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# *The Public Sector Accounting Reform of 2014 in the Light of the Experiences of the Local Governments*

## *A Pilot Project to Explore the Problems*

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**SUMMARY:** The renewal of public finance accounting in 2014 can be labelled as one of the greatest changes in the Hungarian public sector. The accounting information system used previously had significant shortcomings, which ultimately led to disruptions in the operation of the local government system and its indebtedness. The aim of the research is to explore the experience of the local governments regarding the process of the introduction of the accounting reform and the emerging system. In the research, interviews and small group sessions were conducted with 18 experts from 8 institutions. Based on what was said, the transitional period was a turbulent process, and compliance with the new regulation tested the adaptability of local governments. The opinions regarding the new system are heterogeneous. According to the involved experts, the new approach can provide a more true and fair view and present up-to-date information about the given organisational unit. However, the introduction of the new system was not fully successful as the new system proved to be more complex and more difficult to handle. In addition, it was also revealed that in most cases the data of the accounting information system fail to fulfil their intended purpose in financial management.

**KEYWORDS:** public finance accounting, accrual accounting

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The accounting information system used before 2014 had several significant shortcomings, which allowed some of the problems of the local government system to be concealed, and this (in combination with many other factors) ultimately led to the indebtedness of the

local government sector (Lentner, 2019). The accounting system cannot be considered as the main cause of financial mismanagement, but it contributed to the delay in detecting certain problems. The study of *Adhikari and Garseth-Nesbakk* (2016) also sheds light to the fact that the cash accounting principle can be one of the causes of wasteful operation and, therefore,

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the increase in debt. Sovereign debt crises drew attention to the importance of the topic, and they also undermined trust in the operation of the public sector. Furthermore, they enhanced the need for accountability (Brusca, Martínez 2016). In addition to debt crises, interest in information relating to governmental financial management also increased. (Pina, Torres, Yetano, 2009).

Recognising the above, more and more countries decided to renew their accounting system. A survey conducted by PwC in 2015 showed the intensification of this trend: 80 percent of OECD countries, while 68 percent of non-OECD countries indicated their intention to implement accrual-based accounting into the operation of public finances (PwC, 2015). A major reason is that the OECD (along with other international organisations) actively supports the appearance of accrual-based accounting and budgeting in the public sector, and it strongly encourages its member states to adopt this approach (Adhikari, Garseth-Nesbakk, 2016).

Despite the fact that in the past decades the accrual principle has been given a greater emphasis in the public sector, the results achieved cannot be considered unambiguously positive. In many cases, the theoretical advantages were not realised, which highlights several problems. One of them is a conceptual issue, namely that the applicability of the accrual principle in the public sector is questionable. Furthermore, the extent to which the accounting system affects the efficiency of financial management is also unclear (Arnaboldi, Lapsley, 2009).

The aim of the research is to examine the experience of the Hungarian municipality local governments relating to the 2014 reform and the accrual-based system created as result. Interviewing took place in the summer of 2019, and the duration of the discussions ranged between 40 and 70 minutes. Local

governments already have 5 closed financial years after the reform, so not only the assessment of the initial impressions became possible, but also the mid-term impacts of adaptation to the system and the exploitation of its potential could be covered by the research more thoroughly.

According to empirical experience, the introduction of the accrual principle is usually not as successful as expected, which can be explained, among other things, by the unexpected effects of the reform, the misuse of the information or the insufficient attention paid to the implementation of the reform. The resulting additional information is often not used or not appropriately used, and in many cases the introduction is poorly managed (Christiaens, Rommel, 2008). The second chapter of the study describes the effects expected from the reform and the experience relating to similar reforms, which is followed by the presentation of the methodology, then the results of the research. The study will be closed by the summary of the main findings.

## THEORETICAL BACKGROUND

Within the framework of this chapter, the advantages and disadvantages of accrual-based accounting are compared, and the experience relating to similar reforms as well as the factors influencing their outcome are presented.

