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I certify that the thesis entitled “Reforming Australian Public Sector Accounting: An Episode of Institutional Thinking” submitted for the degree of Doctor of Philosophy is the result of my own work and that where reference is made to the work of others, due acknowledgment is given.

I also certify that any material in the thesis which has been accepted for a degree or diploma by any other university or institution is identified in the text.

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(Please Print)

Signed: 

Date: 27/06/2003
Consultation of Thesis

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Reforming Australian Public Sector Accounting: An Episode of Institutional Thinking

by

Bradley N. Potter
B.Com (Hons)

Submitted in fulfilment of the requirements of the degree of

Doctor of Philosophy

Deakin University, Victoria, Australia

January, 2003
To Nerida and Georgia, and to my mum and dad.
# ABBREVIATIONS

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
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<tbody>
<tr>
<td>AAM</td>
<td>American Association of Museums</td>
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<tr>
<td>AARF</td>
<td>Australian Accounting Research Foundation</td>
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<tr>
<td>AAS</td>
<td>Australian Accounting Standards</td>
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<tr>
<td>AASB</td>
<td>Australian Accounting Standards Board</td>
</tr>
<tr>
<td>AcSB</td>
<td>Accounting Standards Board</td>
</tr>
<tr>
<td>ANAO</td>
<td>Australian National Audit Office</td>
</tr>
<tr>
<td>APS</td>
<td>Australian Public Sector</td>
</tr>
<tr>
<td>ASA</td>
<td>Australian Society of Accountants</td>
</tr>
<tr>
<td>ASCPA</td>
<td>Australian Society of Certified Practising Accountants</td>
</tr>
<tr>
<td>ATM</td>
<td>Accounting Theory Monograph</td>
</tr>
<tr>
<td>CF</td>
<td>Conceptual Framework</td>
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<tr>
<td>CW</td>
<td>Carnegie and Wolnizer</td>
</tr>
<tr>
<td>CHSCCs</td>
<td>Cultural, Heritage, Scientific and Community collections</td>
</tr>
<tr>
<td>CICA</td>
<td>Canadian Institute of Chartered Accountants</td>
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<tr>
<td>CPA</td>
<td>CPA Australia</td>
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<tr>
<td>DASET</td>
<td>Department of Arts, Sport, the Environment and Tourism, Victoria</td>
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<tr>
<td>DoF</td>
<td>Department of Finance</td>
</tr>
<tr>
<td>DoF/AG</td>
<td>Joint Working Party comprising the Commonwealth Auditor-General and the Department of Finance</td>
</tr>
<tr>
<td>DP</td>
<td>Discussion Paper</td>
</tr>
<tr>
<td>EAM</td>
<td>Enabling Accountability in Museums</td>
</tr>
<tr>
<td>ED</td>
<td>Exposure Draft</td>
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<tr>
<td>FASB</td>
<td>Financial Accounting Standards Board (US)</td>
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<tr>
<td>GASB</td>
<td>Government Accounting Standards Board (US)</td>
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<tr>
<td>GBE</td>
<td>Government Business Entity</td>
</tr>
<tr>
<td>IASC</td>
<td>International Accounting Standards Committee</td>
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<tr>
<td>ICAA</td>
<td>Institute of Chartered Accountants in Australia</td>
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<tr>
<td>JCPA</td>
<td>Joint Committee of Public Accounts</td>
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<tr>
<td>MM</td>
<td>Ma and Mathews</td>
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<td>MP</td>
<td>Micallef and Peirson</td>
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<td>NSW PAC</td>
<td>New South Wales Public Accounts Committee</td>
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<tr>
<td>NSWWT</td>
<td>New South Wales Department of Treasury</td>
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<tr>
<td>OECD</td>
<td>Organisation for Economic Cooperation and Development</td>
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<tr>
<td>PAEC</td>
<td>Public Accounts and Estimates Committee</td>
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<tr>
<td>PBRC</td>
<td>Public Bodies Review Committee</td>
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<td>PSASB</td>
<td>Public Sector Accounting Standards Board</td>
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<tr>
<td>RCAGA</td>
<td>Royal Commission on Australian Government Administration</td>
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<tr>
<td>SAC</td>
<td>Statements of Accounting Concepts</td>
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<tr>
<td>SCNPMGTE</td>
<td>Steering Committee on National Performance Monitoring of Government Trading Enterprises</td>
</tr>
<tr>
<td>SFAC</td>
<td>Statements of Financial Accounting Concepts (US)</td>
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<td>SFAS</td>
<td>Statements of Financial Accounting Standards (US)</td>
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<tr>
<td>UIG</td>
<td>Urgent Issues Group</td>
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<tr>
<td>VicT</td>
<td>Victorian Department of Treasury</td>
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<tr>
<td>WaT</td>
<td>Western Australia Department of Treasury</td>
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<td>WPAA</td>
<td>Working Party on Accrual Accounting</td>
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ACKNOWLEDGEMENT

The writing of a thesis is an incredibly difficult and lonely process. There are, however, several individuals whose support and encouragement has assisted greatly in the completion of this project and to whom I am eternally grateful.

First, my sincere thanks go to my principal supervisor Professor Garry Carnegie, whose guidance during the development and the refinement of the original topic and assistance and willingness to read many chapter drafts has been invaluable. The rigour applied in the supervision of this thesis has enabled me to learn a great deal about myself, as well as about the art of academic writing. My thanks go to Dr. Brian West and Dr. Bob Gibson for kindly agreeing to review the penultimate versions of the chapters of this thesis and also to Dr. Brendan O'Connell for his assistance with the development of the final chapter.

This project could not have been completed without the unyielding support of my family. My heartfelt thanks go to my mum and dad with whom I began this journey and who have always believed in me.

Finally, my very special thanks go to my wife, Nerida, who has been a continuous source of encouragement and support, particularly in my periods of “doubt” and without whom this project would not have been completed. To both my wife, Nerida, and my daughter Georgia, who was born during the preparation of this thesis, I look forward to giving you much more unbridled attention.
ABSTRACT

In recent years in Australia, accounting reforms have been developed which have resulted in the application of commercial systems of accounting to diverse public sector organisations. The reforms, which include the requirement to recognise infrastructure and heritage resources as assets in financial reports, endorse financial notions of accountability and performance that have been traditionally applied within private sector, profit-seeking organisations. Such notions are applied to a range of public sector organisations for the first time, even though the primary missions or objectives of many of these organisations are social, rather than financial in orientation. This critical, interpretative case study, set within the context of not-for-profit public museums, seeks to enhance an understanding of public sector accounting change based on these unique social organisations.

The study examines three aspects of the reforms, namely, their development, their promotion and their defence. This examination is undertaken using the ideas contained in Mary Douglas' (1986) How Institutions Think as the key theoretical construct. The supplementary perspectives of problematisation and epistemic communities are used to assist in applying the primary theoretical construct by explaining how, and by whom, these reforms were advocated and implemented in this specific instance. The study shows how the interpretation and application of the statements comprising the conceptual framework have shaped the development, promotion and defence of detailed standards developed for specific public sector organisations. In doing so, the study addresses two key research questions: (1) How were financial notions of accountability and performance of Australian public sector organisations constructed during the period 1976-2001 and articulated in the CF, once its development began, within this reform period? (2) How were these notions and other concepts of financial reporting outlined in the CF interpreted and applied in the (i) development; (ii) promotion; and (iii) defence of detailed accounting standards for not-for-profit public museums in Australia during the period under investigation?

The study demonstrates that the concepts of financial reporting outlined in the conceptual framework were used by a relatively small group of technical experts located in influential positions in accounting regulation and in other fields to justify the application of accrual accounting within diverse public sector organisations. During the period examined, only certain questions were posed and certain issues considered and many problems associated with the implementation of the reforms were not considered. Accordingly, a key finding of the study is that each aspect of the reform period was guided and constrained by institutional thinking. In addition, the study shows how the framework's content can be used to permit equally well-argued, but conflicting, accounting policies to be adopted and defended for the same items, indicating the framework to be of only limited value as a technical tool. This leads to another key finding of the study, namely, that the framework is best understood as a political tool, serving a crucial role in enabling accrual accounting reforms to be developed, promoted and defended within the public sector. Thus, the study seeks to offer an enhanced understanding of the nature and determinants of accounting change, and accordingly, it broadens an understanding of the use of the conceptual framework, as an institution, in developing, promoting and defending changes to accounting practice.
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CHAPTER 1 INTRODUCTION

INTRODUCTION

During recent decades, especially since the mid 1970s in Australia, organisations and governments have become subject to more frequent calls for greater efficiency and effectiveness and also for the adoption of more clearly defined lines of responsibility and accountability (Porter, 1992, 1995; Power, 1996, 1997a, 1997b; Rose, 1988, 1991). As a consequence, calculative practices such as those applied within the domain of accounting have assumed a prominence beyond levels previously known (Power, 1994c, 1997b). Moreover, the domain of accounting has expanded to unprecedented proportions in the last two decades (Hopwood, 1990a, 1992; Miller, 1994; Power, 1991, 1994a, 1994b, 1997a; Radcliffe et al., 1994; Young, 1994, 1995a).

Accounting researchers are beginning to understand that accounting practices have pervasive and enabling characteristics, creating particular "financial" forms of visibility for abstract social and organisational phenomena that would otherwise never be "seen" (see, for example, Hines, 1988, 1989a, 1989b, 1991b, 1992; Hopwood, 1983, 1987b, 1988, 1992; McSweeney 1997; Miller, 1992, 1994; Miller and Napier, 1993; Miller and O'Leary, 1990; Parker and Guthrie, 1990). Rendering activities, processes and events in financial terms offers a means by which the actions and achievements of individuals may be standardised and compared. By doing so, particular ways are created by which these individuals may be thought about and acted upon (Callon, 1998; McLeish, 1991; Miller, 1990, 1998a, 1998b; Porter, 1992, 1995; Rose, 1988, 1991). The result is that the
application of accounting practices within organisations has implications for the functioning of individuals and organisations, but also for society as a whole and, for these reasons, accounting is becoming increasingly regarded as a social and institutional practice (Miller, 1992, 1994; see also Hopwood, 1992, 2000; Power, 1995) rather than a mere technical practice.

