

Concept of Accounting For Local Government: An Overview

* Pooja Yadav

** Ravi Saini

Abstract

The research consisting of a holistic understanding of accounting in public sector and pragmatic view has been taken by studying some case studies. The study also includes evolvement of accounting methods for which modern approach basically being used for the interest of public a large. Since the scope of local self government in multi dimensioned, depending upon them the methods for which have taken various kinds of maturity standards and different kinds of utilization are there to learn for future use. The municipal government plays very important role in the development of countries. Globally government accounting system has some common objectives and assumptions in measuring accounting receipts, expenditures and budgetary control. The case studies have spreads over many countries but UK has been taken for special reference. The aim of the study was to assess the performance of accounting of local government bodies in India. Accounting approaches in municipal corporation, councils and panchayat (as all three level), can be easily understood by the given learning paper.

Keywords: Local government, public administration, politic, and administrative structure, governance, public interest, Local bodies.

Preamble:

Local government is a form of public administration which, in a majority of contexts, exists as the lowest tier of administration within a given state. Local governments generally act within powers delegated to them by legislation or directives of the higher level of government. In federal states, local government generally comprises the third (or sometimes fourth) tier of government, whereas in unitary states, local government usually occupies the second or third tier of government often with greater powers than higher-level administrative divisions. The question of municipal autonomy is a key question of public administration and governance. The words "local government" (LG) imply a political and administrative structure (or organization) which has the "power" to regulate the affairs of people in a particular province or local territory as part of a larger land mass or nation. It is a case of local people who essentially undertake to govern or regulate local people in the "supposed" interests of all in the community (i.e. the public interest). The institutions of local government vary greatly between countries, and even where similar arrangements exist, the terminology often varies. Common names for local government entities include state, province, region, department, county, prefecture, district, city, township, town borough, parish, municipality, shire, village, and local service district.

Introduction: Accounting in Local Government

On using the phrase "accounting and accountability in local government" in a sentence, an assumption is made that the local governing rulers or officials are obliged to prepare accounting documents and statements, usually imposed by law and which evolved through time, provide an account of some kind to their constituents (e.g. citizens, higher levels of governments, etc.), thereby highlighting the need of regulated administrative structures, where the use of accounting and other financial information is

widespread. The above definitions and assumptions are all useful to enhance an understanding of the nature and scope of the activities of current LGs, as well as to hint at the model of LGs in the past centuries, whose structures varied at a different extent through the centuries and countries. Therein, it is worth noting that pioneering works have sought to highlight the evolution of the structure of LGs in different countries. The study of accounting and accountability in the public sector embraces different types of organizations. The public sector nowadays can, for instance, be divided into four main groups: local government; central government; public organizations with links to central and local government organizations; and public business entities linked with central government but which can also be funded by private capital.

Accounting development in LG and in public organizations with links to LG organizations remains under-investigated. The various published historical accounting research has reflected the traditional approach, where accounting tends to be perceived as a technical practice alone and the State as a non-problematic, regulatory body. The traditional Approach of accounting including the following key themes: accounting and the exercise of power by and within local government organizations; accounting and the interplay between local government and central government; the adoption, use and institutionalization of accounting practices in local government; accounting and the interrelations between local government and other parties such as business people, corporations and banks; and accounting and accountability in community organizations such as hospitals, schools, charity institutions, theatres and prisons that were operated within local government.

There is a need for a rigorous and robust research on the development of systems of accounting and accountability in LG around the globe that recognizes that accounting is also a social practice, with implications for organizational and social functioning, thus necessitating the employment of perspectives drawn from other disciplines, such as sociology, philosophy, psychology and political economy in broad-scope investigations of accounting's past in LG.

Most individuals in the modern era at least are obliged to be members of a LG and, accordingly, to participate in LG affairs, including elections were held, and to pay municipal rates and also other fees and charges for service provision on a user basis. Therefore, LG is an important institution in providing structure and order to our collective lives. It has broadly maintained this role across time and space. Accounting and accountability are, in turn, important in the administration and governance of such organizations and, consequently, in the process of ordering and controlling activities within local communities.