When assessing the arguments for or against the introduction, the exploration of the theoretical advantages and disadvantages of the different methods is one of the most important considerations (*Table 1*). Accrual-based accounting is a generally accepted information system, providing a full and reliable view of the financial and economic position and performance of the State. It takes into account the full range of assets and liabilities. Contrary to cash accounting,

Table 1

**ADVANTAGES AND DISADVANTAGES OF THE ACCRUAL PRINCIPLE**

Advantages	Disadvantages
Up-to-date information	A more complicated system
More accurate data on the costs, the development of cost accounting	The relevance of profit is questionable
Improvement of tangible asset management	Increase in workload
Transparency	Information need different from that of the private sector
Comparability	Efficiency and effectiveness require a different approach
Improvement of internal controls and external audits	
A more accurate picture of the accounts payable and accounts receivable	
Management accounting considerations, more efficient financial management	
Comparability of far-reaching decisions	

Source: Edited by the authors

it does not capture the financial flows, but the creation of economic values, and as a consequence, it provides a much more accurate view of the processes (European Commission, 2013). It is often mentioned as an advantage of the accrual principle that it allows the full assessment of the costs and the evaluation of the performances (Robinson, 1998; Ouda, 2003). For all of these reasons, accrual-based systems provide financial information faster (Guthrie, 1998), and they also limit the possibility of distortion (Pályi, 2015).

Accrual-based accounting supports a sound financial management, and it helps ensure an appropriate liquidity management, which plays a key role in the public sector as well. Ultimately, it can also improve transparency, accountability and the comparability of financial settlements. In addition to harmonised micro-level accounting systems, internal controls and external audits are also of great importance when it comes to the high quality production of information

(European Commission, 2013). Thanks to stricter accounting, the data provision can be described as more accurate and faster than in the case of cash accounting systems; thus, it greatly enhances the reliability of the planning process. Accrual-based systems can change the thinking of middle and senior managers even in the short term, thus supporting the substantiation of economic decisions and their acceptance by the society (Balog, Jakab, 2017).

As financial settlement is not required, the system ensures more robust accounting, and provides information on the used resources and the costs of the activity more quickly (Lapsley, Mussari, Paulsson, 2009). The accrual principle provides a more accurate view of the costs of the generated assets and services (Lapsley, Mussari, Paulsson, 2009), supports the making of far-reaching decisions and the evaluation of certain decisions, thus supporting the enhancement of accountability (Tickell, 2010; PwC, 2015), and it can present

the existing and future liabilities in more detail (Balog, Jakab, 2017).

*Salleh, Aziz and Bakar* (2014) mentioned several weaknesses of the cash principle. These weaknesses include, for example, that the process is not able to describe the operation of public finances appropriately, and it is a system difficult to interpret for outsiders, which focuses too much on the regularity of the operation instead of examining effectiveness; therefore, it is not able to justify the necessity of taxes to the taxpayers either. Furthermore, it does not prevent the inefficient use of the resources (Salleh, Aziz, Bakar, 2014).

The accounting information system provides input for different statistics and data provisions. On the one hand, SNA (System of National Accounts) indicators can be considered as such, which are built on accrual-based logics (van der Hoek, 2005); therefore, the theoretical basis of the accounting system cannot be deemed marginal from this point of view either. Council Directive 2011/85/EU draws the attention to the significance of data provisions, and it urges the implementation of accrual-based accounting systems (Lentner, 2019).

A part of the data prescribed and provided by the previous system proved to be superfluous in decision-making, and the scope of the resources necessary for the performance of public tasks could not be identified from the data of the information system (Balog, Jakab, 2017; Lentner, 2019). Within the framework of the cash accounting principle, amortisation and, as a result, the need for asset replacement do not arise; the assets cannot be managed efficiently based on the accounting information (Barton, 2009). The data of the vital report and final account laws were not appropriate for analyses, and neither did they comply with the professional requirements. One of the theoretical problems relating to the cash accounting approach is that it only

discloses data relating to the past, while it reflects only to a limited extent the processes taking place in the past, too. This also reduced the reliability of the control systems as this way, the determination of costs and performance evaluation, among other things, were rather incomplete (Bathó, 2012).

Of course, the accrual principle does not only have advantages; several disadvantages can be mentioned (Table 1). One of them is that the budget of public finances is cash-based, and as a result the information of the accounting information system cannot be used directly. In addition, the following can be considered as the practical advantages of the cash accounting principle: the 'habit', the fact that the system requires a lower level professional qualification and the several decades of experience gained in connection with its operation (Bathó, 2012).

Another criticism against accrual-based accounting being used in public finances is that in case of the scope of organisations concerned profit is not a relevant measure; the aim of the operation is not to create a profit considering that social impacts are of much greater significance. In the public sector, it is difficult to contrast the individual revenues with the costs and expenditures of the individual activities, so the measurement of profitability may face barriers (van der Hoek, 2005). Financing structure and solvency are also less relevant in the public sector, the measurement of emission is not solved either, it focuses on the costs and efficiency of the services (Hyndman, Connolly, 2011).