This broader understanding of the pervasiveness of accounting and the consequences of applying or reforming accounting practices that has emerged in the past two decades has seemingly not had a major impact on the development, promotion or defence of detailed accounting regulations in countries such as Australia and New Zealand. Rather, such perspectives are largely confined to academic circles, frequently found to underpin particular articles published in accounting research journals in the sociological, interpretive and critical traditions such as Accounting, Auditing and Accountability Journal, Accounting, Organizations and Society, Critical Perspectives on Accounting and Financial Accountability & Management. Consequently, the existing literature in relation to detailed accounting pronouncements developed in Australia and elsewhere is generally dominated by "official-type" accounts from the organised accounting profession and central rule-making agencies. Invariably, these accounts seek to rationalise the application of accounting practices on technical or functionalist grounds, explaining "new" applications of accounting based on general notions of "progress", or more specifically, on notions of "usefulness for decision making" and/or "enhanced accountability" (see, for example, AARF, 1991, 1993, 1995b, 1996; ASCPA, 1987, 1991a, 1991b, 1993, 1996; Barrett, 1993a, 1993b, 1994a, 1994b; DoF, 1995a, 1995b; JCPA, 1995a, 1995b, 1995c; McGregor, 1990a,
This study seeks to supplement this traditional functionalist or technical portrayal of the advent of recent accounting pronouncements by reflecting a broader appreciation of accounting change for enhanced understanding of the likely consequences associated with applying accounting practices and their related philosophies within particular contexts. Such broader perspectives enable accounting to be seen as more than a mere technical practice that is concerned with the presentation of organisational "reality". Rather, accounting can be recognised as an intrinsic social practice that both shapes and is shaped by the context in which it operates and also as a practice which plays a key role in creating the particular form of "reality" which is reported (Burchell et al., 1980; Burchell et al., 1985; Hines, 1988, 1989a, 1989b, 1991a, 1991b; Hopwood, 1983, 1990c, 1992, 2000; McSweeney, 2000; Miller, 1992, 1994). Adopting this perspective, the present study offers an understanding of the factors that have shaped recent financial accounting reforms developed for the Australian public sector (APS). Detailed accounting standards affecting not-for-profit public museums provide the setting for an interpretive and critical, historical case study to be undertaken. The standards developed have imposed accrual accounting and related reporting practices for application within public sector organisations of all kinds.
Accrual accounting is conventionally defined as the basis of accounting whereby “assets, liabilities, equities, revenues and expenses are recognised in the periods to which they relate, regardless of whether cash is received or paid” (AARF 1995a, para.8). Defined in this way, the accrual basis of accounting is typically portrayed as “superior” to cash-based accounting systems such as those that have traditionally existed within public sector organisations in Australia. This asserted superiority arises from the inferred “more timely” recognition of revenues and expenses which, in turn, is assumed to result in enhancements in the accountability and performance of specific organisations and improved financial decision-making by interested users (see, for example, AARF/AASB, 1990a; Greenhall et al., 1988; Rowles, 1992; Sutcliffe et al., 1991).

Several different forms of accrual accounting are claimed to exist. These are distinguished by different characterisations of financial statement elements such as assets and liabilities (Walker, 1988, pp.22-3). The standards that were developed in Australia require the application of what is known as “full” accrual accounting (hereafter “accrual accounting”), which is denoted by the requirement for full disclosure, at financial or monetary valuation, of all the assets and liabilities pertaining to the entity which meet the definitions and recognition criteria specified for such elements. Such items are required to be disclosed in what is described as a general purpose financial report, which is defined in the Conceptual Framework (CF) in the following way:

... a financial report intended to meet the information needs common to users who are unable to command the preparation of reports tailored so as to satisfy, specifically, all of their information needs (AARF/AASB, 1990b, para.5).
General purpose financial reports comprise, primarily, the statement of financial performance (profit and loss statement) and the statement of financial position (balance sheet) prepared on an accrual basis, as well as the cash flow statement. These statements, taken together, are respectively asserted to provide information that is relevant to the "assessment of performance, financial position, and financing and investing" activities of the organisations involved (AARF/AASB, 1990b, para.45). According to the CF, general purpose financial reports will contain "information useful to users for making and evaluating decisions about the allocation of scarce resources" (AARF/AASB, 1990b, para.43). Such information shall be presented in a manner which will assist managements and governing bodies "in discharging their accountability" (AARF/AASB, 1990b, para.44).

The requirement for diverse public sector organisations to prepare general purpose financial reports has been largely driven by the deductively-derived assumption outlined in the CF that such reports, even when prepared for organisations with an array of different missions, would inevitably lead to enhancements in the accountability and the performance of the organisations concerned and the effectiveness of their management. This assumption has also been continually and essentially unquestioningly applied by accounting regulators and other advocates of the reforms throughout the subsequent promotion and defence of detailed accounting standards which require the preparation of these reports across the three levels of government in Australia. During this time the appropriateness of applying such practices within the public sector organisations involved has largely remained beyond question, and the likely consequences of
the reforms for these organisations, as well as for society as a whole, are yet to be fully understood or made subject to evaluation.

A SCENARIO FOR INVESTIGATION

The public sector in Australia comprises three levels of government – federal, state/territory and local. Since the beginning of the 1970s, the accountability and performance of the APS has been under close and constant scrutiny. This greater scrutiny coincided with the release of findings from several inquiries into the “setup and operation of government”:

- 1973-1975 – Board of Inquiry into the Victorian Public Service (Chair: H. Bland) (Victoria);
- 1973-1975 – Committee of Inquiry into the Public Service of South Australia (Chair: D.C. Corbett) (South Australia);
- 1974-1976 – Royal Commission on Australian Government Administration (RCAGA) (Commonwealth);
- 1977 – Review of New South Wales Government Administration (Chair: P. Wilenski) (New South Wales);
- 1981 – Public Bodies Review Committee (PBRC – also referred to as the “Touche Ross Report”) (Victoria).

A detailed discussion of the findings of these inquiries is beyond the scope of this study, however in-depth reviews of the findings of these and other inquiries can be obtained from previous commentaries provided by several authors (see, for example, Davis et al., 1989; Halligan and Power, 1992; Parker and Guthrie, 1990;
Power, 1990; Smith and Weller, 1978; Weller and Lewis, 1989). Notwithstanding, a brief review of some of the major findings of the inquiries is undertaken in order to assist in outlining the scenario of this investigation.

Several of the inquiries identified above were critical of, *inter alia*, the accountability and the performance of government administration at the time. For example, in reviewing the submissions made to its inquiry, RCAGA (1976) noted that while many of the individual criticisms may have been "exaggerated" (p.18), the Commission concluded that there was little doubt that government service at the time was "excessively hierarchical, excessively rigid and inflexible, and excessively resistant to organisational change" (RCAGA, 1976, p.18). Taken together, these reports came to a near identical portrayal of the "problems" facing the APS - "too big, complex, unaccountable and difficult to control using centralised management strategies" (Chua and Sinclair, 1994, p.677)\(^3\). While the specific solutions recommended by the various inquiries differed in detail depending on the specific nature and extent of the problems identified in each case, many of the recommended solutions encompassed strategies of decentralisation and devolution. This meant that new forms of control were seen to be necessary and an increased reliance on government annual reports was soon to follow (Chua and Sinclair, 1994, p.678). In the period that followed, many of the reforms recommended by these inquiries were implemented at both state and federal government levels (Halligan and Wettenhall, 1990; Pusey, 1991; Weller and Lewis, 1989). According to several authors, the nature and content of many of these initiatives demonstrated "managerialist" and "economic rationalist" philosophies (Parker and Guthrie, 1993; Pusey, 1991; Zifcak, 1994).
The array of findings of the inquiries created both opportunities and challenges for the accounting profession in Australia. On the one hand, opportunities arose to expand the domain of accrual accounting in the APS, at a time when the efficiency and effectiveness of public sector organisations were repeatedly, and often unthinkingly, compared and contrasted with the supposedly more “efficient” and “effective” business sector entities (Chua and Sinclair, 1994, p.681; Funnell and Cooper, 1998; JCPA, 1982, p.15; McPhee, 1992, p.9; Wilenski, 1988, pp.218-20). At the same time, if the accounting profession was unable to get its “house in order”, not only was there a risk that opportunities for an expanded jurisdiction in the potentially lucrative public sector would be lost, but the ability of the accounting profession to regulate itself would also be under threat from government intervention (Chua and Sinclair, 1994). This period coincided with the time when the accounting profession’s organisational arm that was primarily responsible for developing accounting pronouncements, the AARF, was “struggling to establish itself as a viable entity” (Chua and Sinclair, 1994, p.680) and was, itself, subject to specific constant criticism. As a result, although there seemed to be a general recognition that accounting reform in the APS was necessary, the precise nature of the reforms required, and the role of the AARF were, in the initial stages, by no means certain (JCPA 1982, p.13).

A central part of the response of the organised accounting profession in Australia was to develop a CF. At the time of writing, the Australian CF comprised four formal Statements of Accounting Concepts: SAC 1 Definition of the Reporting Entity; SAC 2 Objective of General Purpose Financial Reporting; SAC 3
Qualitative Characteristics of Financial Information; and SAC 4 Definition and Recognition of the Elements of Financial Statements. Taken together, these statements effectively constructed the accountability and the performance of public sector organisations, including not-for-profit entities such as public museums, in financial terms within the parameters of general purpose financial reports. It is contended throughout this study that through a process of deductive reasoning, the CF has established and justified a seemingly immutable and unquestionable connection between the preparation of general purpose financial reports and expected improvements in the accountability and performance of diverse public sector organisations, irrespective of the missions or objectives of such entities. By doing so, the CF has created opportunities to address accountability and performance “issues” for specific public sector organisations within the existing accounting rules of measurement and disclosure which had previously been developed for, and applied within, commercial entities with primary objectives such as profit maximisation and wealth accumulation.

Over a relatively short period of time, the organised accounting profession in Australia developed three detailed accounting standards applicable to the APS, namely AAS 27 Financial Reporting by Local Governments (1990); AAS 29 Financial Reporting by Government Departments (1993); and AAS 31 Financial Reporting by Governments (1996). In doing so, the accounting profession was able to provide, through the medium of general purpose financial reports, an “apparent” solution to the accountability and performance problems that were portrayed as existing within different levels of government in Australia. In addition, by developing these standards at a time when the accountability and
performance of many public sector organisations were subject to recurrent criticism, the accrual accounting “solution” could also be framed in such a way that any alternative “non-accrual” accounting-based solution would seem to represent a refusal to give the public what it needed (see, for example, Rowles, 1992, 1993a, 1993b; Rowles et al., 1998, 1999; see also Edelman, 1977, p.146; Pfeffer, 1981, p.182). With what seemed to be a theoretically sound and coherent set of concepts statements and three detailed accounting standards specifically relating to the public sector, the profession had formally established a position in regulatory space7 within the field of public sector accounting in Australia for the first time.

Evidence is presented throughout this study to suggest that the detailed standards identified above were developed and adopted in the absence of a thorough understanding of the usefulness of accrual accounting information in specific contexts, or an understanding of the impacts of its adoption on organisational or social functioning. Specifically, it is argued that throughout the period in which the standards were developed, there was little clear explanation or evaluation of the usefulness of accrual accounting information for presenting and assessing the accountability and performance of diverse public sector organisations, including not-for-profit public museums. In addition, the impacts, whether intended or unintended, of applying accrual accounting practices to such organisations were not clearly articulated, let alone evaluated, during this period. Instead, detailed accounting standards were developed based on the assumption, outlined in the CF, that the preparation of general purpose financial reports would enhance the accountability and the performance of these organisations and their management.
This assumption, cultivated within the CF, was also repeatedly applied in the promotion and defence of detailed accounting standards for the APS. During this time, the appropriateness of providing accrual accounting information for the array of organisations involved remained largely beyond question both within the organised profession and by other advocates of the reforms. Any responsibility for challenging the nature and direction of the reforms or questioning the nature and magnitude of their broader impacts on organisational and social functioning has been wholly borne by members of the academic community (for some examples, see Aiken and Capitanio, 1995; Aiken and McCrae, 1992, 1996; Barton, 1999a, 1999b, 1999c, 2000, 2002; Carnegie, 2000; Carnegie and West, 1997, 2002; Carnegie and Wolnizer, 1995a, 1995b, 1996, 1997, 1999, 2002; Ma and Mathews, 1992, 1993; Parker and Guthrie, 1990, 1993; Walker et al., 1999, 2000a, 2000b).

