



Financial accountability discharged from local government financial statements: An institutional theory approach to accounting change

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Abstract

Purpose – By focussing on the perspective of politicians, this paper questions the change brought about by local government financial statements for accountability. It applies the Burns and Scapens' (2000) framework of accounting change to explore politicians' routines when using the accrual accounting information and which type of change was induced by financial statements [on financial accountability to politicians and citizens](#).

Design/methodology/approach – Considering that accounting reforms take time to unfold their effects, this paper studies two countries that have 11 years of difference in the reform implementation and thus a different accounting maturity. A qualitative research approach was used based on 55 semi-structured interviews in five Finnish and six German municipalities with 25 councillors from Finland and 30 from Germany.

Findings – Councillors with a longer period of time to adjust to the accounting reforms seem to have developed more routines in using financial statements for assessing the financial situation and performance. The change induced in accountability to politicians is partly formal, and more evolutionary than revolutionary. The complexity of financial statements can lead to regressive change, especially in financially distressed local governments. As for accountability to citizens, a real change is not observed, reflecting a regressive type of change.

Originality – The study contributes to the empirical studies on financial accountability in the public sector context by analysing the use of financial statements in two-way accountability relations from the perspective of politicians. Thereby, the paper adopts a transnational comparative approach and draws on old institutional economics.

Keywords: accountability; local government; local government financial statements; politicians; local council; citizen; accounting change; accounting maturity

Type: Research paper

1. Introduction

The shift towards New Public Management (NPM) reforms has significantly influenced the ways in which accountability is discharged (Pollitt and Bouckaert, 2017). One of the pivotal changes has been the transition from cash-based to accrual-based accounting systems (Hood, 1991), which brought a new [means](#) for discharging accountability:

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3 accrual-based financial statements (Hayne and Salterio, 2014), including the principal
4 statements (balance sheet, income statement, cash flow statement) and notes.

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6 Since accountability is seen as an enabler of making informed judgements (Cox,
7 Nix, & Wichmann, 1989; McGregor, 1999), the decision-making function is only one of
8 the main purposes of accounting information, thus, we focus on accountability. It is
9 understood here as a „a relationship between an actor and a forum, in which the actor has
10 an obligation to explain and to justify his or her conduct, the forum can pose questions
11 and pass judgement, and the actor may face consequences” (Bovens, 2007, p. 450).
12 Hence, accountability works as a mechanism, in which financial statements are a means
13 to provide information as a form of financial accountability (Wang, 2002).

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Accountability is a complex phenomenon (Sinclair, 1995) and, in the public sector, it
concerns different principal-agent relationships. (General purpose) Financial statements
are directed towards a broad range of recipients, of which citizens and their
representatives (i.e., the politicians) are given a leading role (e.g., Daniels and Daniels,
1991; Steccolini, 2004; Brusca and Montesinos, 2006).

Although Hyndman (2016) argues that „[a] good accounting system is regarded
as [...] a prerequisite for the discharge of accountability”, he warns that accrual accounting
in particular „uses very sophisticated ‘expert talk’, which has the potential to undermine
democratic accountability”. There are studies on the use of financial statements, but the
change brought by financial statements in rendering accountability has largely not been
addressed (van Helden and Reichard, 2019). Previous research indicates a limited use of
financial statements by both public officials and politicians (e.g., ter Bogt, 2004;
Steccolini, 2004; Askim, 2007; Ligouri *et al.*, 2012). The use is also dependent on
accounting knowledge of public managers and politicians (Vinnari and Näsi, 2008;
Nogueira *et al.*, 2013). Even for councillors with an accounting background, the sheer
complexity of financial statements and a lack of accessibility and transparency challenges
accountability (Peebles and Dalton, 2022). Näsi and Steccolini (2008) presume that more
advanced systems that integrate accrual accounting take more time for implementation
and for enfolded the expected positive effects due to a lack of resources, inertia in the
public sector, a lack of training and a lack of trust. Steccolini (2004) and Caccia &
Steccolini (2006) therefore draw the picture of a ‘vicious’ instead of a virtuous
accountability cycle in Italian local governments: Although normatively, the financial
statements might be fundamental means in the accountability cycle, the users’ lack of
interest hampers the public administration to improve readability and content of the
reports, which in turn hampers usability of reports. Ezzamel *et al.* (2005) argue that after
reforms, politicians require a significant time span until they experience a learning curve.

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3 As such, Andriani *et al.* (2010) acknowledged that accounting reforms require a „settling-
4 in period”. In line with this argument, Haustein *et al.* (2021) show that usefulness of
5 financial statements perceived by politicians increases with time elapsed after the
6 accounting change, i.e. with the accounting maturity. So it might be valuable to analyse
7 cases of accounting change that had a longer period of time to mature. Such a „ten-years-
8 after” approach was taken by Ferri and Zan (2014), who look at effects of the NPM-
9 reforms in an Italian cultural heritage site. While the general aims of the reforms were to
10 increase accountability as well as organizational and managerial autonomy, reverse
11 effects were found. After a beginning of enthusiastic adoption of NPM-like principles
12 and tools, a “silent dismantling of the reform” was detected (Ferri and Zan, 2014, p.
13 384). This was not only due to the cash-based accounting system applied in parallel, but
14 also to accountability perceived as an answer to external pressure but not a proactive
15 practice.
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19 From a theoretical point of view, financial statements as a means of accountability
20 is usually modelled within agency theory as one of the main theories of New Institutional
21 Economics (NIE). However, Romzek (2000) criticizes such modelling since the question
22 regarding accounting change and reforms are not about whether *more* accountability is
23 brought about, but how accountability relationships changed.
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27 The type and pace of organisational change through accrual accounting reforms
28 from accrual accounting reforms have been examined through various theoretical
29 frameworks. In particular, regarding the outcomes of change and its conditions, the
30 discussion has centered on assessing whether there is radical, incremental or no change,
31 This evaluation considers not only „the extent to which both accounting systems and
32 structures (the new accounting tools)” changed, but also „the interpretative schemes (how
33 people think about and reflect upon this new tool)” (Hyndman et al. 2019). Radical
34 change leads to a bedding down of the new accounting system and new interpretative
35 schemes for the actors. Instead, incremental change primarily affects accounting systems
36 while leaving interpretative schemes largely unchanged. Drawing from neo-institutional
37 theory, the theoretical construct proposed by Greenwood and Hinings (1996) elucidates
38 the mechanisms driving radical change and its temporal dynamics. This framework,
39 posits that an organization’s organizing templates are institutionally derived and dictate
40 the pace and extent of change. In particular, radical change becomes more challenging
41 within organizations that are deeply entrenched in their normative institutional contexts,
42 such as the public sector, where regulatory frameworks prescribe organizational
43 structures and processes. This normative embeddedness impedes radical transformations
44 by creating resistance to departing from established practices. For instance, Argento and
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3 van Helden (2009, 2010) applied Greenwood and Hinings' archetype theory to examine
4 the Dutch and Italian water sectors, demonstrating how entrenched rules and practices
5 hindered radical change. Ellul's (2020) investigation into the implementation of
6 performance-based budgeting in Malta highlighted the role of political and powerful
7 actors in driving radical change initiatives. Reginato et al. (2010) emphasized the internal
8 dynamics of Italian municipalities during NPM reforms, where failure to bridge the gap
9 between new rules and existing routines resulted in the perpetuation of old habits. At the
10 micro level, Harun et al. (2012) observed reluctance in the adoption of accrual accounting
11 within local governments due to old habits and 'kickbacks' to the old system.

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18 According to Burns and Scapens (2000), the development of new habits leading
19 to routines is a focal point in the institutionalization of accounting change. In this paper,
20 we apply their framework to examine whether politicians routinely utilize information
21 provided in financial statements, thereby establishing its use as a taken-for-granted
22 practice that initiates further steps in the accountability process, such as asking questions
23 and engaging in debate. Additionally, we investigate the type of change induced by
24 financial statements as a means for financial accountability.