Besides the fact that the accrual principle's relationship with the operation of public finances is doubtful according to many, the increase in workload and consequently the increase in operational costs and the increasing complexity of the accounting system can be mentioned as disadvantages (Hyndman, Connolly, 2011, PwC, 2015).

*Balog and Jakab* (2017) pointed out that it is not unambiguous which one is the best solution is, but there was a consensus that even if cash-based accounting can be applied and interpreted easily, it does not meet the expectations towards a modern information system. Some of the problems could be addressed by introducing different analytics (just like the local governments were required to record the liabilities), but accrual-based accounting is able to produce more wide-ranging effects than this. Transition from the cash accounting principle to the accrual principle is a change of such a scale that it affects the deepest content of the accounting paradigm and the common opinions which are affected by the regulations at the level of the underlying assumptions (Kovács, Deák, 2012). The significant impact of reforms of such nature is the change of the management's mindset, which is an important determinant of the reform's success as the new accounting information system can be utilised appropriately only if the data generated are used in decision-making (Simon et al., 2018).

Another possible criticism in connection with the transposition of business practices is that the practices used in the corporate sector are not suitable for valuating certain assets. Certain assets do not have a liquid and demonstrable market, the valuation of such assets is unfeasible and, on the other hand, incomprehensible (Lapsley, Mussari, Paulsson, 2009; Carnegie, West, 2003). Furthermore, certain organisations of public finances typically have assets whose alienation is strictly prohibited.

Another criticism than can be expressed is that the manner and information need of decision-making in the public sector are also different from those of the private sector, and it also must be highlighted that the decision-makers (instead of owners and investors) are

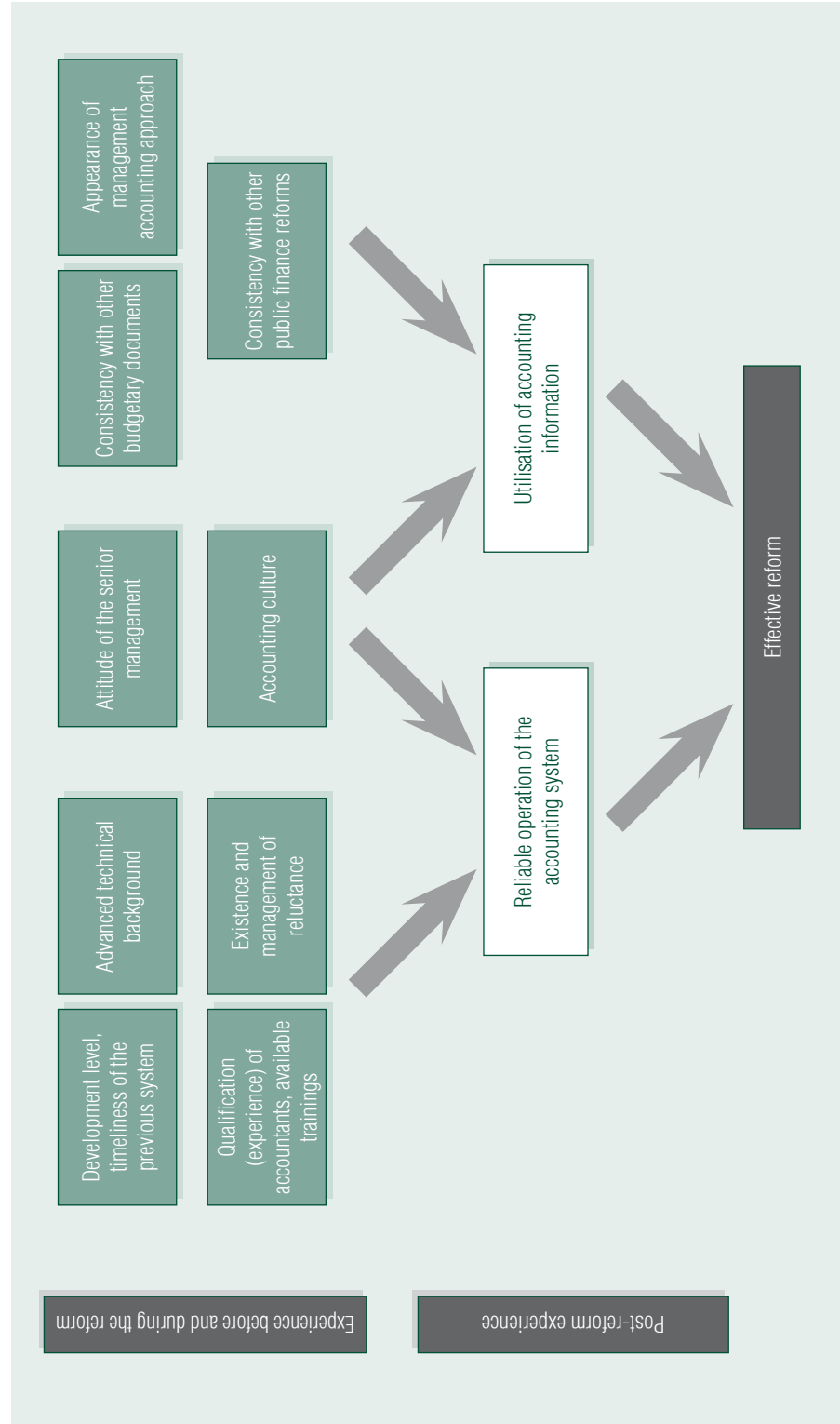
accountable by the taxpayers and the voters (Oulasvirta, 2014). And this is a much more indirect relationship. *Christiaens and Rommel* (2008) emphasised that the manner of applicability of accrual-based information in the public sector is questionable, while the research of *Arnaboldi and Lapsley* (2009) and the study of *Paulsson* (2006) even confirmed the typically marginal role of accrual-based accounting information. *Mikesell* (2006) pointed out that the benefits/costs analyses are of major importance as they allow to control the wastage of the resources ensured by the taxpayers, but political factors play a major role in decision-making processes, whereas *Brorström* (1998) confirmed the dominance of non-accounting information.

