The chair and deputy chair of the FRC are both appointed by the Secretary of State for Trade and Industry and the Governor of the Bank of England. Two members of the FRC council are drawn from the state sector, as well as three observers. At the ASB level the corporate sector has four members, the accounting profession has three and the state is represented by two observers.

We suggest that these changes require a re-designation of UK private sector accounting regulation, as it existed when RAB was introduced, within the model. The move from the ASC to the FRC has introduced legalist aspects to the social ordering of accounting regulation in the UK. The machinery remains based on Associationism, but with the proportionate contribution of the accounting profession, in terms of both personnel and finance, being reduced. There is now a single oversight body that has delegated responsibility

for the production of accounting standards. There is also legal backing for the compulsory revision of accounts where they do not comply with the Companies Acts and accounting standards can, as a last resort, be enforced through the courts if other means of coercion are not successful. The UK system for regulating private sector accounting through the ASB can therefore be described as containing elements of both Associationism and Legalism. These changes to UK private sector accounting rule-making systems do not appear to warrant a 'corporatist' reclassification following Puxty et al (1987) as their description includes the licensing of the existence of organised interest group such that the state is directly involved in the authorisation of candidate members of the accountancy profession (ibid, p.286). An additional classification, labelled 'corporatist associationism' is included in Figure 1. It is positioned closer to the state institution to reflect the increased legal provision supporting a system that is still primarily influenced by market forces, but closer to liberalism than legalism as the U.K. standard setting arrangements do not involve direct state control over membership of the profession.

## **PUBLIC SECTOR CONSIDERATIONS**

In the public sector of the UK there is a tradition of self-regulation built around accounting procedures that are prescribed in a manner consistent with the bureaucratic nature of government organisation. Traditionally, the use of accounting to give visibility to the financial aspects of actions was less developed than using it in a technical manner as a control mechanism, alongside a budgetary system, to reflect the extent of compliance with the annual budget. Emphasis was also placed on procedures to ensure probity. There was awareness of developments in private sector approaches to accounting but, historically, there was reluctance to adopt them in the public sector. For example, Edwards and Greener (2003) identify resistance in the U.K. central government to the adoption of double entry book

keeping in the early 19<sup>th</sup> century and Mellett (1992) shows that depreciation was accepted, in principle, as an element of cost within the National Health Service (NHS) virtually from its inception in 1948, but that it was not introduced universally into its accounts until 1991. In contrast, accounting is now used routinely in the public sector to give visibility to previously unmeasured accrual-based concepts such as annual surpluses or deficits.

The history of accounting for activities in the UK public sector, especially those undertaken by Central Government, has traditionally been aligned with the state institution of Social Order. Amounts of cash were allocated by Parliament to various activities as part of the annual budget process. The reports on how these sums had been used were cash-based and intended to demonstrate that the cash had been spent on the activities for which it had been provided. Hierarchical control was the organisational model, with Central Government Departments responsible for overall control passing funds down through the various layers of their operations. Procedures were developed for sharing the available cash between bureaucratic agencies; in turn, each layer had to account upwards for the cash it received and disbursed.

At the level of central government, there was uniformity in that returns were required by the Treasury to account for the cash allocated to each department. However, the accounting procedures for individual activities were either given in the Act of Parliament by which they were established or delegated to the responsible Minister of State so that, for example, the Act of 1948, which created the NHS, allowed the responsible minister to issue relevant instructions on accounting<sup>7</sup>. This approach to control complies with the state principle of social order as it covers the provision of collective goods with inclusion

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<sup>7</sup> A full discussion of the formats and underpinning U.K. public sector accounting reports can be found in Henley et al (1986) which deals with the period when the public sector encompassed significant trading nationalised industries as well as departments of state.



established through legal authorisation and authoritative regulation as the product of exchange.

Clear responsibility for the form and content of departmental and whole of government resource-based accounts was specified in 2000: 'Resource accounts shall be prepared in accordance with directions issued by the Treasury' (GRAA, sec. 5.2). The responsibility of the Treasury, when issuing guidance, is to ensure that the accounts give a 'true and fair view' (sec. 5.3.a) and 'conform to generally accepted accounting practice [GAAP] subject to such adaptations as are necessary in the context of departmental accounts' (sec. 5.3.b). Unlike countries such as Australia and New Zealand that have 'sector-neutral' standard setting bodies, the ASB does not have a remit for setting accounting standards for the public sector in the UK<sup>8</sup>. However the Act does require the Treasury to 'have regard to any relevant guidance issued by the Accounting Standards Board' (section 5.4.a).