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29 Drawing on the premise that reforms require time to manifest their effects
30 (Ezzamel et al., 2005; Andriani et al., 2010), we analyze two countries with differing
31 levels of reform maturity: Finland and Germany. Municipalities from Finland were
32 selected for analysis due to the country's early adoption of accrual accounting in 1997
33 (Oulasvirta, 2015), whereas most German local governments only began using accrual
34 accounting in 2009. Employing a qualitative research design, we conducted a total of 55
35 interviews with councillors from five Finnish and six German local governments. The
36 selected municipalities vary in size and financial resources to account for potential
37 differences in the relevance placed by councillors on accounting information.

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44 This study contributes to the literature on both the use of public sector accounting
45 information and accountability by focussing on one of the most important addressees –
46 politicians elected as councillors. This is one of the few public sector studies that draws
47 on old institutional economics (OIE), i.e. the framework of accounting change (Burns and
48 Scapens, 2000).

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52 We proceed as follows: The next section provides a literature review. Section 3
53 presents the Burns and Scapens' (2000) framework, our model and the research questions.
54 Section 4 explains the research method and sample, followed by the findings and
55 discussion in Section 5 and a summary.

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2. Theoretical framework and research questions

2.1 *The Burns and Scapens' (2000) framework of accounting change*

In conceptualizing management accounting change, Burns and Scapens (2000) predominantly draw upon Old Institutional Economics (OIE) to construct a procedural model of intra-organizational change in organizational rules and routines. OIE posits that behavior in organizations is shaped not solely by rationality but also by the specific social context characterized by institutionalized rules and values (Scapens, 1994). The explanatory elements in Burns and Scapens' (2000) approach to accounting change include institutions, routines, and rules. Institutions are "taken-for-granted assumptions which inform and shape the actions of individual actors" (Burns and Scapens, 2000, p. 8), being (re-)produced from "settled habits of thought and action." Institutions evolve through a process of routinization of human activity (Burns and Scapens, 2000, pp. 6), especially concerning tasks with low numbers of exceptions, high analyzability, and no deliberation and search on how to act (Pentland and Ruter, 1994).

Routines serve as the conceptual link between institutions and behavior, defined as "patterns of thought and action which are habitually adopted by groups of individuals", while rules represent the "formally defined way in which things 'should be done'" (Burns and Scapens, 2000, pp. 6). In groups of individuals, such formalized procedures are necessary for coordinated and coherent behavior (Scapens, 1994).

OIE turns to the question, how rules and routines can come to be institutionalised in an organisation as the „as the taken-for-granted basis for actions and interactions” (Ribeiro and Scapens, 2006, p. 99). Only if rules ([as how to interpret specific accrual accounting information](#)) are recursively followed, they can turn into a programmatic rule-based conduct, i.e. a routine (Burns and Scapens, 2000). If, for instance, "values of rationality and financial orientation" become taken-for-granted, they lead to institutions (Scapens and Varoutsas, 2010, p. 16).

However, during the implementation of the rules into everyday behaviour, deliberate or unconscious modifications can occur (Kholeif, 2010), causing routines to diverge from actual rules. Similarly, not all newly introduced rules and routines will become institutionalized since they may conflict with prevailing institutions. Here, power dynamics can come into play: organizational actors exert power to ensure the institutionalization of newly introduced rules. This facilitates overcoming resistance to change, which may stem from (1) competing interests leading to formal and open rejection, (2) lack of capability (e.g. knowledge and experience) to adjust to change, and

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3 (3) "mental allegiance" to the old/established ways of thinking (Burns and Scapens,
4 2000).

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6 In the Burns and Scapens' (2000) framework, the extent and nature of change is
7 evaluated by three dichotomies: formal versus informal change, revolutionary versus
8 evolutionary change, and regressive versus progressive change. Formal change occurs
9 through conscious design or exertion of power, while informal change is more tacit and
10 unintentional, adapting routines to changing conditions. A time lag between formal and
11 informal change processes can indicate resistance to change and anxiety, potentially
12 jeopardizing the implementation of new accounting techniques. Revolutionary or
13 evolutionary change signifies either a fundamental or a minor discontinuity of existing
14 rules and institutions, akin to the distinction between incremental and radical accounting
15 change as discussed by Hyndman and Liguori (2018). Regressive (ceremonial) change
16 preserves existing power structures by relying on previously dominant, ceremonial
17 values, hindering institutional change. Progressive change, on the other hand, "emerges
18 from a value system which applies the best available knowledge and technology to
19 problems and seeks to enhance relationships" (Burns and Scapens, 2000, p. 20).

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21 The subsequent section presents research on accounting change in the public
22 sector using the aforementioned OIE framework, followed by the introduction of our
23 research questions.

24 ***2.2 The framework of accounting change in public sector studies***

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26 The Burns and Scapens' (2000) (B&S) framework of accounting change has been applied
27 in public sector research as well. For instance, ter Bogt (2008) illustrated the NPM
28 reforms in the Dutch local governments conducting interviews with public managers and
29 politicians. The adoption of accrual accounting was perceived as a technical matter, with
30 few discernible effects and no fundamental alteration to the accountability process. In
31 their examination of changes in performance measurement within Accounting and
32 Finance groups at two universities, ter Bogt and Scapens (2019) present an "extended
33 B&S framework." This framework incorporates situated rationality, referring to how
34 social agents rationalize their behavior when faced with specific situations, as well as
35 broader institutions and generalized practices (referred to as archetypes) beyond the
36 organization. Mutiganda (2014) investigated how institutionalized management
37 accounting rules and routines in two hospital districts influenced the accountability of
38 institutional actors. His study revealed that while there was no resistance to change,
39 institutionalization did not occur due to ceremonial accountability aimed at preserving
40 the status quo.

A few studies applied Burns and Scapens' (2000) framework in public sector financial accounting research. Caccia and Steccolini (2006) analysed the accounting reform process in an Italian local government. They discussed resistance to change from the perspective of public managers, arguing that the accountability cycle was disrupted due to a lack of understanding of users' information needs, describing it as a 'vicious' cycle. Kholeif (2010) demonstrated the symbolic use of IFRS accounting in an Egyptian state-owned enterprise while the prevailing uniform accounting system remained institutionalized. Irvine (2011) applied the process of institutionalization to explain the reasons for an unsatisfactory implementation process of accrual-based accounting in an Australian not-for-profit organization. By focusing on accountants, she revealed that the encoding of the new accounting system failed due to insufficient accounting knowledge. Consequently, enacting and reproducing the rules was not entirely successful, leading to staff frustrations during implementation. Only after reassessment and additional resources for the change process was the path toward institutionalization of the accrual accounting system partially facilitated.

In summary, the Burns and Scapens' (2000) framework has been widely utilized in recent research, primarily to analyze the preparers' perspective (i.e., how accounting change affected and potentially institutionalized by public managers) but with less focus on politicians. Another scarcely addressed area is the change in accountability (see e.g., Caccia and Steccolini, 2006; ter Bogt, 2008; Mutiganda, 2014). In our analysis, we therefore concentrate on politicians who serve as both principals and agents in the accountability relationships within the public sector.