The success of the reforms is greatly influenced by the transitional process and the availability of the resources necessary for the implementation (*Figure 1*). *Simon et al.* (2018) confirmed the significance of the previously used system's quality through the example of Austria as the transition there was significantly simplified by the fact that the records were accurate and up-to-date. According to *Becker, Jagalla and Skærbæk* (2013) the effectiveness of the implementation is highly influenced by the qualification of the accountants of public finances and the provision of the necessary trainings. Compliance with this criterion can be ensured by different trainings. In addition, the monitoring of the adaptation process, the identification and management of the weaknesses can also have a positive impact on the result of the reform (Simon et al., 2018).

According to the experience observed in the United Kingdom, the accounting system has become much more complicated, but the information created does not have an added value. Dissatisfaction with the reforms is also enhanced by the fact that the introduction of

Figure 1

**FACTORS AFFECTING THE EFFECTIVENESS OF THE REFORMS**



Source: Edited by the authors

accrual-based accounting in itself does not solve the other problems of public finances (Hyndman, Connolly, 2011). Satisfaction with the accounting system is greatly influenced by its consistency with other documents (primarily the budget) (van der Hoek, 2005; Hyndman, Connolly, 2011).

The different results can also be explained by the potential reluctance of the stakeholders. *Ahmad* (2016) pointed out that upon the introduction of new systems the stakeholders might feel threatened due to their changing work environment. Reluctance is much stronger in countries where there is a deep-rooted accounting culture (Oulasvirta, 2014). *Bathó* (2012) mentioned the reluctance of stakeholders as a potential obstacle, as replacing the cash accounting principle is a drastic action. Therefore, the existence, identification and resolution of reluctance can greatly influence the impacts produced by the implementation of the reform.

## DATA AND METHODOLOGY

We assessed the experience of the Hungarian local government sector relating to the accrual-based accounting information system by using different methodologies within the framework of the research, such as interviews and small group discussions. As the methodology applied in the research has an impact on the reliability and validity of the data, and ultimately on the result of the research, its appropriate management is crucial (Kallio et al., 2016).