Each year the Treasury publishes an updated Resource Accounting Manual (RAM) to be used by those government departments for which a budget has been approved. The starting point in the production of the RAM was to take the extant GAAP and adapt it to public sector requirements. To provide the Treasury with independent advice on the development and application of financial reporting principles, a Financial Reporting Advisory Board (FRAB) was established in 1996 and subsequently became the body that the Treasury has to consult to comply with s24 of the GRAA. One of the main tasks of the FRAB is to review the RAM and, if appropriate, to approve it. The FRAB also considers proposed changes that may

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<sup>8</sup> The ASB has established a 'Public Sector and Not-for-Profit Committee' with membership drawn from the accounting profession (5 members), the public sector (5 members plus one observer), academia (2 members) and the charity sector (1 member plus 1 observer from the Charity Commission). This committee acts as a specialist advisor for Statements of Recommended Practice (SORPs) relating to the not-for-profit sector, currently these cover local authority accounting, higher education institutions and charities. The ASB does not itself issue SORPs, but recognises outside bodies for that purpose. As a condition of that recognition, SORPs must include a negative assurance statement outlining the limited role of the ASB and the absence of conflict with any fundamental accounting practice or standard.

originate from experience or developments arising as a consequence of new standards coming from the ASB.

FRAB's has terms of reference were drawn up by the Treasury in consultation with the National Audit Office and it initially had nine members, plus a chairman, an accountant who has pursued a career in industry. The Board initially comprised a chairman, drawn from industry, and nine members, seven drawn from a range of public sector organisations, one from academia, who specialised in public sector accounting and economics, and one from a big-four accounting firm who also chaired the Public Sector and Not-for-Profit sub-committee of the ASB<sup>9</sup>. Since its formation the FRAB has lobbied successfully for an extension to its remit. In its first report on the RAM it expressed the possibility of its remit being extended to cover the principles and standards applied to all central government bodies (FRAB, 1997, p.13) and subsequently to Non-Departmental Public Bodies and trading funds with the possibility of further extension to take in NHS Trusts and the policies underlying whole of government accounts (FRAB, 1999, p. 13). These extensions, other than the NHS proposal, were noted as having taken place the following year (FRAB, 2000, p. 2). Its next report referred to continuing discussions with the NHS and the possibility of its remit being extended to Scotland and Northern Ireland (FRAB, 2001, p.3) while a subsequent report (FRAB, 2002) confirmed that its remit has been extended as envisaged.

#### **DUE PROCESS**

Due process may be linked, in the UK context, with the idea of procedural fairness and encompassed within the concept of natural justice (Galligan, 1996, p. 73). When applied to the process by which accounting standards are developed, it is possible to differentiate 'procedural due process' (whereby the rule maker must give constituents the opportunity to

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<sup>9</sup> Membership has subsequently grown to 14 with the inclusion of additional public sector representatives.

advance and defend their arguments) and ‘substantive due process’ (whereby a rule-making body must give adequate justification or rationale for each promulgated standard)’ (Shapiro, 1998, p. 642). The fact that procedural due process operates does not mean that responsibility for decision-making is passed to those outside the system who decide to participate. They can contribute and their input be given due weight, but the final decision rests with the designated authority which justifies its decisions through substantive due process. ‘Due process suggests that interested parties cannot always win but can expect to have their arguments heard’ (Fogarty, et al, 1992, p. 29).

Streeck and Schmitter do not identify due process as a property of the ordering principles, but it can be related to the model and used to examine the extent to which the U.K. system of public sector accounting rule-making differs from its private sector counterpart. Due process must exist to satisfy the principal communitarian decision rules of ‘common consent’ and ‘unanimous agreement’, although it may be operated in an informal manner so that all members of the community can participate. Without due process, communitarian solidarity could not be achieved, as its absence would undermine the extent to which the members could create a shared affective existence and distinctive collective identity. It is also important in the Associationist mode to aid the creation of pacts and the decision rules using parity representation, proportional adjustment and concurrent consent. The absence of due process from the state principle is consistent with its use of authoritative formal adjudication and imperative certification; these do not sit easily with the idea of involving ‘outsiders’ – that is the ruled and subordinates - in the process.