2.3 Modelling implications of accounting change for financial accountability

There is no consensus on the definition of accountability, as it is understood and interpreted differently across various relevant disciplines, and even within them. Building upon the narrow definition proposed by Bovens (2007), accountability is conceptualized here as a social relation consisting of a sequence of elements—a mechanism encompassing information, debate, and consequences phases. Olsen (2013) suggests that such a narrow definition facilitates empirical research. Different types of accountability are distinguished based on the account to be rendered, including financial, procedural, or programmatic accountability, as well as the nature of the obligation—whether vertical, diagonal, or horizontal (Bovens, 2007). Financial statements serve as a means of financial accountability, representing vertical accountability (Reddick *et al.*, 2020). Vertical accountability is rooted in a principal-agent relationship (Bovens, 2007), wherein local

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3 governments (and their public managers) are delegated tasks by local councillors
4 (politicians), who serve as the elected representatives (i.e., agents) of citizens.
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6 Applying the framework proposed by Burns and Scapens (2000) to accountability
7 raises the question of how an accountability relationship becomes institutionalized.
8 According to Keohane (2005, p. 126), this occurs "when the requirement to report, and
9 the right to sanction, are mutually understood and accepted." In the context of accrual
10 accounting change in the public sector, public officials formally fulfill their obligation to
11 be held accountable: rules for accrual accounting are established and implemented, and
12 routines that more or less resemble the rules are in place (Irvine, 2010), enabling the
13 preparation of financial statements to inform principals. While accountability builds on
14 institutionalized practices of giving an account (Bovens, 2005), the accountability
15 mechanism as a whole necessitates the availability of information to enable its recipient
16 to form a judgment (Michels and Meijer, 2008).
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24 Mutiganda (2014) demonstrates that the institutionalisation of accounting change
25 alone does not shape the ways institutional actors think and act. Just as an „organization’s
26 accounting routines might be largely ceremonial” (Kholeif, 2010, p. 35), accountability
27 routines can be ceremonial, allowing old values and habits to persist. Additionally,
28 resistance to change may arise from adherence to the role of the prevailing institution
29 (Boland et al., 2008), resulting in accountability being discharged via cash-based
30 accounting information. Typically, cash-based accounting information focuses on cash
31 flows and balances, with cash-based receipts and payments monitored against
32 appropriations, holding public managers accountable for spending public money
33 according to annual appropriations decided by politicians. In contrast, accrual-based
34 accounting information focuses on the full cost of service provision by considering all
35 obligations and the overall financial position, including expenses for depreciation,
36 pensions, and other employee-related expenses (Guthrie, 1998).
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46 For principals to establish an institutionalized accountability relationship, i.e., to
47 understand and accept their right to pose questions and pass judgment, there must be an
48 understanding of financial statements as a means of accountability. Institutionalization of
49 new accounting rules for principals would entail the dissemination and use of reports "in
50 a manner and for a purpose consistent with this intent" (Harun *et al.*, 2012, p. 261).
51 Accrual-based financial statements provide specific information for rendering financial
52 accountability regarding public sector entities' financial position, performance, and cash
53 flows. In Table 1, we provide examples of the information contained in different financial
54 statements and possible habits that politicians could adopt, which could ultimately
55 become routines. While this list of accounting principles is rather high-level, it offers non-
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exhaustive examples of potential routines that politicians might follow when reviewing financial statements.

Tab. 1: Financial statements, rules and potential habits of politicians (Own elaboration, also based on Ryan et al., 2000; Carlin, 2005; Liguori *et al.*, 2012)

Financial statement	(Accounting) Rule	Habit → Routine
Statement of financial position (balance sheet)	Recognition and measurement of assets	Check for composition of assets (e.g., current to non-current assets, fixed assets, infrastructure assets)
		Check for changes in assets based on comparative figures and ratios
	Recognition and measurement of liabilities and provisions	Check for composition of debt (e.g., current to non-current debt) and check for changes of debt (indebtedness) based on comparative figures and ratios
		Check whether assets have been put aside to fulfil provisions
		Check for changes in debt-based comparative figures
	Horizontal analysis of the statement of financial position	Compare the relation of (non-)current assets to (non-) current debt
		Check for liquidity (e.g., cash plus non-current assets) to serve (current) debt
	Calculate net assets (assets minus debt)	Check whether net assets are positive
		Check for changes in net assets
Statement of financial performance	Recognition and measurement of revenues	Check composition of revenues
		Check relations of tax sources
		Check for deviations to planned (budgeted) revenues

	Recognition and measurement of expenses	Check composition of expenses by public services (e.g., education, health, infrastructure maintenance)
		Check composition of expenses by expense category (e.g., as indicator for use of resources)
		Check for deviations to planned (budgeted) expenses
	Decrease value of tangible and intangible assets over their useful life (depreciation)	Check for capital tied up in fixed assets, the age structure of the assets and the development of the individual items in the past financial year
	Calculate the annual margin and bottom line (revenues minus expenses)	Check, whether bottom line is balanced
Funds/Cash flow statement	Provide an overview of changes in cash and cash equivalents categorized by operative, investing and financing cash flow	Check, whether in- and outflows to operative cash flow are balanced Investment activity assessed and also financing of investments Need of new loans to finance investments
		Check deviations to planned (budgeted) figures in cash flow
Statement of changes in net assets	Show difference between an entity's net assets at the beginning of a financial period and at the end of the same period	Check for changes in net assets based on comparative figures Check for sufficient reserves to be viable in the future
Notes (as addition to financial statements)	Provide explanations for changes in accounting policies	Type of depreciation used for different classes of assets
	Changes in measurement	Check for significant changes in the measurement of assets and liabilities
	Disclose the amounts of specific taxation receipts collected	Check for changes in long-term investments, decreasing or increasing investments to service and infrastructure facilities (is the municipality growing/seeing a positive future development enhanced with new investments)

All statements

Look for 'unusual' items

Eliminate related effects e.g., revenues and expenses from impairments, reversals of impairments, or revenue impact of extraordinary subsidies, donations and grants.

Eliminate related effects e.g., revenues and expenses related to waves of migration, or COVID 19 and Russian war of aggression on Ukraine¹

Reassess fundamental key figures for the annual financial statements (e.g., net assets, asset-debt-relations)

Analyse assets and liabilities, revenues and expenses e.g., related to climate change like actions for reduction of carbon emissions, for flood protection measures (including subsidies for affected citizens and branches) or like reduction of useful lives of infrastructure assets and the associated increase in maintenance and repair costs

Reporting allows the agent to share information with the principal that the principal might not otherwise receive (Strøm, 2003). Consequently, some perspectives suggest that the mere publication of reports fulfills accountability requirements (Steccolini, 2004; Tippet and Kluvers, 2010). However, the production of new reports does not necessarily change the behavior, practices, and attitudes of those expected to use them (Nor-Aziah and Scapens, 2007; Harun *et al.*, 2012). Previous studies have indicated that accrual accounting reforms require a "settling-in period" (Andriani *et al.*, 2010), during which politicians may experience a learning curve (Ezzamel *et al.*, 2005). Early studies found that politicians tended to adhere to cash-based information (e.g., Christiaens, 1999; ter Bogt, 2004; Steccolini, 2004), while later studies, after the reforms had been implemented for some time, indicated at least a stronger reliance on accrual-

¹ We are aware that most of the events mentioned here took place after the data collection, but we listed those here as very prominent examples for which local governments introduced specific accounting procedures, both in Finland and Germany, and as examples, that accounting procedures like filtering revenues and expenses can be applied to emerging and changing politically relevant issues.

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3 based information (Liguori et al., 2012; Giacomini *et al.*, 2016; Guarini, 2016; Hausteine
4 *et al.*, 2021).

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6 Within the framework proposed by Burns and Scapens (2000), this evolution can
7 be attributed to the time needed for institutional actors to establish and pass on new
8 routines (ter Bogt, 2008), which over time may become 'taken-for-granted' ways of
9 thinking, i.e., institutions. Especially, routines in using financial statements by politicians
10 are crucial, as they enable the next steps in the accountability cycle—asking questions,
11 debating, and sanctioning. We specifically emphasize routines here, as they are
12 "explicitly intended to guide participants towards acceptable ways to carry out their
13 duties" (Burns and Scapens, 2008, p. 94). If politicians routinely use accrual accounting
14 information, drawing on habits shown in Table 1 as a matter of normality, this suggests
15 its taken-for-granted use. Conversely, if politicians predominantly rely on the old
16 institution of cash-based accounting information or resist change by refusing to use
17 accrual accounting information, it indicates that the use of new accounting information is
18 not institutionalized. This forms the basis of our first research question (*RQ1*): *To what*
19 *extent do councillors routinely use information provided in financial statements?*