The standards that were developed have also meant that specific accrual-based accounting practices were required to be adopted by most public sector organisations for the first time. For example, in order for the widely asserted enhancements in the accountability and performance of not-for-profit public museums to eventuate, the monetary valuation of cultural, heritage and scientific collections for financial reporting purposes was deemed to be necessary. The nature of these collections is considered in the next section.

THE NATURE OF COLLECTIONS

Several definitions of "heritage assets" have been provided in recent years (see, for example, CICA, 1989, Carnegie and Wolnizer, 1995a; NSWPAC, 1992). The Australian Steering Committee on National Performance Monitoring of
Government Trading Enterprises (SCNPMGTE, 1994, pp.14-5) defined heritage assets as "those assets which a government has decided to preserve for the duration of their physical lives because of their unique historical, geographical, cultural or environmental attributes". Heritage assets are generally also defined in a way that includes "collections held by museums, galleries and other collections" (VicT, 1991, p.15, also, see Barton, 2000, p.220). Such resources have also been referred to as "community assets" (see, for example, NSWT, 1989; Pallot, 1990), as well as "heritage facilities" (see, for example, Barton, 2000). The characteristics of these resources are appropriately captured by Barton (2000) in a discussion of "heritage facilities". An extract from this discussion by Barton (2000, p.221) is reproduced below:

The important characteristics of these facilities for accounting purposes are as follows:

- they are maintained by the government for social purposes rather than for purposes of government administration or financial gain;

- operation of the facilities is largely funded by the government from taxation revenues and/or from private donations; user charges, if any, typically contribute only a minor share of the funds required;

- they are to be retained and maintained in good condition in perpetuity for the enjoyment of current and future generations because of their special and appreciated attributes;

- they are not to be sold;

- they are open to the public for their enjoyment and appreciation and their benefits flow to the public users rather than the managing entity;

- the public is encouraged to use the facilities through promotional material and either free access or very low entry fees.

The characteristics described above are typically present in most social collections held within the public domain including those held by not-for-profit public museums (Adam, 1937; Carman, 1996; Carman et al., 1999). Notwithstanding, as
As a result of recent accounting reforms developed in Australia, such collections are for the first time required to be measured in financial terms and recognised as assets in general purpose financial reports (AARF/AASB, 1990b; Greenhall et al., 1988; Micallef et al., 1994; Rowles, 1992; Sutcliffe et al., 1991). During the development of accounting standards which require such disclosures to be made, there has been little acknowledgement from accounting regulators or other advocates of the reforms that such collections do not meet the conventional definition of assets (Carnegie and Wolnizer, 1995a) and, accordingly, should not be recognised in statements of financial position. In addition, those responsible for developing, promoting and defending the standards have yet to explain clearly how such disclosures could ever enable the presentation and assessment of the accountability and the performance of the organisations concerned based on their mission statements or organisational objectives (Carnegie and Wolnizer, 1995a, 1995b, 1996, 1997, 1999; see, also Walker et al., 1999, 2000a, 2000b). Instead, financial measurement and disclosure was required, even though such an exercise would be both difficult and costly, and even though such practices were neither mandated in countries outside Australia, nor were they generally practised by repositories of such collections around the world (Carnegie and Wolnizer, 1995a).

**SCOPE AND PURPOSE OF THE STUDY**

As is evident from the preceding sections, certain aspects of the reforms recently developed for the APS have yet to be fully explained, understood or evaluated. It would be relatively simple to attribute the content of recent financial accounting reforms developed in Australia to broad movements in public sector management philosophies such as "new public management", "economic rationalism" or
"managerialism" (Parker and Guthrie, 1990; Pusey, 1991; Rose, 1991; Yeatman, 1987; Zifcak, 1994). Such global movements might indeed influence the nature and content of accounting reforms undertaken. However, simply to explain specific changes that occur by reference to these broader factors would reveal little about the nature and timing of specific reforms adopted in particular countries (Guthrie and Parker, 1998). Likewise, such a perspective would not assist explanations of why advocates in countries such as Australia and New Zealand appear to be more fanatical than those in other countries in their respective approaches to reform (Pusey, 1991, p.209). Finally, such a perspective would ignore the notion that specific public sector accounting developments are typically shaped by a range of local, time-specific environmental factors and would thus reveal little about the process by which these reforms occur in particular countries (Guthrie and Parker, 1998, p.50).

Accordingly, this study, set in the specific context of not-for-profit public museums in Australia, assists in enhancing an understanding of this specific instance of public sector accounting change. The express objective of the study is presented below.

To investigate the development, promotion and defence of accrual-based accounting standards for the APS, specifically in the case of not-for-profit public museums, and particularly, to examine the roles and uses of the CF for financial reporting, using institutional thinking as a key theoretical perspective along with the supplementary perspectives of problematisation and epistemic communities to inform the investigation.

The research objective identified above reflects the study's focus on accrual accounting and reporting reforms in the APS. Other financial reforms have also been developed and applied to public sector organisations in recent years, such as
those relating to the preparation of budgets for those organisations. These other financial reforms are not specifically addressed in this study.

Also inherent in the above objective is an appreciation that the interpretation and the application of concepts statements comprising the CF have been influential in shaping the development, promotion and defence of the detailed standards. The suggestion that the CF has been influential in shaping the reforms developed in Australia is perhaps not surprising and has been highlighted by several authors and notably by authors who represent the organised accounting profession in official capacities (see, for example, Greenhall et al., 1988; McGregor, 1993a, 1993b, 1999; Micallef, 1998; Micallef and Peirson, 1997; Micallef et al., 1994; Paul, 1993; Rowles, 1992, 1993a, 1993b, 2002a, 2002b; Sutcliffe et al., 1991). While generally informative however, such contributions do not clearly explain how the CF has shaped the development of detailed accounting standards in specific contexts. Specifically, promoting and defending detailed accounting standards based on their compatibility with the content of the CF, as McGregor, Micallef, Rowles and others have done, unequivocally attributes the CF with a functional or technical role and an assumed ability to provide clear guidance to unequivocally resolve specific instances of accounting policy choice. Yet curiously, CFs developed in Australia and elsewhere have been criticised for their deficient technical capabilities, with authors alleging the inability of such frameworks to provide clear and explicit guidance in specific instances (see, for example, Chambers, 1995, 1996; Dopuch and Sunder, 1980; Gerboth, 1987; Miller, 1990; Pacter, 1983; Peasnell, 1982; Samuelson, 1996; Schuetze, 1993, 2001; Solomons, 1986). In the Australian context, criticisms of the CF have been
no less severe⁹. Notwithstanding, such frameworks continue to remain valued and operative across both time and space.

In addition, by attributing CFs with narrow, technical roles, as is conventionally the case, the important political roles of such frameworks are less frequently recognised, understood or evaluated (Carnegie and Napier, 1996, p.25). For example, according to Hines (1989b), CFs can be implicated in efforts to expand the domain of accrual accounting by enabling accounting standards to appear to be based on a coherent system of knowledge (also, see Miller, 1985). In such instances, these frameworks can enable the broader application of existing accounting concepts and practices to “new” organisational and social contexts or settings (Carnegie and Napier, 1996; Hines, 1989a, 1989b; Power, 1994a; Young, 1996).

Accordingly, to assist in exploring the major research objective, the following specific research questions are identified and investigated:

How were financial notions of accountability and performance of Australian public sector organisations constructed during the period 1976-2001 and articulated in the CF, once its development began, within this reform period?

How were these notions and other concepts of financial reporting outlined in the CF interpreted and applied in the (i) development; (ii) promotion; and (iii) defence of detailed accounting standards for not-for-profit public museums in Australia during the period under investigation?

As indicated in the first of these research questions, the study embraces the 25-year period between 1976 and 2001. The period under examination commences in 1976, when the findings of the RCAGA inquiry were released. These findings are regarded as being “highly influential” in shaping the prevailing approaches to
public sector accounting reform in Australia (see, for example, Halligan and Power, 1992). The year of 1976 was also selected by Ryan (1995) as the starting point in her study, which also focussed on aspects of the accounting reforms undertaken in the APS. Thus, 1976 represents the appropriate starting point for the period under examination in this study. The duration of the period covered by the study is determined by the aspects of the reform period under examination. It will be argued that two aspects of the reforms, namely the promotion and defence of detailed regulations, are on-going, and not confined to discrete time periods. Thus, the study embraces the period of 25 years from 1976 to 2001 to enable the analysis to cover, as far as practical, events up to the time of writing.

In addressing the major research objective in the manner outlined, this study seeks to build on the earlier work of several authors, but most notably, Ryan (1995, 1998, 1999) and Kent (2000). These earlier studies provide valuable insight into the factors that led to public sector accounting regulation becoming an issue in Australia. Both authors depict the role of the organised profession in public sector accounting regulation in Australia as complex and difficult, and one that is shaped by an array of factors. This, in turn, provides insight into the complex relationships between various actors involved in the regulation of accounting in the APS.

This study seeks to build on the earlier work by Ryan and Kent in at least three main ways. First, what is not clear from these earlier studies is how the CF became a significant factor in shaping the content of the detailed accounting standards developed, particularly when the technical capabilities of the framework
appear, at best, to be problematic. The need for research in this area was identified by Kent (2000, p.151), albeit at a general level, when she called for further inquiry into the “supremacy” of the framework in shaping the regulatory agenda of the accounting profession. Second, these earlier studies did not consider in detail the intended or unintended consequences, whether likely or not, of applying accrual-based accounting and reporting techniques for the public sector organisations involved or for society as a whole, although Ryan (1998, p.534) specifically recognised the need for further research in this regard. Accordingly, this case study provides an opportunity to explore these consequences by examining an instance where accrual accounting has become embedded in notions of accountability and performance to be applied within not-for-profit public museums. Finally, many unresolved questions remain about the role of the small, tightly knit group of individuals located in influential positions in accounting and related fields who Ryan (1995, p.16) identified as “influential” in the development and promotion of detailed accounting regulations in the APS. Thus, what bound these actors together and galvanised their commitment to the application of accrual accounting are issues that are pursued throughout this study.