Walker and Robinson (1993) identify the stages through which an accounting standard passes during its development; these are outlined in Figure 2 and can be used to assess the extent to which procedural due process is operated in the public sector. Due process can also be used to identify the social order properties that are manifested in its operation. Should a

private sector standard be transferred to the UK public sector without modification, then the only due process it will have passed through is that operated by the ASB.

**Figure 2: The Standard Setting Process and its Constituent Stages**

<i>Process</i>	<i>Stages</i>
Entrance to the Agenda of the rule-making body.	1. Issue emerges and gains admission to the agenda of the rule-making body.
Formal consideration of Agenda Items by the rule-making body.	2. Discussion memo or paper drafted & released.
	3. Exposure draft(s) prepared & released.
	4. Open hearings and working parties.
Post-Enactment Review	5. Standard prepared, approved & issued.
	6. Assessment of the impact of the approved standard.

Source: Walker and Robinson (1993, p. 7)

Developing accounting procedures for the UK public sector in the context of RAB effectively takes place within a closed loop. The Treasury is responsible for producing the Resource Accounting Manual (RAM), which is referred to FRAB for comment. The Treasury therefore has control over the entry of an issue to the public sector accounting standard setting agenda and the iterative nature of its relationship with the FRAB, together with an emphasis that the Treasury is responsible for issuing accounting directions, is repeatedly present in FRAB reports (e.g. FRAB, 2000, p. 13). The RAM specifies not only the applicable accounting standards, revised in some cases, but also the detailed accounting policies to be used. The Treasury is also able to specify accounting requirements to departments, trading funds and Non Departmental Public Bodies through issuing what are known as ‘Dear Accounting Officer’ letters. This extent of specification in the public sector is additional evidence of centralised control and is consistent with the state institution in which ‘the emphasis is on control with accounting systems perhaps being control based,

standardized and relatively unresponsive to change' (Jones, 1994, p.122). This contrasts with the private sector in which reporting entities are able to determine their own accounting policies within the more general requirements of accounting standards which gives the potential for variety between companies in the accounting treatment of similar, or even identical, economic events.

However, there are external influences as UK GAAP, in the form of the output of the ASB, is the starting point for the accounting standards operated in the public sector and this means that public-sector agenda entrance can be triggered by the issue of a new (private-sector) standard. Where an issue emerges in the private sector, it will go through the ASB process with an implicit understanding that it will subsequently be considered for application in the public sector. The ASB notes that accounting standards for entities in the public sector are a 'matter for the legislation governing the bodies concerned' (FRC, 2001, p. 5). In these circumstances, submissions to the ASB that attempt to make the standard under consideration applicable to the public sector, at the expense of its relevance to the private sector, should have no influence. The absence of a link between involvement and outcome removes the possibility of public sector related due process operating in the production of ASB standards.

New ASB standards are therefore considered by the FRAB and might be incorporated in the RAM without amendment, in which case there is an absence of due process from the viewpoint of the public sector. Alternatively, a dissonance between the use of a standard produced by the ASB for the private sector and its application in the public sector may be identified, notwithstanding that public sector entities may have made representations to the ASB during its development. For example, the ASB issued FRS 11 'Impairment of Fixed Assets and Goodwill' in 1998 following a Financial Reporting Exposure Draft (FRED) in 1997 (ASB, 1997a). The published submissions to the FRED include a single public sector response from the National Audit Office (ASB, 1997b, pp. 221-223). It points out the

problems likely to be encountered when attempting to determine the ‘value in use’ of assets that are not of the income generating type, such as national monuments or parks; this reduces the valuation decision to a comparison of net realisable value and replacement cost<sup>10</sup>. This potential problem is not addressed by the subsequent accounting standard, although the FRAB allowed FRS 12 to be incorporated into the Resource Accounting Manual in its entirety (FRAB, 1999, p. 11).