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30 Financial statements serve as sources of information and means of accountability
31 but are not accountability per se (Vinnari and Näsi, 2008). Furthermore, they cannot
32 convey all necessary information for assessing, for example, the long-term financial
33 sustainability of political programs (Grossi and Steccolini, 2015). While accrual
34 accounting reforms have been implemented relatively quickly and have brought about
35 radical changes in the rules of accounting and financial reporting (Hyndman and Liguori,
36 2018), a lengthy continuum of accounting change is underway, with limited progress in
37 moving along the stages of change (Connolly and Hyndman, 2006). To legitimize
38 accounting change through the actors using the new accounting practices, it is essential
39 to overcome initial doubts and potential resistance (Connolly *et al.*, 2021). It remains
40 questionable how affected individuals perceive the change and in what ways financial
41 statements induce changes in accountability and serve as sources of information routinely
42 drawn upon by principals. We address this research gap by applying Burns and Scapens'
43 (2000) dichotomies of formal versus informal, revolutionary versus evolutionary, and
44 regressive versus progressive change. While the accrual accounting reform on the side of
45 account preparers (i.e., public administrations) can be viewed as formal (clearly rule-
46 based), and to some extent also revolutionary and progressive change (see e.g., Caccia
47 and Steccolini, 2006), this does not necessarily hold for the extent and nature of change
48 of accountability. The accrual-based reforms may have overwhelmed politicians' capacity
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3 to understand the new information, potentially weakening their ability to pass informed
4 judgments of local governments' financial performance (Chan, 2003; Oulasvirta, 2021).

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6 We classify this change from the perspective of politicians, i.e., the principals to
7 the public administration and the agents to citizens. **The first level concerns the**
8 **relationship between the councillors and the accountable administration implementing**
9 **councillors' decisions.** Councillors are in charge of assessing the administration's efforts,
10 e.g., in terms of cost-effective and sustainable service delivery and whether their
11 resolutions have been implemented. They should have the capabilities to perform their
12 own analysis and challenge ready-made interpretations offered by others. *RQ2* addresses:
13 *Which type of change in financial accountability to politicians was induced by financial*
14 *statements?*
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17 The second level of accountability analyzed here pertains to politicians'
18 accountability toward citizens as ultimate principals. As councillors are elected to
19 positions of trust, their accountability relationship with local citizens (taxpayers, voters,
20 and other local inhabitants) requires the ability to explain financial matters to their
21 constituency. However, the relevance of accounting information for citizens is highly
22 debated (Jones, 1992), prompting calls for more simplified forms of financial reporting
23 (Lapsley, 1992). Therefore, we inquire how financial statements affect the accountability
24 relationship between politicians and citizens in *RQ3*: *Which type of change in financial*
25 *accountability to citizens was induced by financial statements?*
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28 29 30 31 32 33 34 35 36 37 **3. Context and methodology**

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39 The institutionalization of accounting change is a gradual process (Burns and Scapens,
40 2000), and the duration of the settling-in period needed to observe its effects remains
41 uncertain (Andriani *et al.*, 2010). To examine the varying time frames for the utilization
42 of financial statements by councillors, we investigate two countries with differing levels
43 of reform maturity: Finland and Germany. These countries were chosen to minimize other
44 influences due to their similar accounting traditions in the private sector (Nobes, 1998),
45 which served as the basis for developing public sector accounting norms, including the
46 application of the asymmetric prudence principle of accounting (Mann *et al.*, 2019). Both
47 countries are governed by the rule-of law, have strong constitutional protections for their
48 local governments and a high share of public services delivered by local governments.
49 While the Nordic country Finland, is known for high transparency and an administration
50 accessible to citizens, in Germany, a Continental European country, (at least) civil society
51 associations play an important role. Whilst in Finland, the accrual accounting reforms
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3 have been implemented across all government levels, in Germany accrual accounting was
4 implemented starting on the local level, which, however, did not transfer to most upper
5 government levels (Pollitt and Bouckaert, 2017). According to a study of Ejersbo *et al.*
6 (2023), Nordic countries, Finland included, are associated with reform positiveness which
7 also includes the administration of local governments. In contrast, the German
8 governmental sector still lags in adopting accrual accounting in its entirety. While the
9 local governments were legally obligated to transition to accrual accounting, many federal
10 states and the central government did not follow suit. This reluctance at higher political
11 levels could be interpreted as a form of resistance to change.
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19 *3.1 Accounting reforms at the local government level in Finland and Germany*

22 *3.1.1 Local government accounting reform in Finland*

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24 In 2020, there were 310 local governments in charge of most of the education, health, and
25 social services in Finland. In addition, local governments provide local infrastructure,
26 housing, and planning services. Municipal cooperation has replaced the intermediate
27 government tier and has made it possible for the small municipalities to exist.² At local
28 government level, the key sources of financial information are the budget and the
29 economy plan, complemented with the corresponding outturn reports given after the
30 budget year, the financial statements for both the municipality and its group.
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36 The accounting system was considerably altered in 1997 when the municipal
37 budget and accrual accounting reform was implemented. This reform meant that the
38 reporting system was widened, but it also became more complex. This challenged
39 politicians' abilities to read reports and to draw on the most important information. They
40 are expected to understand the relationships of the different calculations and ratios
41 embedded in different parts of the reports (Näsi and Keurulainen, 1999).
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47 *3.1.2 Local government accounting reform in Germany*

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49 Local governments represent the lowest level of the German public administration
50 structure (federal, state and local). Besides cities and counties, the approximately 11,000
51 municipalities are the largest group of institutions at the local government level. Although
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55 ² However, the Finnish parliament decided in 2021 of a new regional level composed of 21
56 regions with elected councils. This reform transferred the organization of health and social
57 services and rescue services from municipalities to the new regions from the beginning of
58 2023. These regions use the same kind of accounting system as municipalities.
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3 German municipalities are self-governing in general, the legal framework is set by one of
4 the 16 states (13 area and three city states) in which the municipalities are located. Thus,
5 the municipal budgeting and accounting system is prescribed by the states, which did not
6 agree on a common financial accounting regime for all German municipalities.
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10 Traditionally, a form of cash-based budgeting and accounting was used in the
11 entire German governmental sector, so-called cameral accounting (Kameralistik)
12 (Monsen, 2008). The governmental accounting landscape is characterized by a high
13 degree of heterogeneity. In 2000, a reformed budgeting and accounting system for the
14 local level was authorized by each of the 16 federal states to varying degrees until 2004.
15 Nowadays, accrual accounting and budgeting systems are in place at the municipal level
16 in 12 of the 16 states. Of the 16 states, only four have moved to accrual accounting or are
17 on their way to doing so. The remaining governments at state or central level continue to
18 use their cash-based system.
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26 *3.2 Research methodology*

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28 Innately, this is a qualitative study with a large interview data set collected from several
29 municipalities. A semi-structured approach for the interviews was adopted, as it enables
30 a better understanding of the perceptions of councillors. An interview guideline was
31 developed by relying on the literature on public sector accounting and accountability. It
32 was jointly developed in English first and then double-blind translated into Finnish and
33 German. The detailed questions and the structure of the interview guideline are shown in
34 Appendix 1. The in-depth interviews, which lasted from 35 to 90 minutes, were recorded
35 and transcribed. German interviews were conducted by telephone in autumn 2017 with
36 two interviewers and one local councillor each. Instead, the Finnish interviews happened
37 during face-to-face meetings in winter 2017/18. The difference in data collection methods
38 was due to the geographic distance of the interviewers and their interviewees. We aimed
39 to keep differences at a minimum by reliance on the structured interview guideline.
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47 The local governments were selected based on their size and debt levels (see Table
48 2): in each country at least one local government was selected from the groups of small,
49 middle-size and large numbers of inhabitants and debt per capita. Due to the different
50 accounting standards for local governments in each German federal state, we selected the
51 state of North-Rhine Westphalia as a forerunner in adopting accrual accounting for its
52 local governments in 2009. North-Rhine Westphalia has 17 million inhabitants living in
53 ca. 400 municipalities, whereas Finland has only around 5.5 million inhabitants with ca.
54 300 municipalities. Six local governments were selected for the German sample, with five
55 councillors interviewed in each municipality. The Finnish sample contains a selection of
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five local governments, in which five to six councillors were interviewed with one exception (only three in case FD). The difference between the national samples can also be explained by the saturation point of data collection: Particularly in the Finnish sample, the topics and interview responses were replicating so that no further fresh input was generated.