The experiences were assessed based on semi-structured discussions. Therefore, posing the questions did not influence the responses and thought process of the respondents, but ensured that the content of the questions is well-defined and straightforward (Babbie, 2001). Based on national and international

experiences, using multiple methodologies increases the willingness to answer, and by flexibly combining different research methods the boundaries of understanding can be extended (Neulinger, 2016). Semi-structured interviews allow us to combine interviews and other small group discussions (DiCiccio-Bloom, Crabtree, 2006), and also contributes to the cooperation between the interviewer and the subjects. In addition, it offers the opportunity for the interviewer to adjust his/her questions to the previous answers of the subject, and provides sufficient space for the subject to answer the questions with his/her own words (Kallio et al., 2016). This process is definitely appropriate for this research, as in the case of semi-structured interviews the questions must be based on some sort of previous knowledge (Turner, 2010). In accordance with the recommendation of *Rabbiee* (2004), which is founded on the study of *Krueger és Casey*, the answers are processed along the following 4 questions:

- whether the input of the subject answered the question,
- whether the subject answered another question with the given input,
- whether the input contains important information relating to the topic,
- has anyone said something similar before?

When interpreting the data we paid appropriate attention to the areas considered critical by Rueger, which influence the quality of the research, such as the meaning of the words in the given context, the evaluation of the context, the frequency and length of the inputs, the intensity of the answers, internal consistency, the specificities of the answers and the experiences across the interviews (Rabbiee, 2004).

We got acquainted with the experience of 18 experts from 8 institutions (*Table 2*). Audio recordings were made of the interviews

Table 2

**DISTRIBUTION OF THE RESPONDENTS BY INSTITUTION**

Type of the institution	Number of institutions reached	Number of subjects
Village	2	2
Town	1	1
City	2	5
City with county rights	2	4
Treasury	1	6
Total	8	18

Note: the coding of the subjects is included in Appendix No. 1.

Source: Edited by the authors

conducted in the summer of 2019. According to the study of *Bariball and While* (1994) audio recordings reduce the likelihood of processing errors, increase the completeness and accuracy of the answers and, therefore, the reliability of the research.

The content of the discussions can be divided into 3 large structural units: the first part addressed the transitional process, the second unit presented the experiences and opinions concerning the new system expressed in the interviews, while the third structural unit explored the role of accounting information in financial management and in the financial management evaluation thereof (*Appendix No. 2*).

RESULTS

The interpretation of the results follows the structure of the interviews. The description of the transitional period is the first part, which is followed by presentation of the experiences relating to the new system and finally the description of the relevance of accounting information in financial management decisions.

The experiences of the transitional period

The period of transition was found problematic at the local governments in various respects (*Table 3*). In addition to labour shortage as a general feature of the sector, another serious problem was that the stakeholders received little or frequently changing information about the new system. In addition to the availability of information, there were issues in terms of training materials, although the experiences are less homogeneous in this respect. On the one hand, this may result from the size of the settlements (offices) (the professional of smaller settlements are more isolated), and on the other hand, it can be explained by the fact that in this period the applied IT background was not uniform, and consequently there were differences in the further trainings provided by the IT service providers too.

The change in the familiar system was not welcome, but the respondents said that there was generally no reluctance. The local government sector was unprepared for the change and the timeframe available for adaptation proved to be too short. The local governments had to reorganise the management processes and



Table 3

**THE EXPERIENCES OF THE TRANSITIONAL PERIOD**

Topic	Experience	Example
Seamlessness of the transition	Problematic	<i>'In our opinion it cannot really be said that the local governments managed the change smoothly in the process of this public finance reform. I think that now it has finally been fully implemented in our accounting system.'</i> – E/1
Availability of information	Incomplete, the regulation frequently changed.	<i>'If there had been an established methodology, or someone had been able to describe the operating principle of this new accounting system, [the discharge of accounting tasks] would have been easier.'</i> – K/1
Availability of trainings	Mixed	<i>'When we were making the structuring balance sheet, we often visited Budapest. This was actually another one of our complaints: even if we are a major city, there was nothing here. What's more, it's not only true about our city, but other major cities too [...].'</i> – M/1
Availability and quality of learning materials	The learning materials were insufficient, or became available too late.	<i>'They did not contain sufficient detail and did not present the essential connections, or, at least in my opinion, the material didn't really come across, it was not comprehensible as it was, in that form. So when we started to do the actual bookkeeping, about a quarter year had passed when the bookkeeping started to be clearer, and we started to see the connections and know where to find the things.'</i> – M/3
Existence of reluctance/ acceptance of the change	There was generally no reluctance, but the reform was not popular.	It was referred to implicitly.
Timeliness of the previous system	It cannot be considered up-to-date, the current system shows a more accurate view.	It was referred to implicitly.
To what extent were the conditions for the establishment of the new accounting system fulfilled?	Labour shortage was a general phenomenon, but lack of information was also mentioned.	<i>„Even if we had more information, and even if we could enter as many data (as required), all this depends on the level of detail how we upload them, how to put it, if we completed all the fields given by the programme, we could get information, but there are plenty of small local governments in the country where the same system is used, and we cannot really develop in terms of staff, finances and possibilities, because it's really hard to get a financial professional, so we cannot really benefit from all the possibilities that are offered.'</i> –K/1
To what extent was the possibility of giving feedback provided?	Generally, there was no possibility to do so.	It was referred to implicitly.