Background of Accounting in Local Government

The development of a system of local government, broadly defined, began in medieval times with the creation of sheriffs to deal with such matters as the collection of taxes, military organization and law and order. As successive Kings became increasingly worried about the power of these sheriffs, local knights were appointed as justices of the peace to administer law and order. Over time these JPs became responsible for what can be loosely described as county-based government. The King also gave Towns limited rights of self-government in exchange for services rendered.

The executive body established to govern the „borough“ was the town council, whose composition and power depended on the terms of the Royal Charter....The process of establishing the present framework for local government began with the Poor Law Amendment Act of 1834.

Accounting for Local Self Government

Through the different centuries there have been different meanings, models and structures of local authorities in different countries. The accounting analysis has sought to identify the major trends in this area, in order to highlight extant research, and to pose suggestions for possible directions in conducting future research within historical local government investigation.

The main identified streams of research are:

- The adoption, use and institutionalization of accounting and financial practices in local government;
- Accounting for municipal corporations;
- Accounting and the interplay between local government and central government;
- Accounting and accountability in community organizations that were operated within local government organizations.

The analysis is divided in three major sub-themes, attending to the considerable number of articles within this stream of research and the different focus adopted in the articles, as follows: Accruals, Cost and Budgetary Accounting, Municipal Accounting and Audit Developments, and Medieval Municipal Accounting.

Accruals, Cost and Budgetary Accounting

The evolution of budgetary accounting has been highlighted by Potts (1977) from approximately 1870. Potts (1977) considered that “A distinctive characteristic of governmental accounting is the requirement to demonstrate compliance with legal restrictions concerning control of revenues and expenditures” (p.89). Therefore, the author briefly discussed the highlights of the evolution of budgetary accounting from since the second half of nineteenth century, providing as example the New York's municipal accounting system.

On the other hand, the adoption of the accruals model has been analyzed within local government authorities by Jones (1985b). Jones (1985b) used historical analysis to explain why local authorities in the UK adopted the modified accrual models, within the period from mid 19th to mid 20th centuries. According to Jones (1985b, p.157): Regarding budgetary accounting, Fleischman and Marquette (1987) and Marquette and Fleischman (1992) focused their analysis in the areas of budgeting and cost accounting in US municipalities in a period of 30 years, from 1890 to 1920. Fleischman and Marquette (1987) explored Ohio municipalities since Ohio was the first state to require uniform municipal accounting and one of the first to inaugurate budgeting. According to the authors, municipal research bureaus in major Ohio cities were among the most dynamic in the nation, inspiring important steps forward in cost accounting, budgeting, and the installation of accounting systems. Nonetheless, contributing to this dynamic were accounting professionals. As stated by Fleischman and Marquette (1987, p. 84), “the history of municipal accounting reform in Ohio mirrors the efforts of accountants across the United States as they created systems and organizations designed to end corruption in city government”. Within the same temporal frame and theme Marquette and Fleischman (1992) explored the interactions between American government and business which resulted in important innovations in the areas of budgeting and cost accounting early in the twentieth century. According to the authors, budgeting methods were initially developed by municipal reformers of the Progressive era and were subsequently adapted by business for planning and control purposes. In what regards standard costing and variance analysis, these were

identified as significant cost accounting techniques born to an industrial environment which came to contribute markedly to a continuing improvement of governmental budgeting procedures. In fact, according to Marquette and Fleischman (1992, p.137), the “linkages between business and municipal governance became more pronounced in the second stage of the early history of municipal budgeting. It was not until the later Progressive Era (circa 1914) that urban reformers began to stress in the literature the lessons that could be learned from the private sector”.