Tab. 2: Selected local governments

Total: N = 55	Local govern- ment	Rural / Urban	No. of inhabitants	Debt per capita in € (2016)	Surplus/deficit per capita in € (2016)	No. of councillors surveyed
Finland (N = 25)	FA	Rural	< 20,000	2,000 – 2,999	2,000 – 2,999	5
	FB	Urban	20,000 – 99,999	< 2,000	1,000 – 1,999	5
	FC	Rural	< 20,000	< 2,000	1,000 – 1,999	6
	FD	Rural	< 20,000	> 3,000	200 – 499	3
	FE	Urban	> 200,000	2,000 – 2,999	2,000 – 2,999	6
Germany (N = 30)	GA	Rural	< 20,000	2,000 – 2,999	-499 – -200	5
	GB	Rural	< 20,000	< 2,000	0 – 199	5
	GC	Rural	20,000 – 99,999	> 3,000	200 – 499	5
	GD	Urban	20,000 – 99,999	> 3,000	-499 – -200	5
	GE	Urban	> 200,000	> 3,000	-499 – -200	5
	GF	Urban	> 200,000	< 2,000	0 – 199	5

In both countries, the interviewees represented different genders and experience in local politics (see Table 3). Mainly, councillors collected their experience in more than one mandate period. The sample also represents different political orientations: The Finnish councillors are associated with nine and the German ones with eight different political parties.

Tab. 3: Sample description

	Finland	Germany	Total
No. of local governments	5	6	11
No. of councillors	25	30	55
Gender	male	13 (52%)	20 (66%)
	female	12 (48%)	10 (33%)
			33 (60%)
			22 (40%)

Age	average	54.6	55.8	55.3
	min - max	31 – 70	33 – 74	31 – 74
No. of years of council membership	average	10.5	11.5	11.0
	min - max	1 – 38	1 – 41	1 – 41
Distribution of council experience in no. of councillors	no previous experience	1 (1 n/a)	0	2%
	1 – 4 years	6	9	27%
	5 – 9 years	9	7	29%
	> 10 years	8	14	40%

The analysis and coding of the interview data were conducted by two researchers in both Finland and Germany. Different sub-questions were formulated for each research question, as outlined in Appendix 1. The analysis employed qualitative content analysis following the method proposed by Mayring (2014), a structured qualitative approach widely utilized in the German-speaking research community.

To provide a comprehensive overview of the national samples, the data were coded based on the specific financial statements or reporting items mentioned by the respondents. To investigate the routine use of accounting information (RQ1), respondents' answers regarding the types of information extracted from financial statements were collected. The categorization framework proposed by Liguori et al. (2012) served as a guide for distinguishing between cash/budgetary-based and accrual-based accounting information. Through deductive coding, responses were categorized according to the financial statements and specific numbers or key ratios mentioned (refer to Table 1 for examples). Additional categories were developed inductively when responses did not align with the predefined list (e.g., budget figures, highly specific numbers, or instances where no information was utilized at all). An extract of the coding scheme is provided in the Appendix 2. Subsequently, routines were identified through an inductive approach, wherein phrases indicating habitual behavior such as 'usually', 'in general', or 'normally' were coded accordingly.

Responses related to accountability (RQ2/3) were also categorized inductively, drawing on the dichotomies of change proposed by Burns and Scapens (2000). For instance, formal change was identified when respondents referred to the introduction of formal rules mandating the use of financial statements for informing about the financial situation or performance of the local government. Informal change was apparent when this was left in an informal and unintentional way to the information recipients. Revolutionary change was coded when respondents highlighted new or extended insights gained from accrual-based financial information. Conversely, evolutionary change was identified when there was limited mention of financial statements. Indications of

instrumental behavior by searching for specific information purposes (progressive change) versus ceremonial behavior relying on old habits, i.e. rather cashed-based information (regressive change) were collected. Additionally, the analysis considered the three types of resistance to change, namely (1) competing interests leading to rejection, (2) lack of capability, and (3) "mental allegiance" to established ways of thinking.

Interview quotes are referenced using a standardized format, beginning with the national code (F for Finland, G for Germany), followed by a letter (A–F) representing the local government (Table 2), and finally, a number (1–6) denoting the respective councillor.

4. Findings

4.1 Routine use of information provided in financial statements (RQ1)

Comparing the country samples, it appears that Finnish councillors are more confident in naming specific components of the financial statements they use for assessing the financial situation or performance. Finnish councillors specifically addressed interest on tax incomes, annual margin and deficit/surplus figures. Many emphasized the importance of following the tax income compilation compared to budget figures, and furthermore, compared to the incurred expenses. Whilst the answers were made confidently and instantly, they show pragmatism and ways of simplification:

Very pragmatic, I compare the accumulation of tax incomes with expenditures and with previous accumulation figures. [FB1]

I look at the bottom line, the result, and what is left after the depreciations, are we above the water surface or are on the negative side. Actually, I read quite seldom those top lines in the income statement, or I read them only when there is special need to start investigating something. If we are satisfied with the result, we let up on those lines. [FB5]

Of course, the development of tax incomes is a very important ratio and the development of incomes in general. And of course, I look at what is left under the line, the result. [FE1]

In my opinion, the deficit/surplus is the important key ratio, which offers information about the municipality's financial situation. That's what I mainly look at. [FD1]

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These instant responses by Finnish councillors imply a routine behaviour, as councillors describe what they do ‘very pragmatic’, ‘actually’, ‘of course’ and ‘mainly’ (drawing on the example made by Burns and Scapens, 2008). On a more general level, most of the Finnish interviewees expressed that they read and consider all financial statements in their councillor work. Such a common habit could be interpreted to be a generally accepted way things are done by a group of persons, i.e. as an institution. However, that does not necessarily mean that there are routines regarding each individual statement. Compared to the income statement, Finnish councillors also follow the balance sheet information, but to a lesser extent. Especially, the debt level was tracked and compared with other municipalities, which can be coined as a specific routine when checking the balance sheet. In addition, Finnish councillors emphasized the importance of following investments and fulfilling investment needs that they considered important.

In contrast, the German councillors are at times still struggling with the accrual accounting system. However, also for them, a focus on the annual surplus/deficit was detected, which they use ‘naturally’. If the local government was in financial distress, also debt information was routinely drawn. In both countries, interviewees considered that it was important to follow budget and budget accomplishment during the budget year. This points to the fact that the old institution prevailed, which relied on cash-based accounting. However, since it is a task of the public administration to implement the budget plans, a check of these figures by councillors was to be expected.

Moreover, it was a common feature that interviewees used the income statement slightly more often than the funds flow statement or the balance sheet. We observed that with increasing complexity of the financial statements, the expressions of routine use decreased. While the income statement and funds flow statement were considered simpler, the balance sheet was perceived to be more complex in both countries. More specifically, the consolidated group statements were difficult to master by Finnish councillors and almost not mentioned by German councillors. Especially German councillors revealed to have problems even finding specific information they would like to focus on, so that no search routines for specific information have been established yet, which would be a requirement for financial statements as a means of accountability.