Source: edited by the authors

the operation of the offices due to the public sector accounting reform. The coexistence of all these factors led to the emergence of the problems of the transition. In addition to extending the transitional period, the situation could have been improved by applying the recommendation of Bathó (2012) as well, according to which the central level should have been the first to introduce the new accounting system, then the local government sector should have followed (with regard to its lower capability of adaptation). A gradual transition would have made the situation easier and more transparent according to the respondents as well.

### Experiences relating to the new system

Based on the experience of the subjects, when it comes to the theoretical advantages and disadvantages of the system the latter were more pronounced. The complexity and labour demand of the system unambiguously increased. The local government professionals do not feel that the logics of the accrual principle would fit the processes of the public sector. In many cases, the potential advantages were not realised in the desirable manner. For example, in terms of the valuation of tangible assets (and, therefore, in the management of the asset), cost management and cost accounting there was no significant change, and neither was in the comparison of financial years. In some topics, however, the new system lived up better to the expectations. The valuation of accounts payable and receivable became more transparent, the information relating thereto can be described as more reliable, and the system effective since 2014 was considered by each of the respondents up-to-date. In addition, there were mainly positive answers in case of transparency as well (*Table 4*).

Understandably, addressing the problems directly affecting their survival is given priority by smaller settlements with a couple of hundreds of residents as opposed to exploring the possibilities offered by the accounting system. The problems of the scope of local governments concerned have become more apparent at a central level too, and Government decision No. 1562/2018 reacted to this situation. Within the framework of this decision, a pilot project started, aiming at ensuring a treasury bookkeeping service to local governments with under 3,000 residents by expanding the ASP system. This way, the pressure on smaller settlements could be lessened significantly.

### The role of accounting information in financial management

One of the theoretical advantages of the accrual principle is increasing the efficiency of financial management. However, one of the prerequisites is that the data of the accounting information system must be used in economic decision-making. In practice, this hardly occurs (*Table 5*). It was said that one of the reasons for the above is the limited economic freedom of action of the local governments – which predetermines the economic decisions – and the phenomenon mentioned in the study of *Carlin* (2005), according to which in the cases where the cash-based accounting and accrual-based accounting system operates in parallel, the cash-based data are dominant. In one of the cities with county rights the two principles were considered as having the same weight, but in the opinion of every other respondent this approach was secondary. The marginal role of the accounting information may be explained by several reasons. One of them is that local governments do not have sufficient capacity for the analysis of accounting information, that is

Table 4

**EXPERIENCES RELATING TO THE NEW SYSTEM**

Topic	Experience	Example
To what extent does the accrual principle fit the public sector?	In the generally held view, this principle does not fit the public sector, but can be useful in certain cases.	<i>'We do not deal with the accrual principle so much, we just take care that it complies with the legal provisions, but otherwise, the accrual principle is not so important to us, I think the cash accounting principle works well.'</i> – V/1
What are the advantages of the new system?	Comparability, accountability, uniformity of the regulation, more accurate monitoring of the system were mentioned, the respondents of 3 institutions did not experience any realised advantages, though.	<i>'... a more complex, better, or how to say, more meticulous view can be gained of the property and financial position of the local government, that is for sure.'</i> – M/1
What are the disadvantages of the new system?	Additional work, more complicated, the appropriations are less disaggregated.	<i>'An increase in the work volume was typical.'</i> – K/1
Has transparency increased?	According to 4 institutions it did, 2 did not experience this a change of this nature, while in 2 cases they were not able to assess.	<i>'What is important is that it is very apparent about the system that the information recording works based on prime costs, perhaps it provides a more reliable view, and by the implementation of the new system transparency may have increased and the possibility of accountability has improved.'</i> – E/1
Valuation of tangible assets	No major changes. The system would ensure possibilities for improvement, but they these are not realised.	<i>'... in our audits we can still see that the local government still looks at what happens in the cash flow, in other words, every penny is entered in the accounts, but, unfortunately, they still haven't got to the point in many cases where at the end of the year these accruals, which would reflect the principle of authenticity (for example, wages) would happen. This results in a profit distortion effect, which is not important for them for the time being. The same is true about depreciation. Amortisation, unlike in case of a business undertaking, as a decreasing item, did not step across this threshold, as far as I see.'</i> – E/1
Cost examination and cost accounting	There is no significant change, labour shortage hinders the exploitation of the new opportunities.	<i>'I could refer back to the fact here that we do not have any available capacity to analyse this, this would a separate job. And this could be done based on the bookkeeping of the accrual-based accounting, but, unfortunately, we do not have capacity for this, and we cannot use it properly.'</i> – K/1