MOTIVATION FOR THE STUDY

There are three primary motivations for examining the specific research questions identified in the previous section. First, as indicated in earlier sections of this chapter, a growing literature in accounting portrays the discipline as a social and institutional practice. Viewing accounting as a social and institutional practice, instead of a mere technical practice, emphasises the need to explore the actual conditions and consequences associated with the development and application of
accounting practices, rather than unquestioningly accepting such practices based on the asserted benefits for the organisations involved and for the users of the financial statements produced. Many researchers adopting this perspective have argued that viewing accounting as a social and institutional practice leads to an on-going concern for understanding accounting change and its implications in specific instances, particularly where accounting practices are applied for the first time. However, while this perspective appears to be increasingly more widely held in academic circles and influences many articles published in sociological, interpretive and critical accounting research journals, it does not appear to have had a commensurate influence on the development, promotion or defence of recent financial accounting reforms developed for public sector organisations. This is particularly the case with respect to the Australian accounting standards applicable to not-for-profit public museums. Instead, the literature relating to these pronouncements is dominated by a range of non-critical, official-type accounts from the accounting profession and central rule-making agencies directed at promoting and defending the reforms based on the asserted benefits for the organisations concerned and for the users of the information that is accordingly produced (see, for example, AARF, 1991, 1993a, 1995b; ASCPA, 1987, 1991a, 1991b, 1993, 1996; Barrett, 1993a, 1993b, 1994a, 1994b; DoF, 1995a, 1995b; JCPA, 1995a, 1995b; McGregor, 1990a, 1990b, 1993a, 1993b, 1999; McPhee, 1992, 1994a, 1994b; NSWPAC, 1988, 1994, 1996a, 1996b; Rowles, 1991, 1992, 1993a, 1993b; WPAA, 1992).

Commenting uncritically on particular accounting reforms and their intended or unintended implications leaves several important questions unanswered
concerning the actual conditions and consequences associated with applying accounting standards in specific settings. Such an approach, for example, obscures an understanding of how these pronouncements can be developed, promoted and defended with little direct recognition of a range of associated problems and issues identified by several authors or without acknowledgement of the possible consequences, whether intended or unintended, that may be associated with their application (Broadbent and Guthrie, 1992, pp.23-5; Guthrie and Parker, 1998; Pallott, 1998; Ryan, 1995, 1998, 1999; Walker et al., 1999, 2000a, 2000b). As a consequence, the opportunity to examine accounting as a social and institutional practice in this specific public sector organisational setting is lost. Thus, the opportunity to augment the existing literature by addressing the major research objective within this perspective provides a primary motivation for the study, particularly since the reforms require diverse organisations, including not-for-profit public museums, to apply particular commercial accounting practices for the first time. 

A number of authors examining public sector accounting reforms around the world have attributed the reforms to system-level, structural variables and broader movements in financial management philosophies and approaches (see, for example, Hood, 1991, 1995; Luder, 1992, 1994). Such research, however, provides only limited explanation of the complex factors that co-exist in shaping the form and content of the detailed reforms developed, promoted and defended in specific countries such as Australia and New Zealand. The need to build on this literature by facilitating an understanding of how “new” applications of existing accounting practices can arise, and become embedded in everyday affairs in
specific instances, provides the second primary motivation for undertaking this study.

The third motivation for addressing the specific research objective identified is the opportunity that presents itself to build on a specific body of existing research concerned with elucidating the non-technical, political role(s) of CFs. In the context of the apparent “functional failure” of CFs as discussed further in chapter two, researchers have begun to understand that such frameworks can also have political capabilities, representing “strategic manoeuvres” by accountants to expand the domain of accrual accounting. For example, according to Hines (1989b), such frameworks can enable detailed accounting pronouncements to appear to be based on a coherent knowledge base. As a consequence, such an appearance may enable the profession to maintain, and even enhance the legitimacy of its standards and processes, thereby providing opportunity for, inter alia, the broader application of existing accounting concepts and practices (Carnegie and Napier, 1996; Hines, 1989a, 1989b; Power, 1994a; Young, 1996). The opportunity to assist an understanding of the apparent political roles of the CF provides a further motivation for this study, particularly since the presently incomplete CF was developed in Australia at a time when the organised accounting profession was being criticised on several grounds, and also as the framework has been influential in shaping the accounting standards subsequently developed. The influence of the CF in shaping recent accounting standards developed for the public sector is curious, since the framework is not directly mandatory for financial reporting by government departments or agencies in Australia and also given the framework’s problematic technical capabilities.
METHODOLOGY

While the research methodology is examined in detail in chapter three, a brief introduction is provided at this point to elucidate how the major research objective will be addressed.

In this study, an interpretive and critical case study is undertaken. The study adopts an historical approach in utilising data from a range of primary sources including exposure drafts, official reports, discussion papers, accounting theory monographs, research papers and other memoranda. This data is presented to elucidate the process by which accrual-based accounting reforms have been developed, promoted and defended for the APS and to identify and evaluate the impact of the content of the CF in shaping the form and content of the detailed regulations developed. A range of secondary material such as academic commentaries and other publications is also used throughout the study to assist in providing the context in which the reforms were undertaken.

The selection of an historical case study as the principle method of inquiry can be justified on several grounds. For example, this approach enables the development, promotion and defence of the detailed accounting regulations developed for the APS to be examined from a holistic perspective, and to be understood in the specific context in which these processes and events occurred. Such approaches have been specifically identified as appropriate for examining the contemporary significance of conceptual frameworks and for investigating the application of accrual accounting to "repositories of cultural,
heritage, scientific and literary collections and national archives” (see, for example, Carnegie and Napier, 1996, p.27). In addition, the approach complements the perspective adopted in this study that “history” is not necessarily a story of continuous evolution or progress. As a consequence, the approach enables the interrogation of conventional arguments that have been put forward by accounting regulators and others to justify accrual-based reforms. The arguments raised typically justify the reforms based on asserted enhancements in the accountability and performance of public sector organisations and the advent of better financial decision-making by interested users.

The analysis and interpretation of the data collected for the study is primarily informed by means of the theoretical perspective known as institutional thinking. This perspective assists in interpreting the roles, uses and impacts of the CF in the development, promotion and defence of detailed accounting standards to be applied within not-for-profit public museums. Additional theoretical perspectives of problematisation, and epistemic communities are also used in this study. These two supplementary perspectives assist in applying the primary theoretical perspective of institutional thinking, thereby enhancing the study’s explanatory power in the specific instance under investigation. These additional perspectives also influence the presentation and interpretation of the data collected. The manner in which these additional perspectives are applied in the study is discussed in further detail in chapter three.
By adopting *institutional thinking* as the primary theoretical perspective, this study builds on the work of Young (1996) who, as far as can be ascertained, is the only author at the time of writing to have applied this theoretical perspective in examining cases of accounting reform. Young (1996) focussed her study on financial instruments in the USA that was broadly set within the period encompassing 1976-1996. In that study, Young (1996) portrayed “financial accounting” as the institution at work. According to Young, the preceding two decades had witnessed a “revolution” in financial markets, during which time a number of new financial instruments and transactions had developed (for example, interest rate swaps, interest rate futures and interest rate options). However, rather than develop accounting standards that enabled accounting reports to capture the essence of these “new” financial instruments and transactions, the Financial Accounting Standards Board (FASB) developed an accounting standard that emphasised traditional and familiar accounting concerns of disclosure, recognition and measurement. According to Young (1996, p.487), during the standard setting process, only particular types of questions were asked and certain types of issues considered and standard setters were intent on dealing with these issues on technical grounds, within the then existing financial accounting framework. Even though this new standard meant that certain specific accounting practices were added to the corpus of generally accepted accounting techniques, Young (1996) maintained that the established goals, purposes and characteristics of accounting remained untouched and taken-for-granted. According to Young in this way, *institutional thinking* can assist our understanding of the manner in which “accounting” problems are constructed and resolved and why accounting standards might be developed to contain a particular
set of requirements and not others based on non-institutional, or less conditioned, thinking.

LIMITATIONS

While the research approach adopted in this study can be justified on several grounds, like other research studies it has limitations. The key limitations primarily relate to expectations for the explanatory power of the study and the potential for the study’s findings to be generalised and applied in other situations. Specifically, there are three primary limitations that can be identified. First, interpretive and critical case-study research typically requires a qualitative, holistic approach whereby the researcher must be sufficiently alert to take into account a multiplicity of complex variables, some of which may not be readily discernible. Second, in such instances, there will not be a single or universal cause or explanation for the historical subject under investigation, leading the researcher, instead, to seek an explanation based not only on possibility and probability, but also on adjudged plausibility. Thus, the possibility arises that research conducted on the same archival material may in fact yield alternative, perhaps even conflicting, narratives or interpretations. Finally, as with almost all case-study research, the concern for generalisability of the results represents a further limitation, particularly since generalisability is more widely accepted when based on several cases or observations, rather than one case or observation. A detailed discussion of the nature and consequences of these limitations and the manner in which they are addressed in this study is reserved for chapter three.
PATTERN OF ANALYSIS

The remaining chapters are organised as follows. Chapter two identifies and reviews the literature which informs this study and on which this study seeks to build. Chapter three identifies and discusses the research method that is adopted in this study. This chapter also provides a detailed discussion of the major theoretical perspective of *institutional thinking* that is adopted in this study. Also included in chapter three is a discussion of the additional theoretical perspectives of *problematisation* and *epistemic communities*. The relevance of these supplementary perspectives to the application of *institutional thinking* and to the presentation and analysis of the data collected for the study is explained in detail.

Chapters four to seven contain the detailed examination of the reforms developed in Australia and include the presentation and analysis of the primary data collected in undertaking this study, which, as outlined earlier, includes exposure drafts, official reports, discussion papers, accounting theory monographs, research papers and other memoranda. These chapters collectively address the two primary research questions identified for the study. Chapter four examines the construction of the institution of the CF from which financial notions of accountability and performance for diverse public sector organisations were derived. In doing so, chapter four addresses the first of the two primary research questions outlined earlier in this chapter. Chapters five to seven respectively examine how these classifications were applied in the development, promotion and defence of detailed standards affecting specific organisations in Australia. Thus, chapters five to seven, taken together, are intended to address the second research question set down for the study. Chapters five and six embrace a discussion of the accounting
standards that were developed and promoted respectively for a range of public sector organisations including not-for-profit public museums. Chapter seven focusses specifically on how the standards developed for not-for-profit public museums were defended when called into question on several grounds. Chapter eight contains the study’s conclusion. It identifies and summarises the key findings of the study and outlines the main conclusions that may be drawn from the study and which relate to the primary research questions addressed. Thereafter, in the final sections of chapter eight, the implications of the findings of the study are discussed and several avenues for future research purposes are identified.
NOTES

1. The list of references provided is not exhaustive and the "visibilities" identified by these authors are not uniform. Rather, the central point is that researchers are beginning to depict such practices as providing particular ways of "representing" and "understanding" abstract phenomena that may not otherwise be possible.