Problems associated with the identification of value in use in the public sector arose again with FRS 15 ‘Tangible Fixed Assets’ (ASB, 1999). In this case the FRAB reported that it approved the incorporation of the FRS into the Resource Accounting Manual but required a ‘not for profit’ interpretation to be put on recoverable amount in cases of a revaluation loss to below depreciated historical cost (FRAB, 2000, p. 8).

After a matter has been placed on the agenda, there is no specified route to convert proposals into requirements other than through the FRAB mechanism: ‘Treasury will be responsible for making amendments to the Manual as required, after taking advice from the Financial Reporting Advisory Board to the Treasury’ (Treasury, 2001, par. 1.10.2). Once the Treasury has put the RAM before the Board, any suggested changes are either agreed with the Treasury representative at the meeting or taken back to the Treasury for further consideration. Therefore stages 2 to 5 inclusive in Figure 2 do not have a rigid specification and will not necessarily involve any external consultation. The Treasury takes the lead role and might ask for comments on its proposals, as was the case with the initial idea to move to RAB (Treasury, 1994, p. iv). Requests for comments on specific proposals are on an ad-hoc basis and they may be limited to other governmental organisations or may not be widely

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<sup>10</sup> Although only a single representation from the public sector is included in the published responses, it is noted elsewhere that ‘The NHS Executive and Treasury took advantage of the consultation period to provide their comments on the drafts [of FRS 11 and 12] to the [Accounting Standards] Board’ (NAO, 2000, p. R18). These representations, although not publicly available, seem also to have had no discernible effect on the final accounting standard.

circulated. For example, a Treasury Task Force (TTF) undertook a revision of its technical note<sup>11</sup> on how to account for the Private Finance Initiative (PFI) following the publication of related ASB proposals. The draft of the revised technical note appeared on its web-site on 8th January 1999 with an introduction asking individuals or organisations to comment by 25th January. This two-week period for exposure and comment provides a stark contrast to the three months provided by the ASB for comments on its related exposure draft. A further difference in due process between the ASB and the Treasury is the (non) availability of copies of the written comments on the accounting proposals. The ASB make available all of the written comments on exposure drafts except when an individual commentator has requested anonymity<sup>12</sup>, the Treasury does not make available the equivalent comments on its proposals. Access is also impeded because the minutes of FRAB are not available on request<sup>13</sup>.

The relative paucity of due process measures within the Treasury / FRAB system, compared to that of the ASB, can perhaps best be explained by the differences in the structure and authority of the respective bodies. The ASB, having been established as a private sector standard setter and being financed largely through contributions from listed companies and the accounting profession, must continually re-establish its authority and seeks to do this partly through a relatively transparent process in which individuals, organisations and firms may have their say (Fogarty et al, 1992). In contrast, the authority of the Treasury is beyond dispute; it may look to obtain the views and perhaps the consent of other parts of government but its existence and authority is not threatened by the absence of due process in matters of public sector accounting standard-setting. The FRAB is able to provide a medium for formal

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<sup>11</sup> The original Technical Note was issued without formal outside consultation.

<sup>12</sup> The ASB comment letters provide the basis for subsequent independent analysis of which there are many examples in the literature (for example, in the case of PFI see Broadbent and Laughlin, 2002; Hodges and Mellett, 2002).

<sup>13</sup> Written response to the authors received 25 April 2001.

consultation on these matters without the necessity of opening up debate beyond the relatively narrow confines of government.

The final stage in the process of developing accounting standards comprises a review of their operation. For example, FRAB (2001, p. 1) states that ‘The board attached considerable importance to the Manual being fully reviewed as practical experience is gained of its operation’ while noting that ‘the review resulted in few substantial amendments’. Given the novelty of introducing private sector accounting techniques to the public sector it is not surprising that a process of regular review has been established. We raise two concerns with this process. The first is that the review appears to have been dominated by issues around the practical application of the RAM on issues such as the availability of accurate records to meet the Manual’s requirements (Public Accounts Committee, 2000; NAO, 2001). While these are issues of practical importance they have overshadowed and eclipsed concerns over the appropriateness of individual accounting policies. As a result there appears to have been little if any review of whether or not these accounting policies, which have been developed in the private sector and transferred en-bloc into the public sector, are the most appropriate for reflecting public sector financial performance. Our second concern is that there appears to be little involvement of organizations or individuals from outside the public sector in the standard setting process; an inevitable outcome of the lack of structured due process.