Téma	Tapasztalat	Példa
Recording of accounts receivable and accounts payable	The emerging system provides up-to-date data. According to the respondents of 3 institutions the new system does not ensure any additional benefit.	Interviewer: <i>'Talking about the topic of liabilities and receivables, was it even more problematic before [2014]? Or was it just as problematic as it is now?'</i> E/1: <i>'I think that it wasn't problematic at all, because the system did not monitor this. There was no recording at all.'</i>
Management of events affecting several years	No major changes.	
Is the new system up-to-date?	Yes (according to each respondent).	<i>'We provided data to the treasury previously as well, there was a monthly data provision, and there was a quarterly one and a year-end one. In this new system we practically have to provide data in a way that it also substantiates the general ledger statement, so there are forms via which we perform the data provision; (in the past) you submitted it, it was as it was, opening-closing, if you were not finished you indicated it and you submitted. Now we have to attach the general ledger statement to the data provision, which will be examined by the system. So, if you did not do the bookkeeping, you cannot provide data, because they will see that your general ledger statement is empty or incomplete.'</i> – M/1 <i>'The current records are ultimately up-do-date, the receipt, bookkeeping of the invoices, the invoice is transferred through an appropriate new transfer order; we do it by processing the invoice for bookkeeping, so our bookkeeping is up-do-date.'</i> – K/1

Source: Edited by the authors

Table 5

## THE ROLE OF ACCOUNTING INFORMATION IN FINANCIAL MANAGEMENT

Topic	Experience	Example
To what extent is the accounting information used?	To a small extent, and even then typically cash flow information is used. In one of the cities with county rights, however, they strive to adjust a management accounting approach to the accounting information system.	<i>'The management receives (the information) on a monthly basis, there is no feedback, so there is no information about this. The material is quite comprehensive, they can get information from it if they want to, but I don't know how they use it.'</i> – M/1
To what extent is the accrual principle consistent with other systems?	It was not assessed.	–

Topic	Experience	Example
Has the comparability of the financial years been enhanced?	It was not assessed.	–
Has the comparability of the individual local governments, institutions been enhanced?	Yes, but not everyone was able to assess it.	<i>'Yes, and the most important thing about the whole system would be cost accounting. That is why they wanted to make this transition towards the business world, to make comparative measurements between the public sector and the business world, which is not totally successful as far as I see. I think the statistics still greatly reflect this.'</i> – E/1 <i>'Before 2013 and earlier, it had been applicable specifically to the central bodies, the local governments, and then it was standardised. Now practically all budgetary institutions in the country perform their bookkeeping based on this fix order of headings.'</i> – M/1
Accrual-based or cash-based dominance?	In one case, the role played by the two principles in practice was considered equivalent, while in the other cases the dominance of cash-based accounting was confirmed.	<i>'Rather this cash-based (accounting), because there are revenues and expenditures, the management is interested in that. [...] derived results and such things, they do not even know what these things are. We prefer when the result is positive, but it not always is. We do not deal with those tables. This is not a business association which needs to achieve profit. Locally, it does not mean (relevant) information. Or at least the management is not interested in it.'</i> – V/5

Source: Edited by the authors

why this information does not serve as the basis for economic decisions. Another determinant may be the actual level of discretion of the local government leaders, and whether they have an effective possibility to make financial management decisions, or whether these organisations operate on a fix path. Another explanation can be that when making financial management decisions accounting information is not considered by the stakeholders relevant, or drawing on the previous practice, they continue considering the cash-based data as decisive. The reason for this may be that accrual-based information does not actually fit the processes of the public sector, but the failure of the adjustment of the management processes to the new system may also cause this phenomenon. All this sheds light to the fact

that the effectiveness of the reform depends on other public finance processes as well as the users of the accounting system.