2. The organised accounting profession in Australia comprises members of both the Institute of Chartered Accountants in Australia (ICAA) and CPA Australia (CPA), while the profession itself is jointly governed by these bodies. These bodies provide ethical and technical guidance and offer qualifications to practice for members. These bodies also reserve the right to impose penalties on members for breaches of specified ethical and technical rules. In 1965, these bodies jointly funded the formation of a research foundation which became known as the Australian Accounting Research Foundation (AARF). The AARF has traditionally held a primary responsibility for developing financial accounting standards for the Australian accounting profession. Hereafter, the terms "organised accounting profession", "accounting profession" and "organised profession" will be used interchangeably.

3. While the appropriateness of these conclusions is beyond the scope of this study, Zifcak (1994, p.19) argued that many of the criticisms levelled at the Australian state were "ill-informed and ideologically motivated".


5. For further discussion of the challenges facing the organised profession during this time, refer Chua and Sinclair, (1994, p.683).

6. The criticisms levelled at the AARF in these early stages included an asserted limitation of financial resources, an inability to recruit suitably qualified full-time staff and, seemingly as a result, led to a prolonged period of "inactivity" (Campbell, 1989). These issues are discussed in further detail in chapter four.

7. According to Kent (2000), regulatory space in public sector accounting is the highly abstract, conceptual space within which various participants interact to develop detailed accounting regulations to be applied to public sector organisations (see also Latour, 1987; Miller and Rose, 1990; Rose, 1990; Young, 1994, 1995b).

8. Many of the specific criticisms raised by these authors are explored throughout this study.

9. A range of studies have examined and debated the relative merits of the Australian conceptual framework in recent years. For examples, refer to Hines, 1989a, 1989b, 1991b; Howieson, 1993; Soh, 1993; Walker, 1993a, 1993b; McGregor, 1999. In the context of not-for-profit public museums, a specific unresolved debate has arisen over the recognition of cultural, heritage and scientific collections as assets for financial reporting purposes (Carnegie and Wolnizer, 1995a, 1995b, 1996, 1997, 1999, 2002; Griffin, 1995; Harris, 1995; Hone, 1997; Micallef and Peirson, 1997; Micallef, 1998; Tyack, 1998). The debate arose when Carnegie and Wolnizer (1995a) demonstrated that elements of the framework, particularly the definition and recognition criteria for assets, are vague and abstract to the extent that they may be properly interpreted to support the non-recognition, as assets, of the social resources in question.

10. Government Business Entities (GBEs) and statutory authorities in Australia have been required to prepare financial reports according to accrual principles since the mid 1980s, such that the relevance of the information produced to the entities concerned "is no longer regarded as contentious" (Carter, 1994, p.1). The preparation of such information by Australian government departments and agencies, including not-for-profit public museums, is a more recent and contentious initiative. The requirement that Commonwealth departments would begin to move towards accrual reporting from 1993 was announced by the Federal Minister for Finance in November, 1992 (OECD, 1993, p.9; Wallace, 1994, p.2)
CHAPTER 2 LITERATURE REVIEW

INTRODUCTION

Chapter one provided an overview of this study. It identified a scenario for the investigation, introduced the scope and purpose of the study and the research methodology adopted and also outlined the study's limitations. It was explained in chapter one that the scope and purpose of the study encompasses an examination of the application of accrual-based accounting standards in the APS, specifically in the case of not-for-profit public museums. Chapter one concluded with a discussion of the pattern of analysis undertaken in the remainder of the study.

The purpose of this chapter is to review the body of literature that informs the study and, in turn, on which this study seeks to build. The literature examined in this chapter is presented and discussed under two substantive headings. The first section identifies and examines the literature that informs the scope and purpose of the study. In the second substantive section, the manner in which the study seeks to augment specific aspects of the existing literature is presented.

Thus, in the next section, literature depicting accounting as a social and institutional practice is examined. This literature is examined in order to identify the broader perspectives from within which the research objective identified in chapter one is addressed. A review of this literature highlights, for example, that accounting is becoming increasingly seen, particularly in academic circles, as persuasive and enabling with a de-emphasis on accounting as a neutral, if not benign, technical practice, that is applied in order to represent pre-existing
organisational and social reality. Rather, accounting can be understood to be both reflexive and constitutive. As a practice, it plays a vital role in creating and rendering visible particular organisational and social phenomena, rather than reflecting a pre-existing “reality” which is reported (Miller, 1992, 1994; Power, 1997a, 1997b). When portrayed this way, the application of accounting practices can be implicated in shaping the behaviour of individuals as well as the functioning of organisations and societies. A common theme emanating from an examination of this literature is that critical perspectives of the process by which accounting change can occur in specific contexts, particularly where accounting practices are applied for the first time, deserve our most careful attention.

The second substantive section of this chapter identifies and explains how this study, by drawing on the above perspectives, seeks to augment specific aspects of the existing literature. Primarily, this section contains a review of aspects of the literature on public sector accounting and the existing literature relating to the role(s) of conceptual frameworks in shaping accounting regulation and practice and the timing of accounting change. The examination of the public sector accounting literature reveals that a body of work has developed within a relatively short time period that has investigated an array of issues in public sector accounting. This examination also reveals that there is comparatively little prior research that has examined, in detail, the process by which detailed accounting reforms have been developed for the public sector in specific instances (for exceptions, see Christensen, 2002; Kent, 2000; Ryan, 1995, 1998, 1999). Thus, this section locates the present study as seeking to build on the existing public

The second aspect of the existing literature on which this study seeks to build is related to the role(s) of CFs in the advent of accounting change. For much of the past three decades, CFs have been readily attributed with a technical or functional role in accounting innovation, and this has particularly been the case with recent studies focusing on accounting regulation and practice in the public sector. More recently however, a collection of authors have questioned the technical capabilities of CFs and, consequently, a number of researchers are now apprised of the significant political roles or capabilities of these frameworks. This study seeks to build on this literature by examining a specific instance whereby the CF was implicated in shaping detailed accounting standards developed for a particular type of public sector organisation in Australia. In the final section of this chapter, concluding comments are provided.

INFORMING THE SCOPE AND PURPOSE OF THE STUDY
This section examines the literature which depicts accounting as a social and institutional practice. This literature is examined in order to identify the broad perspectives from within which the research objective for the study is addressed.

ACCOUNTING AS A SOCIAL AND INSTITUTIONAL PRACTICE
Over the past two decades, a body of literature has developed within academic publications that explores accounting from a broad perspective, seeking to probe the applications of accounting practices in the context in which they occur. Within
this broader perspective, accounting is becoming more readily understood as a
dynamic, socially constructed practice, even to the point where researchers have
argued that there is no "natural" or "fixed" domain to which accounting practices
are, or should be applied, nor is there assumed to exist a static array of practices
that typically fall within the accounting domain (see, for example, Arrington and
Schweiker, 1992; Miller, 1991, 1998a, 1998b; Miller and Napier, 1993; Power,
1994b, 1997a). As mentioned, accounting is becoming increasingly attributed
with pervasive and enabling characteristics, whereby the application of accounting
practices within particular organisational contexts is seen to have implications for
the behaviour of individuals and the functioning of organisations and societies as
a whole (Burchell et al., 1980; Burchell et al., 1985; Hines, 1988, 1989a, 1989b,
1991a; Hopwood, 1983, 1990c, 1992, 2000; Miller, 1994; Miller and O'Leary,
1987, 1994; Willmott, 1986). Accordingly, accounting has become recognised by
researchers in this area as a social and institutional practice (Hopwood, 1992,

A central focus of studies that view accounting as a social and institutional
practice is to explore accounting as a technology, a device for intervening in the
functioning of organisations and societies. Such a perspective reinforces the
notion that it is no longer appropriate to think of accounting as a neutral, if not
benign, technical practice that is applied merely to reveal aspects of reality or
truth about an organisation (Gowler and Legge, 1983; Hines, 1988; Hopwood,
2000; McSweeney, 2000; Miller, 1994). Rather, according to Miller (1994, p.1),
accounting can be implicated in shaping:
... the type of world we live in, the type of social reality we inhabit, the way in which we understand the choices open to business undertakings and individuals, the way in which we manage and organize activities and processes of diverse types, and the way in which we administer the lives of others and ourselves.

Inherent in this perspective of accounting is a focus on the interplay between ways of measuring activities and processes in financial terms and ways of managing organisations and societies. The application of accounting practices enables the adoption of a particular "financial" lens for "seeing" or "understanding" an individual's activities and organisational outcomes. Such practices can, in turn, offer a basis for governing people, processes, organisations and societies. As a consequence of its ability to create possibilities for action in organisations and societies, accounting has become an influential mode of management of organisational and social arrangements (Burchell et al., 1980; Hopwood, 1990c; McSweeney, 1994; Miller, 1994; Parker and Guthrie, 1993).

According to Miller (1994), there are at least three distinctive aspects of this view of accounting as a social and institutional practice. These comprise: accounting as a technique; the rationales of accounting; and the domain of accounting. These distinct aspects are examined in the remainder of this section to provide a convenient basis for reviewing the key literature which informs the study.

1. Accounting as a Technique

According to Miller (1994, p.2), viewing accounting as a social and institutional practice creates an emphasis on accounting as a technique or technology, as "a way of intervening, a device for acting upon activities, individuals and objects in such a way that the world may be transformed". Adopting such a focus,

According to Miller (1994, p.2), by representing activities, processes and events in financial terms, accounting creates particular ways in which those individuals and organisations may be thought about and acted upon (see also Bougen, 1994; Callon, 1998; Miller and O’Leary, 1987, 1990; Miller and Rose, 1988, 1990; Porter, 1992; Young, 1995b). The application of accounting practices can, for example, offer a way to standardise and make comparable seemingly disparate, even abstract, phenomena that would otherwise bear no resemblance whatsoever (Callon, 1998; Miller, 1990, 1994; Rose, 1988, 1991; Tomlinson, 1994). The resulting accounting calculations can then be used to:
... compare individuals, departments, or divisions. And they can also be used by individuals themselves to compare where they are with where they should be, what they have achieved with what they should have achieved (Miller, 1994, p.3).

By enabling the portrayal of diverse phenomena in financial terms, accounting creates a particular type of intelligibility, meaning and understanding for organisational and social affairs. Accounting can influence perceptions, change language and infuse dialogue and thereby permeate the ways in which organisational and social priorities, concerns and dilemmas, and new possibilities for action are expressed and prioritised (Hopwood, 1983, 1990c). Viewing accounting in this way offers an opportunity for researchers to interrogate the role of accounting in specific instances of organisational and social change. Hopwood (1990c, p.9) outlines some of these opportunities below.

It is possible to probe into what a particular organisation seeks to make visible by its accounting ... . Moreover, by making some things visible and other things not, an organisation can strive to exclude particular visibilities from the official organisational agenda. What, we can ask, is treated in this way, and why? And which groups have the power to influence the patterns of visibility prevailing in the organisations? What bodies of knowledge and sets of organisational practices are involved in making some things visible and other things not? How contested are dominant patterns of visibility? And from where have new visibilities emerged?