## **CLASSIFYING THE PUBLIC SECTOR**

To pursue our consideration of whether NPM has aligned the modes of social order identified with the regulation of accounting in the two sectors, we now discuss the classification of the UK’s public sector accounting regulatory regime using concepts of



community, market and state. None of these institutions exist in a pure form and so we theorise that the point of resolution is an amalgam that exhibits features from all three.

Hierarchical control is seen in the accounting regimes of both the private and public sectors as each has a super-ordinate body (ASB / Treasury) that issues the accounting rules (in the form of an FRS or the RAM) to be applied by sub-ordinate bodies. Communitarian principles exist where there are groups, such as professional accountants and civil servants, who have internal allegiances and comply with the behavioural norms of their respective 'clans'. Private sector accounting is based on market ideals and is influenced by corporations and institutions through established due process procedures and other forms of lobbying and persuasion. Public sector accounting practices might also be seen to exhibit features of the market institution of social order. Streeck and Schmitter, (1985, p. 4) suggest that the market may be used to explain 'competitive interaction between political parties in pursuit of voter preferences in democratic elections' as well the competitive allocation of goods and services according to consumer preferences. In other words, politicians may be in a 'market for votes'. However, it seems unlikely that there are many votes linked directly to the reform of public sector accounting procedures and the RAB project did not feature in the manifesto of either the Labour or Conservative parties in the 2001, or subsequent, general elections<sup>14</sup>. The apparent lack of general public interest in the reform of public sector accounting regulation is consistent with U.K. research studies (e.g. Butterworth, et al, 1989; Jones, 1992).

RAB is intended to infuse all of the government apparatus and so will be used both in management accounting to indicate the resources consumed to deliver programmes and for external reporting as part of the process of accountability. Many actors are involved, directly or indirectly, including the civil servants who operate the internal mechanisms, the taxpayers

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<sup>14</sup> One of the few differences between the two parties in this regard was that the Conservatives set up a Shadow National Accounts Commission, which in its final report (SNAC, 2000) recommended the creation of a National Accounts Commission as an independent body alongside the ASB. Apart from some negative responses to its report, nothing has been heard of it since.

who pay for the programmes and the electorate. Within the state sector the guiding principle is that of hierarchy with the Treasury being the predominant actor and so regulation of public sector accounting procedures is consistent with the state institution of social order as outlined by Streeck and Schmitter (1985, p. 5).

The influence of the state institution can also be seen from the enabling conditions for entry and inclusion that are provided by legal authorisation, with statute specifying the structures within which internal actors must operate. The law also underpins internal oversight through FRAB, which, although not specified by name, has a legal basis for its existence as a consultative body (GRAA, sec. 24). The Act also provides an enabling condition for external actors, as it requires the Treasury to 'have regard to any relevant guidance issued by the Accounting Standards Board' (sec. 5(4)). Using an Act of Parliament to underpin RAB is consistent with coercion being the medium of exchange as it requires the use of rules set by the Treasury, thus making authoritative regulation the principal product of exchange. The Act gives the Treasury, through its expertise and role in establishing what constitutes procedural correctness, legitimate control over the means of coercion and further control is established by requiring the Comptroller and Auditor General to examine departmental resource accounts (sec. 6). Some similarity with the private sector may be seen here as the activities of the ASB were given legal backing. However this legal authorisation did not extend to the ASB having the right to prescribe the accounting policies of individual companies, which remain the responsibility of the directors. This can be contrasted with the power of the Treasury to appoint an accounting officer to each department (GRAA, sec. 5(6)) through whom control is exercised.

The principal motive(s) of super-ordinate actors is deemed to be career advancement and bureaucratic stability within the state institution (Streeck and Schmitter, 1985. pp. 5-6). The adoption of RAB has opened new areas of potential advancement for accountants

working in or on behalf of the public sector. Bureaucratic stability is sought through the rule-based nature of accounting, especially as it is being applied in the RAM; the manual is being written as prescriptively as possible to minimise the opportunity for creative accounting. Subordinate actors, operating in a rule-based environment, may have a fear of punishment if they do not comply, but this is tempered if employees feel they have a 'reasonably secure job' (Wooldridge, 2001, p. 11).