This experience is in line with the observations which show that the accounting information does not play a decisive role in the public sector. Furthermore, we can establish that even five years were not enough for the change of mindset – often mentioned in the literature as an advantage – to take place in the Hungarian local government system.

## SUMMARY

The introduction of accrual-based accounting in the public sector achieved variable results in the different countries. In Hungary, the public

accounting reform of 2014 produced effects which were difficult to judge, and this research strived to assess the local experiences relating thereto. The opinions and information we obtained show a great match with the foreign researches previously presented.

In the period around the implementation, great pressure was put on the local governments (regardless of the size of settlement), which primarily manifested in the increase of work volume. This characteristic continued to exist, enhancing the importance of labour shortage in the sector. All this was accompanied by the non-exploitation of the advantages; although there is now extensive experience in connection with the system, some significant shortcomings can be observed in terms of the use of accounting information. Public finance accounting is able to provide much more accurate and reliable data than in the period preceding the reform, but the accounting information system continues to be used to subsequently describe the effects of the events, while management accounting considerations (apart from one exception) do not appear.

Based on the discussions, we can conclude that only a few advantages of the reform can be realised without a change of mindset. This is hindered by the capacity limitations, which results in the fact that no relevant accounting activity takes place in addition to the mandatory data provisions. In this current situation we can rather observe the realisation of the disadvantages, which calls into question the very *raison d'être* of the system. However, we must highlight as a benefit the enhancement of comparability, timeliness, transparency and reliability. And this can be regarded as a considerable step forward. In my opinion, despite the problems

presented herein the accrual principle is of relevance in the public sector, but in order to realise its further benefits, additional measures are needed.

Some of the problems have already been recognised at central level, and the concept of the state treasury bookkeeping service is aimed at addressing the problems of the especially burdened settlements with a population of under 3,000 residents; however – as we could see – this will still not solve all the problems of the accounting information system. In my opinion, the understanding the theoretical advantages of this way of thinking could play a major role in the appearance of the management approach. In this respect, a key role can be played by the cooperation between the local governments and the treasury, the design of central learning materials and trainings, the involvement of advisors, or even the development of the IT system for this purpose could improve the situation.

Of course, the research has its own limitations. On the one hand, it focused on the examination of local conditions, so it is possible that there are aspects (for example, in connection with the theoretical advantages) which could be explored more thoroughly. The experiences of the central level may shed new light on the conclusions of this study as well. On the other hand, similarly to the majority of qualitative processes, the sample cannot be considered as representative in this case either, and the conclusions of the study cannot be considered absolute in respect of the local government sector. However, the research revealed the factors and topics that are worth examining in connection with the accounting system, even in the future, by using a different methodology.

APPENDICES

Appendix 1

**DESIGNATION OF THE RESPONDENTS**

Villages	
K/1, K/2	Accounting professionals of villages
K/3	Town deputy mayor
Cities	
V/1, V/2, V/3, V/4	Accounting professionals of cities
V/5	City Financial and Budget Office Manager
Cities with county rights	
M/1	Head of Budget and Accounting Department
M/2, M/3,	Accounting professionals of cities with county rights
M/4	Deputy Head of Financial and Economic Department in a city with county rights
Hungarian State Treasury	
E/1, E/2, E/3, E/4, E/5, E/6	Financial controllers of the Treasury

Source: Edited by the authors

Appendix 2

**DISCUSSION TOPICS**

Transitional period	Experience relating to the new system	The role of accounting information in financial management
Seamlessness of the transition	To what extent does the accrual principle fit the public sector?	To what extent is the accounting information used?
Availability of information	What are the advantages of the new system?	To what extent is the accrual principle consistent with other systems?
Availability of trainings	What are the disadvantages of the new system?	Has the comparability of the financial years been enhanced?
Availability of learning materials	Has transparency increased?	Has the comparability of the individual local governments, institutions been enhanced?
Existence of reluctance/acceptance of the change	Valuation of tangible assets	Accrual-based or cash-based dominance?
Timeliness of the previous system	Cost examination and cost accounting	
To what extent were the conditions for the establishment of the new accounting system fulfilled?	Recording of accounts receivable and accounts payable	
To what extent was the possibility of giving feedback provided?	Management of events affecting several years	
	Is the new system up-to-date?	

Source: Edited by the authors

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