Within the stream of research regarding the adoption, use and institutionalization of accounting and financial practices in local government, in the particular case of accruals, cost and budgetary accounting, the focus has been in the 19th and 20th centuries, in the US, where the practices of cost and budgetary accounting have experienced a considerable development with the participation of accounting professionals. A contribution to this sub-theme was made regarding the same period of analysis, but for the UK, where the focus was the adoption by local authorities of the modified accrual models.

Municipal Accounting and Audit Developments

National overviews of municipal accounting and audit developments have been a line of research within accounting and accountability in local government, which include United Kingdom, Sweden, Russia and Germany. Jones (1985a), based on primary evidence gathered mainly from archival sources and contemporary literature, provided a synthesis of the history of accounting in the government of British localities (authorities of the time i.e. parishes, boroughs and counties). The author began by attempting to clarify what was involved in charge/discharge accounting, then discussed accounting in the parishes, boroughs and accounting by county treasurers, finalizing with a synthesis of accounting in the government of localities from the Middle Ages to 1835. According to Jones (1985a, p.208), the conclusion was that “charge/discharge accounting was determined by its originally feudal context but that it persisted down the years and pervaded the economy as a written manifestation of the „obligation to serve“ imposed by governments of the locality on inhabitants”. Bergevarn and Olson (1989) explored the development of municipal accounting in Sweden in the 1862 to 1980s time span, focusing mainly on the consequences triggered by the Swedish reform. Drawing on the theory of the Myth, the study analyzed single municipalities, federations of municipalities and the parliament. The authors highlighted the fact that “the study perspective is more an organizational than a pure accounting technical one, as we have tried to place the accounting in the context”.

Coombs and Edwards (1990) examined the development of the district audit requirement in UK from medieval times up to 1933, and have also briefly reviewed subsequent developments. By so doing they have showed that the “government's desire to control local authority expenditure originated many centuries ago, that many of the basic principles of the district audit pre-date its introduction in 1844, that the district audit was developed as a principal mechanisms for controlling escalating local expenditure, and that the present objective of greater central control has been a consistent theme” (p.153). Bourmistrov and Mellemvik (1999) have focused on the accounting change in Russian local governments since the social reform triggered by the perestroika, portraying the main elements of the accounting norms in force before 1985 (the old accounting norms) and the norms introduced after 1985 (the new accounting norms). The period of analysis was concentrated in the 1980s and 1990s in Russia. According to the authors, their analysis “illustrates that given big changes in central ideology and local action, Russian local governmental accounting has not changed fast. Slow changes in the accounting norm system, a difficult local financial situation and difficulties in unlearning the old accounting procedures

create barriers to utilize local autonomy in respect to accounting system development” (p.675). Monsen (2002) presented an overview of the historical development of cameral accounting, and thereafter explained the cameral book-keeping method, portraying its use to control public money, mainly, but not only, in Germany, dating from the 1500s. The author ended by arguing that cameral accounting can continue to be applied and that “it is possible to use the same account (i.e., the cameral account structure) both for the core administrative sector (administrative camera lists) and for the publicly owned enterprises (enterprise camera lists)” (p.72). Regarding the sub-theme of municipal accounting and audit developments, it is worth highlight the fact that most of the studies are longitudinal, starting in the Middle Ages until the 20th century, and there is a diverse range of countries object of analysis. Characteristic to all the studies is the demonstration that there was a slow development of municipal accounting, with the basic principles remaining the same through time.