There is a similarity with the private sector here as a theme of those responsible for the RAB project is that they expect it to improve the control of resources. It should maximise predictability as it contributes to a more 'business-like approach with a strong emphasis on business planning' (ibid. p. 20). This suggests that communitarian esteem and shared group values should not be overlooked as motivational forces behind the transfer of NPM. There is a mutual interest of accountants in both sectors to support the increased visibility of accounting and financial issues in the public sector. The promotion of accrual-based accounting methods in the public sector may provide opportunities for career enhancement of accounting staff and enable easier transferability between the two sectors.

Decision rules and modal goods are closely aligned with the state mode. The rules cover the operation of the accounting process and are overseen by the Treasury with reference to the ASB and FRAB. The Treasury makes an authoritative adjudication where alternative accounting approaches exist, the formality of which is confirmed by its inclusion in the RAM. Imperative certification of the RAM comes from its approval by the FRAB, and the output of the process is scrutinised by the Comptroller and Auditor General (GRAA, sec. 6). The modal type of goods produced can be viewed as either tangible or intangible. Tangible goods include the various accounting and financial reports and intangible benefits may derive from the contribution that accounting makes to control procedures. Both of these are collective goods as their purpose is to enable the government to fulfil its side of the

compact between it and the electorate. They provide benefits to a large group of people and are not responsive to market forces in that they are provided centrally. There is no way, other than taxation, of enforcing payment for them, nor is there a way of withholding their benefit from non-payers.

The principal line of cleavage observed in the accounting standard setting process remains that between the rulers and the ruled, that is, the cleavage observed in the state mode of social order. This contention is evidenced by the lack of due process in converting the output of the ASB into accounting standards to be applied in the public sector. Other cleavages indicative of the state institution are also found in the process, with the Treasury in the superior position and other departments being subordinate; the RAM is designed to be prescriptive and so prevent the development of alternative accounting policies by reporting entities. The ordering of the relationship between superior and subordinate actors is based on a normative legal foundation using formal administrative procedures, again a feature of the state model. However, tensions identified in the community may also be present, when, for example, a dispute arises over the application of an accounting rule, as happened in the Ministry of Defence where officials sought to exploit accounting rules to obtain extra cash (Baldwin and Evans, 2004). Such an eventuality could be viewed as clan rivalry, but is likely to be settled by authoritative imposition.

Similar lines of cleavage may be observed in the private sector where companies are required to comply with approved financial reporting standards. The principal difference between the two sectors lies in the less prescriptive nature of the ASB standards compared to the rules that are applied within the public sector. The ASB is unlikely to develop accounting standards that are unacceptable to its main constituents, partly as a result of its own due process procedures that enable views to be identified prior to the approval of standards.

Finally, the potential payoffs can be considered. The codification of accounting practice contained in the RAM may be seen as an attempt to provide equitable and predictable treatment. It is 'equitable' because it is enforced by the Treasury on all government departments and other entities that are subject to the RAM and it is 'predictable' in the context that all such departments and other entities must comply with the adopted accounting standards, policies and other prescribed regulations<sup>15</sup>. Where particular accounting issues arise, they can be referred to the Treasury for consideration and, if necessary, a policy can be developed for inclusion in the RAM. Such an approach is equitable insofar as it appears to apply the same policies to every reporting entity; none can achieve an advantage by adopting accounting procedures that show it in a relatively better light. For example, all departments have to revalue fixed assets in the prescribed manner. This structure also provides predictability in treatment through codified rules, although not necessarily in the reported financial results. In alignment with the precepts of NPM, the policy is also expected to deliver the market ideal of material prosperity by enhancing effectiveness and efficiency in the public sector.