Portraying accounting as a technique, provides an avenue through which researchers can explore the intended and unintended consequences of applying particular accounting practices for the functioning of specific organisations as well as for societies as a whole. The nature and extent of these impacts and how they arise in specific instances are yet to be fully understood, let alone evaluated.
2. The Rationales of Accounting

Secondly, according to Miller (1994, p.3), viewing accounting as a social and institutional practice invites a focus on the complex language and set of meanings that are intrinsic to accounting. This language and these meanings are referred to by Miller (1994, p.3) as rationales. Within such a perspective, accounting is seen as far more than a set of numerical calculations depicting the quantitative outcomes of organisational activity. Instead, accounting is thought to be associated with a specialised vocabulary or terminology which, in turn, makes possible a particular set of discursive representations about the organisational activity under account. According to Miller (1994, p.3), these representations and vocabularies:

... are assembled at various collective levels, articulated in diverse locales, and in relation to disparate concerns. It is these rationales, often borrowed from other bodies of expertise, that mobilise the calculative technologies of accounting. It is through such meanings, that accounting practices are endowed with a significance that extends beyond the task to which they are applied, yet without determining the consequences of their deployment in any particular setting.

Such rationales, for example, become evident when the preparation of financial statements that incorporate revenues, expenses and profits, are inextricably linked with notions of “accountability”, “responsibility”, “efficiency” and the like. According to Miller (1994, p.3), these rationales enable financial statements to be portrayed as the vehicle for applying notions of accountability and performance in a variety of specific organisational and social settings (Hopwood, 1990d; Miller, 1991; Power, 1997b). Viewing accounting as a social and institutional practice suggests a need to understand such rationales since “it is these rationales, rather than ones specific to the activities and processes in question, that come to articulate ways of knowing and managing organisations” (Miller, 1994, p.3). An
appreciation of how these rationales are developed and the consequences of their application in specific settings can assist in enhancing an understanding of how accounting practices can become embedded in many modern forms of organisations and governments (Miller, 1991; Miller and O’Leary, 1994; Miller and Rose, 1990; Rose and Miller, 1992).

An awareness of the rationales of accounting has, in turn, given rise to research which may be classified under two key themes: accounting as a legitimating device; and accounting as a linguistic device.

(i) Accounting as a Legitimating Device

Many theorists have concerned themselves with the legitimating capabilities of accounting. These authors typically implicate the accounting craft as an important element in the development of rationalised societies by identifying accounting as an important means by which organisations respond to environmental pressures to enhance their legitimacy. Researchers in this area argue that organisational management is driven to incorporate practices and procedures defined by prevailing concepts of what is “rational” and it is in this context that much accounting innovation, particularly at the organisational level, can be understood (Boland and Pondy, 1983; Carruthers, 1995; Hines, 1989a, p.66; Meyer and Rowan, 1977; Miller, 1994, p.10; Thompson, 1994). Accounting and its associated discursive representations can be seen as a means by which organisations incorporate, or are seen to incorporate, rational ways of organising and monitoring their activities (Power, 1994a). To the extent that organisations incorporate such practices and procedures, they are perceived to increase their
legitimacy and enhance their prospects for survival (Montagna, 1990; Takatera and Sawabe, 2000). In many respects, these studies depict how the accounting is done to be less important than that it is done (McSweeney, 1997; Power, 1994a, 1995, 1996, 1997b)².

In such instances, specific accounting practices become institutionalised in particular organisational settings (Covalski and Dirshmith, 1988a, 1988b; Powell and DiMaggio, 1991; Hopwood, 1983, p.291; Power, 1994a). As a consequence of unquestioningly accepting and applying accounting as a legitimating device, opportunities to evaluate the application of accounting practices in specific instances may be lost. Further, the possibility that such practices may also have adverse or unforeseen consequences for the organisations involved, or for society as a whole, may be forgotten.

(ii) Accounting as a Linguistic Device

Accounting theorists have also concerned themselves with accounting as a linguistic device, exploring how this language has developed and is applied in specific instances. Researchers in this area have considered accounting for its rhetorical dimensions, identifying a number of rhetorical images that appear to underpin accounting regulation and practice (see, for example, Boland, 1986, 1989; Boland and Greenberg, 1992; Davis et al., 1982; Heath, 1987; Meyer, 1984; Morgan, 1980, 1983, 1986, 1988; Thornton, 1988; Tinker, 1985; Tsoukas, 1993; Walters-York, 1996). One such image that has been identified by researchers depicts accounting reports and practices as the means of measuring pre-existing “economic reality”. Such an image, frequently inherent in accounting standards
and theoretical guidance statements, portrays accounting practice as an objective, faithful and unbiased reflection of organisational reality (see, for example, Hines, 1991a; Lavoie, 1987; McSweeney, 1997; Morgan, 1988; Solomons, 1978, 1991a, 1991b; Sterling, 1988; Tinker, 1985). When accounting is portrayed in this way, little actual plausibility is needed to convince the users of general purpose financial reports that the accounting information produced indeed factually represents organisational reality. In such instances, only that phenomena which is represented in financial terms in such reports is perceived to be objective while the array of allocations, classifications and other human interpretations inherent in many accounting practices are forgotten or are ignored (Chambers, 1966; Churchman, 1971, p.31; Davis et al., 1982, p.310; Hines, 1991b, 1992; McSweeney, 1997).

Portraying accounting as the objective, unbiased means of measuring pre-existing economic reality has enabled specific accounting practices to be advocated and introduced in particular settings by accounting regulators and by other advocates of reform (see, for example, Carnegie and West, 1997; Hines, 1991a; Hopwood, 1990c; McSweeney, 1997, pp.706-7; Miller, 1991, pp.735-7; Nahapet, 1988, p.334; Power, 1997a). At the same time, such images can tend to “rationalise” or “over-intellectualise” generally accepted accounting practices, making their application appear to be more effective and therefore more appropriate than otherwise may be the case (Power, 1995, 1997a). Such images can also restrict the scope of accounting standards that might be developed when specific accounting issues emerge (Hines, 1991a; Young, 1994, 1995b, 1996). Accordingly, the specific standards that are developed within particular jurisdictions are more
likely to emphasise existing and familiar accounting tasks such as the disclosure and measurement of financial statement elements. According to Young (1996), in such instances the regulations are less likely to embrace the essence of the issue at hand and any opportunity to re-examine the appropriateness of applying accounting practices to the particular organisational or social setting may be lost (see also Bougen, 1994; Hines, 1991a; Hopwood, 1990d; Power, 1997a, 1997b; Young, 1995b).

An examination of the rationales associated with accounting provides researchers with an opportunity to enhance an understanding of the forces behind specific instances of accounting innovation (McSweeney, 1997). Such an enhanced understanding appears to be particularly possible where, for example, rationales may be associated with the development and promotion of detailed accounting standards which require existing and familiar accounting practices to be applied to specific public sector organisations for the first time. Such sentiments were echoed by Ryan (1998, p.534) who, when focussing on public sector accounting in Australia, called for further studies to be directed at:

... a critical assessment of the introduction of the language of accounting, the "consequences of calculation", the attribution of "meaning" to those calculations and the problems and deficiencies of calculations, particularly as they apply to areas of public policy not previously reduced to accounting technologies addressed.

3. The Domain of Accounting

Finally, viewing accounting as a social and institutional practice also creates the need to understand how the domain in which accounting practices are applied is constituted and reconstituted (Miller, 1994, p.4). Typically, accounting transforms physical flows of organisations into financial flows. By doing so, according to
Miller (1994, p.4) "accounting creates a particular realm of economic calculation of which judgements can be made, actions taken or justified policies devised and disputes generated and adjudicated".

Studying the constitution and re-constitution of the accounting domain thus embraces a consideration of the link between accounting and economic reason (Gorz, 1989; Hopwood, 1992; Power, 1992) which, in turn, can assist an understanding of the implications of specific applications of accounting for both organisations and societies. An appreciation of the accounting domain has, in turn, given rise to research which may be classified into two categories, namely: the implications of the changing accounting domain, and the process by which that domain changes.

(i) The Implications of Changing the Accounting Domain

An interest in the accounting domain arises where accounting is viewed as a key mechanism for operationalising certain models of economic citizenship, whereby the actions of free-thinking individuals are brought into line with specific objectives that enclose them within a specific calculative regime (Miller, 1992, 1994; Miller and O’Leary, 1994; Miller and Rose, 1990). Researchers adopting this perspective have implicated accounting in the creation of calculable selves and calculable spaces\(^3\), whereby the application of accounting practices introduces an apparent level of certainty into organisational and social life that perhaps might not otherwise have existed (Callon, 1998; Gowler and Legge, 1983; Hoskin and Macve, 1994; Loft, 1986; Miller, 1992, 1994; Miller and O’Leary, 1987; Porter, 1992; Rose, 1991). Hoskin and Macve (1994, p.70)
explain the common themes that appear to exist in much of the research conducted from with this perspective:

... accounting has discovered a new power to be more than just a technology measuring and recording transactions and flows of goods and money - more indeed than just the double entry form of bookkeeping. It has become one particularly privileged way of measuring and restructuring man as the “calculable person” (Miller and O’Leary, 1987; Miller, 1992); it has also come to play a strategic role in the development of a new, grammatocentric kind of “managing by numbers”, exemplified in the emergence of what Alfred Chandler (1977) has called “the modern business enterprise”.

According to researchers with an interest in this area, the result of introducing accounting practices within organisations and governments is to shift the forms of discussion and debate that commonly accompany organisational and social action (Bougen, 1994; Gowler and Legge, 1983; Hopwood, 1983, 1990c; McSweeney, 1994; Miller, 1992, pp.62-3; Miller and Napier, 1993; Miller and O’Leary, 1989, 1990, 1994; Miller and Rose, 1990). Instead of continually discussing and debating difficult organisational and social issues, we tend to look to those with accounting expertise for guidance in dealing with those issues (Power, 1991; Rose, 1991; Rose and Miller, 1992). Decisions made on the basis of arbitrary power become less frequent and instead, complex political and social problems are identified and resolved through the application of accounting practices, which are valued largely for their apparent neutrality and objectivity. The resulting decisions, where based on financial information, acquire an image of procedural fairness, objectivity and neutrality, thus evidently becoming difficult to critique (Callon, 1998; Loft, 1994; Miller, 1998a, 1998b; Miller and O’Leary, 1994, p.112; Porter, 1992, 1995; Power, 1994a, 1994b, 1997b; Rose, 1991). According to Hines (1989a, p.67), within such an environment:
Counter-arguments to such decisions, perhaps based on ethics or social/environmental prudence, will often appear idealistic and impractical because they have not taken account of the economic aspects of the situation and because they rely on information which compared to accounting appears “soft” or “subjective” because it is not quantified.