4.2 Change in financial accountability to politicians (RQ2)

In both countries, the financial statements have to be approved by the local council on a yearly basis, which is a formal, intentional exposure to this new type of information. This, however, is preceded by an audit performed by either an independent public audit body or an audit company. The interviews show that local councillors strongly rely on the audit

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3 opinion for this general task, and there are also annual formal council meetings in which
4 the book closure is explained to councillors. In this regard, a formal change of
5 accountability was induced in both countries through a legal requirement, since there are
6 specific norms for audit and approval of financial statements. Besides audits, which were
7 already prevalent when there was cash-based information and do not affect the politicians
8 directly, no formal procedure of drawing on the financial statements was installed, but it
9 was left to politicians individually. In contrast, Finnish councillors report drawing on
10 financial statements more often during the reporting year on their own agenda, which is
11 an indication of informal change. Conversely, the majority of German councillors have
12 difficulties in making sense of the financial statements so that the use is not routinised:

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19 „This is difficult because I cannot conclude from the numbers to the real work done...
20 the numbers do not provide such information.” [GB2]
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24 While there was a drastic change in the accounting norms, this does not apply to
25 a potential revolutionary change in financial accountability. Typically, councillors had an
26 interest in some specific activity and service areas they especially followed. Many of the
27 councillors are also members of committees responsible for certain municipal tasks, so
28 that for them to follow expenses and budget fulfilment in those areas is a very natural
29 thing and a solid basis for establishing routines, but is something that was prevalent
30 already with cash-based accounting. In this regard, we observed a rather evolutionary
31 instead of revolutionary change, i.e., councillors adapted and modified their routines
32 gradually to track information they are interested in. Many of those respondents already
33 had several years of experience of being a councillor and making decisions in councils
34 and committees about municipal financial matters presented with accrual accounting.
35 Still, even Finnish councillors with a longer track record of accrual accounting
36 information need to rely on further sources of information to complete their accountability
37 assessment, as the exemplary quote shows:
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46 Does the balance sheet describe in a right manner debts and liabilities of the
47 municipality? Yes, it does describe. The debts are easily found but the other liabilities, it
48 is not so easy to know what all things are included in other liabilities than debts. It is an
49 interesting matter, [...] but isn't clear during reading. It needs explanations, and
50 probably it will be opened during the book closure council meeting if this is asked.
51 [FB4]
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57 This need for additional information applies to Finnish councillors for
58 specific accounting matters (such as interest swaps or transactions within the
59 consolidated accounts). In contrast, even for matters such as the approval of the
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3 financial statements, German councillors say to require explanations by the CFO or
4 report auditors, *i.e., additional means of more direct accountability*. As such,
5 evolutionary change is prevalent, with the more experienced Finnish councillors
6 being a step ahead.
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11 When it comes to drawing on specific accountability assessments, *such as the*
12 *financial situation or performance*, German councillors appear to experience more
13 difficulties than their Finnish counterparts. Councillors can simply resist the change
14 by ignoring financial statements by relying on information they used so far *and*
15 *showed reluctance*. When being asked which financial statements' components or
16 information they use, around half of the German respondents cannot answer.
17 Interestingly, arguing with the sheer complexity and lengthiness of the financial
18 statements, few German councillors often stated that transparency is given per se:
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23 „It's full transparency about what happened. ... They have few possibilities to
24 disguise the truth.” [GA1]
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29 The majority of German councillors are quite critical about the complexity and
30 lengthiness of the financial statements. A main issue is the missing knowledge on how to
31 handle and understand information provided in the financial statements:
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33 Everything is in it! If one has the knowledge, he can read everything. But I think
34 the majority of people are not educated in that direction. [GA4]
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38 I believe that very few people who have access to these financial statements
39 understand these at all. So, transparency is clear, yes, it is public – but I think few
40 people really get it ... I find it in places very confusing. It is pure financial
41 information. That's insane. [GA2]
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45 ... the financial statements in its extent are not understandable – if my fellow
46 councillors say they can read it like experts, then they lie. We rely on the
47 information, on the correctness of the employees who create this, otherwise, I
48 believe, for three quarters of my colleagues it would be incomprehensible. [GA2]
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53 These missing capabilities even lead to resistance to change and doubts about how
54 the financial statements have been compiled by the administration. In particular, German
55 respondents mentioned not being able to understand the valuation of assets and the need
56 for its underlying depreciation, especially regarding the public sector context. Few of
57 those respondents even saw the potential for manipulation here.
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3 But I think our administration artificially calculates bad figures, so that they can
4 collect higher taxes [...]. [GB2]

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6 To what extent the assets of your municipality are transparently presented in the
7 financial statements? Not at all. No. These are rough estimates, I say. [GF4]
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11 This problem was especially prevalent in those German municipalities that are in
12 financial distress. Here, councillors refused to draw on financial statements, since the
13 local governments are bound to specific mechanisms for financial protection. This
14 missing knowledge and the perceived restriction by the financial situation of the local
15 government is a sign of regressive change. Those councillors resist adjusting to new
16 routines of using financial statements. So the results are mixed. Although we observed
17 indications of progressive change for some councillors, especially for the German
18 councillors, also regressive change became apparent: While there was a ceremonial use
19 of financial statements for their approval, the old routines of primarily drawing on budget
20 information were still prevalent.
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28 29 *4.3 Change in financial accountability to citizens (RQ3)*

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31 From the point of view of politicians in both countries, financial accountability to citizens
32 is hardly discharged through financial statements. Both Finnish and German councillors
33 deemed that ordinary citizens very seldom directly use any financial statements or budget
34 outturn reports as such. Councillors mainly explained this with the high complexity of
35 information and missing knowledge of citizens. In that way, financial statements also
36 brought no change to financial accountability. Few respondents recalled incidents of
37 citizens drawing on financial statements only when their personal interest is affected. On
38 a more general level, the tax to be paid to the municipality is a matter of importance to
39 citizens that makes them interested in the financial situation of the municipality and the
40 work of the council. Especially in municipalities that are financially distressed,
41 councillors express difficulties linking the political will to cut spending with its
42 consequences:
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50 The citizen would also not understand, nor would it be made plausible, that because we
51 saved money, we will still be penalised. This means that we will receive fewer
52 allocations from the state and the district. [...] It's very complicated to make people
53 understand that. [GA2]
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56 To that extent, information going beyond the financial statements is needed to
57 make the efforts of politicians to stabilize the municipality's financial situation better
58 understandable, also given its financial consequences. To draw on the distinction of
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3 formal vs. informal change on accountability to citizens, we can detect neither here. There
4 are no specific patterns observable on how politicians use accounting information to
5 discharge accountability to citizens, no specific events to present the accounting
6 information to citizens and there are also no specific actions of a powerful individual or
7 group in any of the local governments to e.g. train citizens to use financial statements.
8 Also, informal change was not prevalent, as politicians did not describe any potential
9 effect on citizens.

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11 As such, the introduction of financial statements brought no revolutionary or only
12 evolutionary change to accountability to citizens, [since neither a fundamental nor minor](#)
13 [disruption to existing routines and institutions was observed by the interviewees.](#)
14 However, some councillors discussed the important role of information mediators, like
15 local media, that publish news about local governments and interpret financial statements
16 for readers. Also, several German councillors indicated that on the one hand, more
17 qualitative information should be added for citizens, and on the other hand, simpler
18 reports for citizens are needed that contain only the basic information and use plain
19 language. Thereby, without explicitly mentioning the term, they raised the idea of
20 (integrated) popular reports, which are already used in some countries (Cohen and
21 Karatzimas, 2015; Manes-Rossi *et al.*, 2020). The stronger role of information
22 intermediaries and development of citizen-oriented reporting formats, as two further
23 means of accountability, could at least bring about some evolutionary change, since that
24 way access to the accountability cycle is improved for citizens.

25
26 In the end, the financial statements seem not to be suitable to decrease the
27 information asymmetries between the politicians and citizens, partly due to their
28 complexity and content. Hence, existing power structures were preserved so that a
29 regressive type of change seems apparent. It can be drawn here on two forms of resistance
30 to change, namely [lack of capability to handle accrual-based financial information, and](#)
31 [„mental allegiance” to the established ways of thinking by ignoring the reports.](#)

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5. Discussion and conclusions

Through the lens of old institutional economics (OIE), i.e. the Burns and Scapens' (2000) framework of accounting change, this study questions a research gap whether accrual-based financial statements brought about changes in discharging financial accountability to politicians and citizens from the perspective of politicians. It examines two national cases with an 11-year difference in the initial availability of accrual accounting in the public sector. [Reflecting on the findings presented here, it seems](#)

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3 questionable whether financial statements serve as a means in the information phase of
4 the accountability mechanism. Whilst the mere reporting is already seen as accountability
5 in some studies, our results are in line with prior research indicating new reports do not
6 necessarily also change habits, rules and routines of expected report users. Still, there
7 were differences observable in the national samples that were compared here, which can
8 partly be traced back to the differences in accounting maturity. However, this difference
9 of 11 years in the availability of accrual-based financial statements was determined by
10 the national samples we selected. So, it remains questionable of how long is the time span
11 until the learning curve discussed in the study of Ezzamel *et al.* (2005) or the required
12 settling-in-period suggested by Andriani *et al.* (2010) is completed.