## **DISCUSSION AND CONCLUSION**

We conclude that UK public sector accounting standard setting contains features of state, market and community institutions. While the starting point for UK public sector standards is based upon UK GAAP, as expressed by the ASB, the state has significant powers to amend or avoid application of specific regulations. On this basis the state mode of social

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<sup>15</sup> These are somewhat restricted uses of the words 'equitable' and 'predictable'. We do not suggest that the use of accrual-based accounting statements will necessarily provide an 'equitable' allocation of resources between social groups or government-funded organizations; nor do we consider here the possibility that the adoption of accrual-based accounting is part of a more general process of the 'Hollowing Out of the State' (Rhodes, 1994). The 'predictable' accounting policies to be adopted from the RAM do not imply that the reported financial results will necessarily be predictable. Indeed, the inclusion of asset revaluations, capital charges and other accrual-based adjustments may lead to more volatile financial results than under a cash-based accounting regime.

order takes precedence over that of the market and community. The system retains associationist features but these are subservient to etatism. We have labelled this mixed mode of social order as 'etatist associationism' in figure 1. It is positioned closer to the state than 'corporatist associationism' to reflect the greater influence of the state and the corresponding lesser influence of market and community. Relative to corporatism, it is closer to the market/state axis as it does not rely upon state registration of community groups such as the accounting profession.

As part of its agenda, NPM exhibits the 'desire to replace the presumed inefficiency of hierarchical bureaucracy with the presumed efficiency of markets' (Power, 1997, p.43) and, within this, there has been a movement to align UK public sector accounting practices more closely with those found in the private sector. This has resulted in highly visible changes to the rules of public sector accounting, which now largely mimic those of the private sector. However, the process of formulating those rules does not correspond with that found in the private sector. This presents a dichotomy to be explored in the context of the social structures that gave rise to the alternative approaches.

Private sector accounting standards in the UK, and the method of their production, derives from the role of accounting as 'a set of calculative practices for comprehending and representing economic transactions ...[it] ... directly affects the appropriation of surplus value and is used symbolically to celebrate economic rationality in decision making' (Booth and Cocks, 1990, p. 517). Such as underpinning does not exist in the public sector and this paper has argued that consideration of the modes of social order, when viewed through the lens of due process, identifies a cultural divide that continues to exist between the public and private sectors, at least in the context of developing accounting standards. The state mode is identified as that applicable to the manner in which accounting practices are regulated in the

UK public sector. This remains so despite the rhetoric of assimilation of private sector managerial practices.

The aims of representing economic transactions and seeking economic rationality are also present in the public sector, but the identification and appropriation of economic surpluses are absent. There is no single 'bottom line' because public sector outputs such as education, defence and health, are intangible and not capable of consistent, meaningful economic representation. Accounting is becoming implicated in the construction of different views of the problematic, the desirable and the possible (Hopwood, 1984, p. 171) but the process of rule-making remains under state control and so the steering mechanisms provided by accounting might reveal only what the Treasury deems to be appropriate.

Deviation from the private sector approach to standard setting is particularly demonstrated in the context of due process where the UK public sector lacks participation and transparency. While NPM may seek 'financial transparency, the autonomization of organizational sub-units, the decentralisation of management authority, ... and the enhancement of accountability to customers' (Power, 1997, p. 43), the model adopted admits the likelihood that the public sector is more akin to a corporate group than a number of separate, independent entities. The government, through the Treasury, has dominant economic influence over all of the other parts for which RAB provides the internal accountings. Cash is the bottom line for the Treasury and so, even if there is compliance with such accounting practices as provisioning and capital charging, substantial cash surpluses or deficits will not be allowed to accrue at subordinate levels. Booth and Cocks (1990, p. 517) state that 'in the main, accounting standards will be produced that support and reflect the prevailing hegemony'; to do this requires control over the means of producing those standards. The Treasury continues to maintain that control in the public sector, subject to the advisory role of FRAB.

The recognition of the Treasury's influential role does not, however, cause the system of U.K. public sector accounting standard setting to be designated as legalism following Puxty et al (1987). Market and community still retain influence over U.K. public sector accounting.

The direct influence of the market comes through the use of UK (private sector) GAAP as the starting point of the RAM. After review by the FRAB, private sector standards will often be adopted without amendment in the RAM; this has been the case with most of the ASB standards. Alternatively the rules may be amended or re-interpreted for adoption in the public sector; for example in the case of accounting for the Private Finance Initiative (Broadbent and Laughlin, 2003). While 'the State "leans" on interest groupings to achieve "public" as contrasted with "private" purposes' (Puxty et al., 1987, p.284) it cannot be certain that the outcome from the private sector accounting standard-setting process will satisfy its own objectives; hence the need to maintain and control a separate public sector one.