Despite the apparent influence of accounting and the consequences for organisational and social functioning of applying accounting practices, researchers with an interest in this area generally portray the accounting domain as constantly changing, suggesting that the boundaries within which accounting is applied are constantly being drawn and redrawn (Miller, 1998a, 1998b). History is rich with examples of accounting applications “failing” in specific contexts and of being associated with unintended and unwanted consequences and implications, only to be replaced by alternative accounting applications that construct different financial images of organisational and social affairs (Callon, 1998; Cooper, 1988; Cooper and Kaplan, 1987; Hopwood, 1983; McSweeney, 1994; Miller, 1992, 1994; Power, 1994a, 1997b). According to Hoskin and Maeve (1994, p.92), in such instances, rather than abandon accounting practices altogether, “we find ourselves bound up in a continual process of trying to reduce their inadequacies and arbitrary effects, yet always, in so doing, extending their power and scope”.

An appreciation of the pervasive and enabling characteristics of accounting and an understanding of the changing nature of the accounting domain appears to have prompted a collection of studies that examine the process by which the accounting domain is changed, or transformed in specific instances. This research has considered both the transformation of the accounting domain at the margins, whereby “new” calculative practices are added to the repertoire of accounting (Miller, 1998a, 1998b), as well as the application of accounting reforms within
different settings, specifically where the existing body of accounting practices is 
applied to areas where they were previously absent (Young, 1994). Aspects of this 
research are now discussed.

(ii) The Process of Changing the Accounting Domain

Researchers in this area generally depict the process through which changes to the 
accounting domain typically occur as dynamic and ongoing, and not the result of 
the actions of any single individual or group. Rather, the transformation of the 
accounting domain is argued to occur in a largely discursive fashion, within and 
through historically contingent circumstances and processes (Hopwood, 1983;
Miller, 1998a, 1998b; Rose, 1991). Within this perspective, a collection of 
researchers depict changes in the accounting domain to be a function of the 
manner in which particular accounting “problems” are identified and defined in 
ways that make the resolution of these problems, through the application of 
existing accounting concepts and practices, to appear as appropriate, if not self-
Young, 1994, 1996).

Significant transformations of the accounting domain can occur from time to time,
which involve the development of “new” accounting practices. Young (1994, p.3) 
cites a number of studies which examine instances whereby new calculative 
practices are added to accounting. For example, Miller (1991) examined the 
development of discounted cash flow analysis, Burchell et al. (1985) explored the 
rise and decline of valued-added accounting while Hopwood (1987a) and Miller 
and O’Leary (1987) have respectively examined the production of product costs
and standard costing and budgeting. According to Miller (1998b, p.605), a key focus of researchers in this area is to:

... attend to the ways in which these calculative practices and their related rationales have, in certain countries, initially permeated accounting at its boundaries, and gradually come to occupy a dominant position.

However, according to Young (1994), most changes to the accounting domain occur incrementally, whereby the existing body of accounting practices are applied to "new" areas, where they were previously absent. Young (1994) maintains that most recent instances of accounting innovation have involved the re-configuration and re-application of existing definitions of financial statement elements to capture organisations, activities and processes that were hitherto excluded from the accounting domain. The result is the recognition within general purpose financial reports of many items as assets, liabilities, revenues and expenses for the first time (Young, 1994, p.83). This study explores an example of this "incremental" form of accounting change, where the existing body of commercial accounting practices have been advocated and introduced for virtually unmodified application to a diverse range of public sector organisations in Australia.

With a focus on the incremental manner in which the accounting domain changes can occur in specific instances, Young (1994) used the theoretical perspective of regulatory space to examine how and why changes to financial accounting regulation and practice occur or fail to occur (see also Kent, 2000). According to Young (1994, 1995b), accounting standards are produced within regulatory space, a highly abstract and contested conceptual area within which various participants,
including regulatory agencies and organisational arms of the organised accounting profession, both operate and interact. It is within this space that changes in the regulations relating to the recognition and measurement practices of financial accounting are generally discussed, analysed and developed (see also Latour, 1987; Miller and Rose, 1990; Rose, 1990; Young, 1994, 1995). Young (1994) argued that such changes to accounting regulations are made possible once particular "issues" are constructed as accounting "problems". According to Young (1994), once defined in this way, such problems can then become part of the regulatory agenda and remain so, while other competing "issues" may not become constructed as accounting problems and thus may never warrant regulatory attention.

The actions of participants within regulatory space may be shaped by an array of influencing factors (Young, 1994, 1996). For example, such actions may be understood, at least in part, by reference to the theoretical perspective of institutional thinking (Young, 1994, 1996). Young (1996) applied this construct in studying specific accounting reforms relating to financial instruments in the USA. As indicated in chapter one, Young's (1996) study, as far as can be ascertained, is the only known published research to have used institutional thinking in investigating the development of recent accounting standards. According to Young (1996, p.487), in identifying and defining the accounting "problem" relating to financial instruments, only certain types of questions were asked and certain types of issues considered, while many important issues were not addressed at all. As a consequence, rather than producing regulations that enabled accounting reports to capture the essence of these "new" financial
instruments, the FASB developed an accounting standard that emphasised familiar accounting tasks of disclosure, recognition and measurement. Young (1996) consequently concluded that institutional thinking could assist our understanding of how these events unfolded by enabling an explanation of how certain accounting “problems” may be resolved in a programmed and limited manner. In doing so, Young (1996) maintained that institutional thinking, as a key driver of regulatory outcomes, can assist an enhanced understanding of the nature and limits of accounting innovation in particular settings.

The studies by Young (1994, 1996) provide compelling insights into how accounting “issues” may become defined as accounting “problems” that can be addressed by regulators through the application of existing and familiar accounting definitions and concepts. What is less clear from this work, however, is how such accounting issues can initially arise in specific instances, although some preliminary insights in this respect are available from the existing literature on problematisation. According to Rose and Miller (1992), accounting problems can first arise through a process of problematisation which can begin when existing accounting practices are criticised as not “ideal”. These practices may, as a result, be seen to be deficient in some way or ways, leading to the identification of an accounting “problem” for which an appropriate solution is required. In such instances, practices are put forward that are claimed to not only address the perceived defects, but go substantially beyond them, offering something new and better than hitherto possible (Miller, 1991, p.737, 1998b, p.606). While not all such instances result in accounting change taking place, when the problem is made visible, and the perception is created that something needs to be done and
also where the suggested solution is seen to be the means of achieving the desired end, specific accounting change is likely or possible (Miller, 1998b, p.606).

Power (1997a) provided an example of the problematisation process of existing practices in the case of environmental audit in the USA, while Miller (1991) offered an example in the case of discounted cash flow analysis in the UK. According to Power (1997a), accountants have relatively recently begun to compete for the opportunity to conduct environmental audits, primarily by representing themselves as experts in this field, even though no specific, purpose-driven auditing or accounting techniques have been developed. According to Power (1997a), the success of the organised accounting profession in embracing new tasks such as environmental audit depends on its ability to successfully implement a range of discursive strategies. These strategies primarily include efforts by the profession to re-define itself and the task at hand in particular ways. As a consequence of such strategies, existing accounting definitions and techniques are made to appear appropriate and relevant for presenting and assessing environmental accountability and performance. Existing definitions and approaches are thus promoted as superior to others that are based on non-financial quantitative techniques or qualitative approaches which, in turn, places accountants in a position of superiority compared to experts in other fields (Power, 1996a, p.291, 1997a).

In areas such as environmental audit, Power (1997a) found that no “natural” case can be made for or against the role of accountants and that claims to expertise in measuring environmental accountability and performance do not
simply reside in the knowledge of accounting practices. Rather, the field of environmental audit is one in which expertise can be established in a discursive manner, and professional accountants have been successful in doing so through the promotion and application of existing accounting definitions and practices (Power, 1997a, p.142). The result is the narrow financial conceptualisation of complex and abstract terms such as environmental accountability, even though the appropriateness of applying traditional audit practices in this area is by no means fully understood or accepted (Power, 1991, 1997b).

Exploring broadly similar issues, Miller's (1991) study, set in the UK, examined the process of problematisation in the case of discounted cash flow analysis. According to Miller (1991, pp.737-8), problematisation of investment decisions occurred in the UK during the 1950s and 1960s in such a way that made such decisions appear to be intrinsic to the application of discounted cash flow techniques. Miller (1991, p.737) found that it was not simply that such techniques enabled a demonstrably better way of making and appraising investment decisions. Rather, what was decisive for the widespread adoption of discounted cash flow techniques was the manner in which the pre-existing investment appraisal approaches were criticised and discounted cash flow techniques were promoted as a solution congruent with broader, widely desirable economic goals and objectives for the relevant organisations and for the economy as a whole (Miller, 1991, p.737).

Young (1995a) also provided an example of where the problematisation of emerging practices can occur to stop or impede changes occurring to the existing
accounting domain. Young's (1995a) study focussed on cash flow accounting approaches developed in the USA. Young (1995a) discussed how the accounting profession in the USA set out to discredit emerging cash-based approaches to the measurement of income as a means of defending existing accrual-based measures. Cash-based measures of income were depicted by the accounting profession in the USA as "dangerous" and "misleading" and also as a poor substitute for existing accrual-based measures. A key finding of Young's (1995a) case-study was that "success" in the regulation of accounting was less dependant on developing technically "correct" rules. Instead, according to Young (1995a, p.173), such success was more dependant on convincing others of the efficacy of particular techniques and approaches, gaining acceptance of these techniques and approaches and encouraging others to build on them (Young, 1995a, p.173).

Studies such as those by Young (1994, 1995a, 1996), Miller (1991) and Power (1991, 1997a, 1997b) provide insights into the discursive nature of the domain of accounting and how that domain can be shaped through the process of problematisation. Yet how, and by whom, this problematisation occurs in specific instances is complex and represents an aspect of accounting innovation which researchers know little about. Specifically, research undertaken to date that embraces the notion of problematisation emphasises the importance of the organised profession in identifying and defining accounting problems and solutions in particular ways. However, these studies are less clear in explaining how and by whom these "problems" and the associated solutions are made widely recognisable.
Some insights into how and by whom the problematisation of existing practices occurs are available through studies that relate to *epistemic communities*. Researchers in this area argue that where certain individuals are given power to administer, regulate or govern in certain areas of the community then what they think, the perceptions and beliefs they form, and also the way in which they embrace new ideas are of central importance (Adler and Haas, 1992; Haas, 1992; Laughlin and Pallott, 1998). In most instances, it is inevitable that individuals in such positions seek advice from certain technical experts, referred to as *epistemic communities* (Haas, 1992). Consistent with the notion of *policy entrepreneurs* used by Ryan (1995, 1998), *epistemic communities* can be influential in translating the ideas, perceptions and beliefs of those with legislative or non-legislative regulatory power to operationalise accounting change. Such communities can also exert significant influence on both the development and diffusion of specific accounting policies (Ryan, 1998, p.520; Young, 1995a). According to Haas (1992, p.4), *epistemic communities* have a number of characteristics which can be described in the following way:

An *epistemic community* is a network of professionals with recognized expertise and competence in a particular domain and an authoritative claim to policy-relevant knowledge within that domain or issue area. Although an *epistemic community* may consist of professionals from a variety of disciplines and backgrounds, they have (1) a shared set of normative and principled beliefs which provide a value-based rationale for the social action of community members; (2) shared causal beliefs which are derived from their analysis of practices leading or contributing to a central set of problems in their domain and which then serve as the basis for elucidating the multiple linkages between possible policy actions and desired outcomes; (3) shared notions of validity – that is, intersubjective, internally defined criteria for weighing and validating knowledge in the domain of their expertise, and (4) a common policy enterprise – that is, a set of common practices associated with a set of problems to which their professional competence is directed, presumably out of the conviction that human welfare will be enhanced as a consequence.
The role that can be attributed to epistemic communities in the identification and resolution of accounting problems can vary according to the dynamics of the situation. Such communities can occupy a unique and influential position due to their ability to convince policymakers that a “problem” exists and their ability to put forward a seemingly appropriate solution (Adler and Haas, 1992, p.371; Laughlin and Pallott, 1998, p.385). Epistemic communities may be small in size but due to the strategic location of their members in national and international organisations and their sharing of common values and beliefs, the influence of such communities can be disproportionate to their size (Adler and Haas, 1992; Carnegie and Napier, 2002, p.6). Such communities can also influence the diffusion of policies developed by means of diverse forums including communication with colleagues at national and international bodies during conferences, via publications in academic texts and journals as well as various other methods of exchanging lessons and information (Adler and Haas, 1992, p.378; Miller, 1991, p.738). The result is the diffusion of particular accounting solutions across jurisdictional boundaries on a national, and perhaps even international, level (Kingdon, 1984, p.147; Ryan, 1998, p.526).