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20 The findings indicate that compared to German councillors, the Finnish
21 counterparts routinely draw on financial statements to find relevant figures and ratios
22 (RQ1). Thus, the theoretical lens applied here can also partly explain why early studies
23 on the accrual accounting reforms were rather dismissive of politicians using the
24 information, while later studies were able to reveal specific use cases. The Burns and
25 Scapens' (2000) framework helps to understand that through the introduction of accrual-
26 based financial statements, accountability does not immediately change. Instead, a change
27 in routines of using the financial statements is required so that it is a taken-for-granted
28 matter (e.g., an institution) to provide information in the accountability mechanism. Only
29 then, politicians will be able to ask questions and hold the public administration
30 accountable.

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37 With regard to routines most prominent, councillors revealed a focus on the
38 bottom-line (surplus/deficit). Such simplification is a typical behaviour of local
39 councillors (Vinnari and Näsi, 2008). Stressing the bottom line is a doctrinal component
40 of NPM-reforms. It allows politicians to focus on the overall strategy without heavy
41 'hands-on' demands on public managers (Hood, 1991). In contrast, Mulgan (2003) finds
42 the bottom-line to be an inadequate accountability measure in the public sector context,
43 since there is no such narrow aim like profitability. Drawing on a specific piece of
44 accounting information to interpret the financial situation and performance, portrays the
45 respondents' economic reality (Burns and Scapens, 2008). Routines also shape the
46 meaning that local councils attach to financial phenomena of their municipality. Since
47 information is drawn from budgetary and deficit/surplus figures, it reveals the short-term
48 focus of councillors, who are chiefly concerned about the current reporting period and
49 future period(s) for which they have to set up the new budget. A broader view in terms of
50 checking, e.g., the financial sustainability of the municipality and its resources, can be
51 observed by very few respondents only. Most councillors seem to be concerned with very
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3 specific municipal tasks or areas of their political interest and do not particularly consider
4 the overall financial situation of their municipality. Already when cash-based accounting
5 was used, one of the main objectives of municipalities was implementing the budget plan
6 without excess spending. It is therefore questionable whether this focus of councillors has
7 changed, even though the budget now includes non-cash income and expenditure in
8 service delivery. However, most respondents used terminologies of accrual-based
9 accounting (such as income, expenses and surplus/deficit in the context of the income
10 statement). *As such, information-seeking for financial accountability is very narrow here.*

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16 The complexity of the financial statements seems to influence politicians' routine
17 use. Thereby, this study substantiates the arguments provided by Peebles and Dalton
18 (2022): accessibility and understandability of the information provided is key and more
19 needs to be done to help councillors to better encounter the information. In both countries,
20 the income sheet is to some extent more often used than the balance sheet, which is
21 viewed as more complicated. Still, in highly indebted local governments, there is interest
22 in following the debt information. However, especially in Germany, financial statements
23 were perceived to be too complex and the knowledge to handle the information was
24 missing. As such, at least for some financial statements, the function as a *means of*
25 *accountability* between the administration and the council could be doubted. On the one
26 hand, the high complexity of these statements leads to a lower task analysability and
27 requires more time for deliberation and search on how to act (Pentland and Rueter, 1994)
28 so that routines are not established. On the other hand, it could be drawn on the vicious
29 accountability cycle (Steccolini, 2004; Caccia and Steccolini, 2006), to better link the
30 councillors' information needs to the information presented.

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36 To summarise for RQ2, the results are mixed. The implementation of accrual-
37 based financial statements led to some formal and rather evolutionary changes *in financial*
38 *accountability to politicians*. In contrast to the revolutionary change that public
39 administrations experienced when adopting accrual accounting (Caccia and Steccolini,
40 2006), the politicians seem to shift more gradually to use the new information provided
41 and to establish routines. As for regressive vs. progressive change, for the more
42 experienced Finnish and few German councillors, routines in using financial statements
43 and even a search for more specific information is observable, which indicate progressive
44 change. For some German councillors, however, resistance to change becomes apparent
45 due to missing capabilities, mistrust, and a refusal to use accrual-based information,
46 leading to regressive change. To address this, educational efforts could emphasize the
47 importance of competences in reading balance sheets, clarifying their contents, and
48 explaining their connections to the income statement. This could be done, for example,
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3 by highlighting the role of depreciations in understandable ways for politicians.
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5 Particularly in German local governments, there are still no established routines for the
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7 assessment of public administrations' past actions based on the information provided in
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9 financial statements, indicating that it is not yet taken-for-granted, i.e., no institution yet.

10 Overall, the local government financial statements are not perceived to be a strong
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12 means for establishing financial accountability, especially not to citizens (RQ3).
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14 Politicians perceive that citizens do not as a rule read financial statements, that they are
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16 only occasionally interested in financial statements or budgets, and that these occasions
17
18 are those in which citizens have their own vested personal interests at stake. This could
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20 reflect what Mulgan (2003) coined to be a particular accountability. The citizens' method
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22 and frequency of reading reporting crashes illusions of them as active users and readers
23
24 of the entirety of financial statements or budgets. This would imply that there should be
25
26 more focus on politicians as users of financial statements and strengthens early calls for
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28 more user orientation in reporting (e.g., Rutherford, 2000). Furthermore, attention should
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30 be paid not only to the politicians, but also to the media as mediators of information to
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32 the public. Thereby, for citizens in particular, other means of accountability are of higher
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34 importance and other methods of transporting financial information are necessary. This
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36 could also have practical implications for municipalities, such as relying on further
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38 reporting formats to be able to attract the attention of citizens and to inform them about
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40 successfully completed public services.

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42 As for any research project, the results of this paper can only be regarded within
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44 the limitations of the study design. The answers provided by qualitative interviews are
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46 affected by the subjectivity of the interviewee and interviewer. In addition, there were
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48 differences within the interview method, which was done face-to-face in Finland and by
49
50 telephone in Germany due to the spatial distance. By relying on a semi-structured
51
52 interview guideline, we tackled this challenge to allow for a comparative view of Finnish
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54 and German municipalities. In addition, the analysis in Finnish and German language
55
56 required the necessity of translating selected phrases into English to discuss the results
57
58 with the implication of some loss of the original meaning of the phrases. By analysing
59
60 five Finnish and six German municipalities, this research project also respected that there
might be differences among municipalities contingent factors such as size and
indebtedness, but cannot claim representativeness. *Since this is a comparative study of
two countries only, its representativeness is limited also in this respect, so that future
studies could be devoted to collecting data in other countries with longer experience in
accrual accounting adoption in the public sector or conducting longitudinal studies in
several countries.*

This study contributes to public sector accounting research by drawing on a comparative national study with different time spans of accrual accounting adoption. It provides a theoretical lens to explain why accounting maturity might impact also the use of the financial statements and financial accountability, but that also resistance to change can emerge, e.g., from high indebtedness of the local government. We can draw the following implications from our research: Accrual-based General Purpose Financial Statements are often considered a crucial tool for assessing accountability and analyzing the financial position, performance and cash-flows of an organization. However, our study challenges the normative arguments that suggest these financial statements benefit principals, with councillors being the primary users. Our practical findings contest these theoretical assumptions regarding the imagined benefits, as it appears that financial statements primarily serve as information provided by professional accountants to other professionals, rather than to politicians who struggle with the complexity of the information. There is a clear need for simpler reporting and increased training for politicians, who are predominantly lay users. Moreover, politicians do not perceive financial statements as a suitable means for discharging accountability towards citizens and instead call for more simplified alternative reports. Furthermore, this study highlights the significance of information mediators (e.g., the press) and chief financial officers in making accounting information more accessible and understandable.