The influence of community may appear to be insignificant in this process, being 'routinely subordinated to those of the Market' (ibid). However communitarian principles may still have a subtle influence over the more explicitly powerful market and state forces. It was suggested earlier in the paper that the ASB needed to continually re-establish its authority by providing extensive due process in which individuals, organisations and firms may have their say. The role of the FRAB within the public sector accounting standard setting system continues to develop as it has sought to extend its remit beyond the narrow confines of the RAM. It too must establish its existing authority within the Treasury and to Parliament and seeks to do so by establishing procedures within the public sector and by promoting itself externally through its public domain reports. A feature common to the ASB and FRAB is that continuation and extension of their roles depends, at least partially, upon the support of communities such as the accounting profession, the civil service and members



of parliament. They are organisations that must be seen to retain a semblance of independence from market and state influences to justify their self-promotion as providers of an independent assessment of accounting proposals. From this perspective the ASB and FRAB should be seen not as separate parts of competing rule-making systems but as having a symbiotic relationship; both provide a potential for communitarian influence in the face of super-ordinate forces. This relationship depends partly upon allowing each body to confirm and extend its own regulatory space (Young, 1994) while avoiding a direct conflict between the private and public sector systems of accounting rule-making. The movement to accrual-based accounting in the public sector has enabled the two bodies to be supportive of each others work, at least at the level of general principles of accounting. For example, the FRAB (2002, p. 9) welcomed the planned publication by the ASB of an interpretation of the Statement of Principles for application by public sector and not-for-profit entities (ASB, 2003).

A possible concluding issue is whether more of the private sector approach, in the form of enhanced due process, should be introduced to the public sector. There is no practical reason why the production of public sector accounting standards should not be opened up to public participation and so introduce scrutiny and contribution. This is especially so given that allowing 'outsiders' to participate in the process does not give them authority, merely the opportunity to contribute to the debate. Such a move would be consistent with 'empowering the people', a theme running through government policy, for example, in the creation of Foundation NHS Trusts<sup>16</sup>. Enabling those to whom the government is accountable to participate in developing financial aspects of that accountability would contribute towards satisfying the requirements of procedural due process. Substantive due process would also be

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<sup>16</sup> Foundation NHS Trusts remain within the NHS but have been established as independent public benefit corporations modelled on co-operative and mutual traditions and are intended to have substantial financial and operational freedom from centralised direction (Department of Health, 2003).

improved by requiring adequate justification for decisions to be given, including an explanation of why particular submissions, or the approach they advocate, has been accepted or rejected. Without such opportunities to participate, outsiders are left only with indirect means of attempting to influence public sector accounting regulations; perhaps through their own Member of Parliament, through professional organisations who may have access at an appropriate level, by ad-hoc letters to the FRAB or the Treasury in the hope that someone may take note of a particular concern or through media releases and published articles that may come to the attention of an 'insider'.

We have focused our attention on the UK but, at the international level, there would appear, intuitively, to be a different nexus of forces that apply in those countries which adopt a regulatory structure of 'sector-neutral' standard setting, those in which the public sector accounting standard setter is outside of direct government control and those in which government accounting standard setting may be more heavily influenced by professional accounting bodies<sup>17</sup>. A comparative approach, exploring the impact of globalization (Everett, 2003) and incorporating the influence of trans-national organisations such as the IASB and the IFAC not-for-profit committee, would be a challenging extension to existing work using the Streeck and Schmitter framework.

This study has provided a comparative analysis of public and private sector accounting regulation within a single state based upon modes of social order. It has reflected on the extent to which NPM has permeated the regulation of public sector accounting. Even though NPM seeks to introduce to the public sector 'a cluster of ideas borrowed from the conceptual framework of private sector administrative practice' (Power, 1997, p. 43), our analysis suggests that, despite the rhetoric of adopting private sector practices, the centralising

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<sup>17</sup> A recent study by PricewaterhouseCoopers (Bolton, 2006) reports the extent to which IFRS are used in different countries for listed, unlisted and public sector entities. Adoption ranges from 'mandatory' in all three cases through virtually all combinations to 'prohibited' in all three cases.

instincts of the state by means of bureaucratic control remain intact. We conclude that NPM, in this aspect of UK accounting, has not yet overcome the historical and cultural differences inherent in the two sectors.

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