Medieval Municipal Accounting

The contribution to accounting history research of the analysis of primary sources dating from medieval times is quite important to a broader understanding of municipal accounting, although additional difficulties arise when trying to analyze old medieval accounting records. Martinelli (1983) and Thick (1999) have focused on the contents of medieval accounting records, from Genoa and Southampton respectively. Martinelli (1983) examined the content of the oldest Genoese ledgers, the well known Cartularies, in order to enhance an understanding of the origin of Double Entry Bookkeeping, for the years 1340 and 1341. Martinelli (1983) also suggested that “the rapid spread of the use of the system over Northern Italy can be explained by the mathematical controls which the system provides, by the geographic proximity of the key centers in that region, by the frequent communications resulting from trade, and by general cultural borrowing” (p.117). Thick (1999) although studying the 15th century, has focused the analysis on the accounts of the years 1441-1442 and 1492-1493 in the town of Southampton and other towns in the fifteenth century. The analysis was concentrated on the stewards' books as part of a late medieval town accounting system whose main purpose was the control of town finances and accountability of its officers through regulation and audit. The author highlighted the “importance of using original sources wherever possible. Few published sources faithfully reproduce the original layout of accounts. As a result, important clues to bookkeeping and accounting practices are lost.

Transcription may ignore marks and variations in handwriting which have a bearing on audit procedures”. (p.286). The reduced number of studies on medieval municipal accounting demonstrates that difficulties arise when trying to analyze old records from distant time periods. Nonetheless, the studies have shown that even in medieval times bookkeeping systems were developed to answer the needs of its users and the importance of using accounting records to exercise control.

Accounting for Municipal Corporations

In what concerns municipal corporations, Livock in 1965 had already developed a longitudinal analysis, from 1532 to 1835, of the accounting system in Bristol Corporation. It mainly focused on two distinct periods, where the years 1785 and 1786 marked the accounting change. Livock (1965, p.101) compared the accounting system of the corporation of Bristol with research conducted in other British cities and concluded that “after 1785 accrual accounting began, but, until the end of the nineteenth century, no balance sheet was produced. Nevertheless, the accounting system in Bristol was well up to contemporary standards and ahead of some other corporate bodies”.

Edwards (1992) has compared and contrasted the development of external reporting regulations and practices in non-regulated companies, public utility companies and municipal corporations, and drawing on the theoretical underpinning of the agency-theory has explored the mechanism for accounting change, regarding the span of time from 1835 to 1933. Edwards (1992) highlighted the following conclusion, findings suggest that companies and municipal corporations displayed a common interest in a wide range of accounting issues, and that, on various occasions, one or the other was at a different point along a developmental path. Whether or not that path led towards an improvement of procedures is a matter of debate, however, since it is by no means clear that the accounting procedures used by companies were, at any point in time, in any respect superior to those employed by municipal corporations, or vice versa. (p.71)

Coombs and Edwards (1992), in their initial work on municipal corporations, have focused on the period of time from 1884 to 1914. The authors examined the evolution of accounting for capital expenditure within municipal corporations, to contrast their capital accounting practices with those employed by companies registered under Companies Act and companies incorporated by private Act of Parliament, and to provide some reference points for evaluating recurring problems, including some of the issues central to the debate of the time on capital accounting in local authorities. The authors concluded that “the debate surrounding the appropriate accounting treatment of capital expenditure by municipal corporations was intense, wide ranging and, in the main, constructive. It involved treasurers, borough accountants, auditors, town councilors, engineers, ratepayers and academics”.(pp.197-198) Coombs and Edwards (1993) also examined the developments in the form and content of financial reports published by municipal corporations in a “stewardship environment”, and the auditing requirements attaching to those reports, for the period between 1835 and 1974.

The analysis showed that “statements published focused on cash inflows and outflows during the previous accounting period but did not include a balance sheet; a state of affairs which was perfectly natural in view of the wording contained in various statutes, and the continued primacy of charge and discharge accounting among local authorities” (p.46). Coombs and Edwards (1994) prosecuted their analysis of municipal corporations by using primary records to examine the transition from the charge/discharge system to the double entry bookkeeping system. The findings were then used as the basis for evaluating general explanations for the adoption of double entry bookkeeping, as interpreted by Jones (1992) in the context of municipal corporations. The analysis of municipal corporations in UK was made for the period after 1835 till the end of the 19th century. Coombs and Edwards (1995) have further investigated the development of the financial reporting practices of British municipal corporations, exploring the relationship between accounting theory and observed accounting practices, and examining both the environmental factors responsible for accounting change and the specific influences that proved crucial at particular points in time. The time period covered in the analysis goes from 1835 to 1933. The evidences showed that “the statutory support provided for the publication of cash-based accounts proved an obstacle to the move towards accruals accounting, but it was one that was overcome. The factors bringing about accounting change were many and varied” (Coombs & Edwards, 1995, p.104)