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Appendix 1: Interview Guideline

Structure of the interview guideline:

Numbered guiding questions: Open stimulus to answer

Content related questions (as part of the guiding questions)

Additionally, for each guiding question: Questions for maintaining the flow of speech :

- Could you please explain this in more detail?
- Does anything else come to your mind?
- Could you please provide an example?

Explanations to the interviewees

1. Could you please provide us with some background information on your person and your involvement in the local council?

What is your age?

Which political party do you belong to?

What is your professional background?

What is your educational / academic background?

Have you been in touch with FS during the last 10 years despite your position as a local council member?

Since when are you a local council member?

(for German councillors:) If before 2009: Have you experienced the change from cash to accrual accounting?

Which committees in the local council do you belong to?

Explanations to interviewees: Together with the reforms of the municipal budget and accounting system, the financial statements (FS) building on accrual accounting were introduced. In the following, we are talking about the financial statements only, i.e. the information provided at the end of a calendar year (neither any other financial reporting). Thus, we are not referring to the budget plan for next year, but to the financial statements only. This includes comparisons of budgets planned and realized.

1
2
3 *Publishing the municipal financial statements aims to increase transparency, i.e. the*
4 *information shall be made openly available and understandable. Building on these*
5 *remarks, we would like to ask you:*
6
7

8
9 **2. To what extent does the municipal financial statements (FS) make**
10 **your municipality's financial situation transparent?**
11

12 How do you rate the financial health/ financial situation of your municipality? What do
13 you think? In which financial situation is your municipality?
14

15 Which information and key financial ratio do you use to assess the financial health of
16 your municipality?
17
18

19 Does the municipal FS make the financial performance of your municipality
20 transparent? And if, to what extent?
21

22 To what extent are the municipality's assets transparently represented in the municipal
23 FS?
24

25 To what extent does municipal FS provide an insight into the municipality's true debt
26 level? (liabilities, provisions, consolidated debt level)
27
28

29 What do you think? To what extent do group accounts (consolidated municipal FS)
30 make the municipal engagement in different entities (both incorporated and
31 incorporated) transparent to you?
32

33 Do you remember the council sessions during which a new finalised municipal FS was
34 presented? Who delivered the presentation (the mayor, an internal auditor, an
35 administrative staff member, the CFO)?
36
37

38 Was there a discussion?

39 Did the presenter focus on special points or explain on what you should focus?
40
41

42 Were there any reading guidelines? Please explain.
43
44

45 How often do you use the municipal FS to inform yourself about the municipality's
46 financial situation? Besides this „FS council session“, how often do you take the
47 municipal FS at hands? In which occasions? For which reasons?
48

49 Which components of the municipal FS do you use to inform yourself about the
50 municipality's financial situation? (i.e. balance sheet, statement of financial
51 performance etc.)
52

53 How intensively do you use these? Do you look at details, and if, which details are of
54 interest to you?
55

56 Are there specific elements of municipal FS in which you are more interested than in
57 others? For example, balance sheet, statement of financial performance etc.
58
59
60

1
2
3 Which specific positions of municipal FS are of relevance for you? (e.g. balance sheet
4 items, revenues, expenditures etc.)
5

6 Do you miss any information in the municipal FS to assess financial health? Which
7 information would that be?
8

9 Do you believe that it is easy to assess the financial situation by means of municipal FS
10 or are there any obstacles you would like to mention?
11

12
13 Is assessing financial health part of your daily business as a council member? And when
14 assessing, do you rely on other sources of information – besides the municipal FS -,
15 too? And if so, do you find those more useful than the municipal FS?
16
17
18
19

20 *Explanations to interviewees: The financial situation of your municipality is of course*
21 *not the only question of relevance to you.*
22
23

24 **3. For which other information or questions, which are relevant to** 25 **you, are you using/consulting the municipal FS?** 26 27

28 Which information in the municipal FS do you use to prepare decisions in the local
29 council?
30

31 How often do you talk about / refer to the municipal FS in the local council during one
32 calendar year?
33
34
35
36
37

38 **Which information is missing in the municipal FS to prepare decisions** 39 **for the local council?** 40 41

42 *Explanations to interviewees: The municipal FS is seen as an instrument for*
43 *accountability of administrative decisions and activities. In this context, accountability*
44 *is to be understood, as the right to be informed. The actor has an obligation to explain*
45 *and to justify his or her conduct. In this context, parliamentary (council) control shall*
46 *be improved by the municipal FS. Building on these remarks, we would like to ask you:*
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51 **4. To what extent does the municipal FS support you in evaluating** 52 **administrative decisions and activities? (e.g. the use of financial** 53 **resources by the administration)** 54 55 56

57
58 To what extent is the municipal FS appropriate to evaluate administrative decisions and
59 activities?
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3 Which information in the municipal FS do you use to assess administrative decisions
4 and activities?
5

6 What specific administrative decisions and activities do you inform yourself about with
7 the municipal FS?
8

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10 How often in a calendar year do you use the municipal FS to inform yourself about
11 administrative decisions and activities taken?
12

13 Is there any information, you miss in the municipal FS to assess administrative
14 decisions and activities? And if, which?
15

16 Do you think that there are obstacles in the use of the municipal FS for the assessment
17 of administrative decisions and activities? And if yes, could you please explain this to
18 me?
19

20
21 *Explanations to interviewees: Switching the perspectives: the municipal FS is also*
22 *expected to provide the citizen with a tool to hold the local council members*
23 *accountable for the decisions, you as a politician, are taking.*
24
25

26
27 *Building on this notion, we would like to ask you:*
28
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32
33 **5. To what extent do you perceive the municipal FS to reflect the**
34 **decisions that you as a local council member are taking?**
35

36
37 What specific decisions of local council members could citizens inform themselves
38 about with the municipal FS?
39

40
41 Could you please explain this in more detail?
42

43 Does anything else come to your mind?
44

45 Could you please provide an example?
46

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48 Which information in the municipal FS could or should citizens use to assess decisions
49 of local council members?
50

51 Which components of the municipal FS could citizens use to assess decisions of local
52 council members?
53

54 How often should the municipal FS be used by citizens to inform about decisions of
55 local council members?
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57 To what extent is the municipal FS appropriate to evaluate the local council member's
58 decisions?
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3 Which information is missing in the municipal FS to assess decisions of local council
4 members?
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6 Which obstacles are there in the use of the municipal FS for the assessment of the local
7 council's decisions?
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10 **Final question: Is there anything you would like to add with respect to**
11 **the FS of your municipality? Does another important issue come to**
12 **your mind?**
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Appendix 2: Coding scheme for research question 1 (exemplary extract)

Financial statement	Accrual (A) vs. Cash (C) (based on Ligouri et al., 2012)	Position	Key information / Ratio Deductive (informed by Table 1)	Key information / Ratio Inductive (added due to interview response)	Indication of routine use e.g., 'usually', 'in general', 'of course' or 'normally'
Balance sheet	A	Assets	Changes Current assets/non-current assets Composition	Specific assets for specific public services	
	A	Liabilities	Changes Current liabilities/non-current liabilities Composition Pensions		
	A	Assets / liabilities	(Non-)Current assets/(non-) current liabilities		
	A	Net assets	Net assets/on-current assets or liabilities		
Statement of financial performance	A	Bottom line	Surplus or deficit Surplus or deficit from operative activities Changes		
	A	Revenues	Composition Changes	Specific tax revenues	
	A	Expenses	Composition Changes Depreciation	Expenses for very specific public programmes or activities	
Funds/ cash flow statement	C		Total cash Cash from operating/investing/fi		

			ancing activities		
Statement of changes in net assets	A		Changes Sources		
Notes	A		Explanation of recognition and measurement principles		
Budget (not part of financial statements)	C		Bottom line Composition		
No use at all	here, we coded reasons, of why there is no use, e.g., missing knowledge, complexity too high, financial situation too bad				

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