Finally, Bracken borough (2003) examined the consequences of the increase in public accountability of local authorities in England and Wales in the context of the Newcastle Corporation, the body responsible for collecting and distributing the town's wealth. Therefore different corporations from different towns were analyzed with diverse research interests, such as financial reporting practices, the transition from the charge/discharge system to the double entry bookkeeping or the evolution of accounting for capital

expenditure within municipal corporations.

Conclusion

From the above analysis it emerges a prevalence of studies addressed to investigate the adoption, use and institutionalization of accounting and financial practices in local government (i.e. “cost and budgetary accounting, municipal accounting and audit development, as well as medieval municipal accounting”) or accounting for municipal Corporations. This work provided an analysis of a selection of published historical research on accounting and accountability in LG and in public organizations with links to LG organizations. This study contributes to accounting history literature by identifying trends in historical research, the extent of adoption of theoretical perspectives, the archival sources examined, the periods of time reviewed, and the main contributions of published accounting research regarding the accounting's past in LG. major trends identified in the analysis were synthesized in the following clusters: the adoption, use and institutionalization of accounting and financial practices in local government; accounting for municipal corporations; accounting and the interplay between local government and central government; accounting and accountability in community organizations that were operated within local government organizations. The adoption, use and institutionalization of accounting and financial practices in local government and accounting for municipal corporations have, until the moment of writing, captured the attention of accounting history researchers, with a particular focus on UK scenarios, and 19th and 20th centuries. Therefore, the need for a rigorous and robust research on the development of systems of accounting and accountability in LG around the globe is highlighted based on the analysis provided. Future accounting history research on LG needs to recognize that accounting besides being recognized as a technical practice is also a social practice, with implications for organizational and social functioning, thus necessitating the employment of perspectives drawn from other disciplines, such as sociology, philosophy, psychology and political economy. This study has sought to contribute to accounting history research by identifying possible futures avenues of research within accounting and accountability in LG. Besides the potentialities of applying different theoretical perspectives, as explained, the possibilities for historical studies on accounting and accountability in LG are considerable.

Importantly, there is still much to learn about the use of accounting and accountability in local government. Additionally, different observation periods would enrich accounting history research in accounting and accountability in LG and enlarge the focus until now on the 19th and 20th centuries. Promising possibilities of research exist on the interplay between local government and central government, on hospitals and cultural as well as other instrumental LGs institutions as well as relevant bodies which can be operated within local government authorities, such as transports and public utilities, education, water and declamation consortia services, prisons, theatres, as well as charity institutions. Biographical and prosopographical studies are a promising field in accounting history, which can bring to light the work of important individual figures and their influences in the administration of local government entities. The potential of “Comparative International Accounting History” research (Carnegie and Rodrigues, 2007; Carnegie and Napier, 2002), has to be explored as there are no studies which have concurrently analyzed the accounting systems of different Local Governments/Authorities belonging to different countries.

**Research Scholar, Department of ABST,*

***Research Scholar, Department of ABST,*

University of Rajasthan, Jaipur

Reference:

- “Accounting and Accountability in Local Government: Contributions from Accounting History Research” by Massimo Sargiacomo of University G.d“Annunzio And Delfina Gomesb of University of Minho.
- .www.springer.com/in/books/9780792384991
- Onlinelibrary.wiley.com/doi/10.1111/j.1468-0408.1994.tb00383.x/abstract.
- Journals.sagepub.com/doi/abs/10.1177/102373211407043.
- Pracademic.com/attachments/article/404/sympAr5.pdf
- www.sciencedirect.com/science/article/pii/S1877042815053525