The literature on epistemic communities can thus supplement an understanding of the problematisation process and augment an understanding of the process by which the accounting domain is constituted and re-constituted. However, detailed studies encompassing such perspectives that explore particular instances of accounting innovation are relatively sparse (Laughlin and Pallott, 1998). Notwithstanding, such communities offer a range of “fascinating issues for research” (Laughlin and Pallott, 1998, p.396). One such issue which is pursued
throughout this study encompasses an examination of the role of these communities in introducing commercially-inspired accrual accounting techniques and philosophies for application within diverse organisations in the public sector, but specifically in the case of not-for-profit public museums and other heritage organisations (Carnegie and Napier, 2002, p.6).

The literature examined in this section relating to the accounting domain highlights the need for studies which interrogate the social and historically contingent nature of the accounting domain and the process by which that domain can change over time. The aims of this study embrace such a focus by examining an instance where particular accounting practices have been developed and applied within a specific organisational setting for the first time. Miller (1998a, pp.177-8) in his discussion of “margins" surmises the importance of conducting research in this area:

A concern with the margins of accounting is thus a concern with the conditions and consequences of accounting practices. It is a concern with processes and outcomes. It is a concern with emergence and stabilization. The margins of accounting are produced, rather than given. This puts to the fore the analysis of the ways in which present calculative practices have been formed historically, what conditions made them possible, what ideals and aspirations they embody, and how they seek to programme the world so as to fit those ideals. … More generally, by examining the margins of accounting and the conditions under which these are altered, we can begin to unravel the intrinsic links between accounting and changing modes of governing the enterprise (Burchell et al., 1980; Miller and Rose, 1990).

The discussion of the relevant literature on the accounting domain, and therefore the literature on accounting as a social and institutional practice, is now complete. This literature was examined in order to identify the broader perspectives from within which this study is undertaken. The next section provides a brief connective summary of the discussion undertaken to date in this chapter. The
summary links the literature examined in this chapter to the study's key research objective. This provides the basis for the section preceding the conclusion, which reviews aspects of the existing literature on public sector accounting and conceptual frameworks on which this study seeks to build.

**CONNECTIVE SUMMARY**

According to Miller (1994, pp.4-5), the three distinctive aspects of this view of accounting as a *social and institutional practice* are both distinct and complementary:

Technologies depend on rationales as a way of setting out the ends and objectives of particular ways of calculating. Specific rationales can entail appeals for more accounting, or a new way of accounting. And, at different points in time, or in different settings, a particular calculative technology can be linked up to different rationales. The combined effect of calculative technologies together with rationales that give them wider significance can be to constitute and reconstitute the realm of financial flows into which organizations can be transformed.

It was suggested at the beginning of this chapter that viewing accounting as a *social and institutional practice* provides the broader perspectives from within which this study is undertaken. Viewing accounting as a *social and institutional practice* in this study enables the examination of the actual process by which detailed accounting standards have been developed, promoted and defended in the APS, specifically in the case of not-for-profit public museums. This, in turn, provides the opportunity to consider the likely impacts of applying these standards in the specific organisational and social settings identified. Such reforms can be examined, understood and evaluated for their impacts on the specific public sector organisations involved rather than necessarily accepting, in good faith and without question, the accounting reforms in the name of their asserted potential to assist
the resource allocation decisions made by the users of the financial statements produced and to enhance accountability (Hopwood, 1983, 1990a, 1990b, 1990c). Such an approach, which embraces the discursive nature of accounting's boundaries can, in turn, implicate the CF in shaping the accounting domain to encompass general purpose financial reporting in the APS. The approach made possible by viewing accounting in this light is consistent with the "sociopolitical paradigm" articulated by Hines (1989a), but is not without its hurdles. Some of these hurdles are captured in the passage from Hines (1989a, p.55), which is reproduced below:

First, its objective is to investigate the role that accounting plays in the construction and maintenance of social reality. However, the processes of reality construction are protected from scrutiny, and in order to access accounting's role in constituting society, researchers have to set aside protective incorrigible assumptions which pervade their language, thinking and everyday life. Second, since sociopolitical accounting research is based on an assumption which is incommensurable with a fundamental assumption of our culture, it confronts a difficulty not faced by other research programmes. Sociopolitical research is subject to resistance, not only because it is counter-intuitive, but also because it can represent a source of threat to the status quo.

However, as indicated in chapter one, such perspectives are largely confined to, and becoming increasingly influential within, academic circles and found primarily in articles published in a relatively small collection of academic research journals. These perspectives are thus not readily available in the existing general or professional literature on public sector accounting, or the literature that discusses the roles of conceptual frameworks in specific instances of accounting reform. Consequently, it is these elements of the literature on which this study seeks to build. The specific ways in which this study seeks to augment this literature is discussed in the next section.
AUGMENTING THE EXISTING LITERATURE

This section addressed aspects of the existing literature on public sector accounting and on conceptual frameworks upon which this study seeks to build.

PUBLIC SECTOR ACCOUNTING

Public sector accounting represents a field of inquiry that has received relatively little attention from researchers when compared to investigations of accounting in the context of profit-oriented organisations. Indeed much research relating to public sector accounting has developed over the past two decades (Parker and Guthrie, 1990, p.115; Ryan, 1995, p.23). Researchers in the field have begun to segment their endeavours in relation to public sector accounting into areas such as management accounting, auditing and financial reporting. The rapidly developing maturity of the literature on public sector accounting is such that researchers are beginning to apply a range of research methods, using various explicit or implicit theoretical perspectives, to a wide array of research questions. As a consequence, research specifically directed at classifying and reviewing the literature in this field has emerged (Lapsley, 1988, Broadbent and Guthrie, 1992). In addition, articles on public sector accounting frequently appear on the programs of a range of international research conferences and can be found in an array of internationally refereed research journals such as Accounting, Auditing and Accountability Journal, Accounting, Organizations and Society, Critical Perspectives on Accounting, Financial Accountability & Management, Journal of Accounting and Public Practice, Accounting History and Accounting, Business and Financial History.
In light of the research objective and the primary research questions identified in chapter one, this study seeks only to augment, specifically, the literature relating to public sector financial reporting. As such, it is the relevant facets of this literature that are discussed in this section, under two headings: contextual studies in public sector accounting; and accounting regulatory studies in the public sector.

(i) Contextual Studies in Public Sector Accounting

A collection of studies have emerged that examine the context within which particular accounting reforms occur in the public sector. These studies are less concerned with the nature and content of detailed changes to accounting practices and instead seek to discuss and debate the broader aspects of the prevailing environment that make accounting change possible. Many of these authors associate changes in accounting regulation and practice in the public sector with broader aspects of the prevailing social, administrative, political or economic climate, or with changes in public sector managerial philosophies and approaches. For example, according to Leder's (1992, 1994) Contingency Model, accounting reform generally occurs as part of a central government response to perceptions of fiscal stress, the rise of dominating doctrines or ideals or as a key technique in the general move toward broader reforms in financial and management practice (Christensen, 2002; El-Batanoni and Jones, 1996; Godfrey et al., 1996, 2001; Khumawala, 1997; Likierman, 1996; Pallot, 1996). Researchers in this area also depict the nature and timing of public sector accounting reforms as a function of the existence and the strength of any implementation barriers that might exist to impede accounting reforms taking
place. These barriers include the characteristics and capabilities of the legal system and the political and rule-making power of the accounting profession in the country or region under study (Christensen, 2002; Hood, 1991, 1995; Laughlin and Pallet, 1998; Luder, 1992, 1994).

Researchers have also attributed the recent financial accounting reforms undertaken in the public sector to broad movements in public sector management philosophies experienced in Anglo-American countries such as Australia, Canada, New Zealand, the UK and the USA. Such movements, which are claimed to offer a "new" public management are perceived to be influenced by "economic rationalism", "managerialism", "accountable management" and their associated philosophies (Aucoin, 1990; Guthrie, 1993, 1994, 1998; Hood, 1987, 1990a, 1990b, 1991, 1995; Humphrey and Guthrie, 1996; Osborne and Gaebler, 1992; Parker and Guthrie, 1990, 1993; Pusey, 1991; Zifcak, 1994). Closely associated with this "new" public management is a range of accounting techniques which have been sub-classified as "New Public Financial Management" (Guthrie, 1998; Humphrey and Guthrie, 1996; Olson et al., 1998). The general argument advanced by researchers in this area is that such broad factors have elevated accounting as one of the technologies by which these changes have been enacted (Broadbent and Guthrie, 1992, p.15; Parker and Guthrie, 1993, p.63; Power, 1997b, p.43; Ryan, 1995, p.53).

In summary, the body of research examined in this section re-enforces the importance of understanding the political, social and economic setting in which accounting innovations occur. This literature, when supplemented by studies of
particular instances of accounting innovation, can offer global explanations of
the form and content of the detailed reforms undertaken in particular settings.

(ii) Accounting Regulatory Studies in the Public Sector

A second broad category of research has emerged that relates to the regulation of
accounting in the public sector. Included in this area is a collection of studies
directed at discussing and evaluating different aspects of the regulatory
environment in the public sector. Many of these studies demonstrate a focus on
how to structure the development of accounting regulations in order to best guide
the preparation of accounting information for public sector organisations. Inherent
in many of these studies is the assumption that in order to reduce diversity in the
accounting practices adopted by public sector organisations and to enhance public
sector accounting generally, a body of theoretically sound concepts and meanings
should be developed and articulated (see, for example, in the USA, Anthony,
1979; Drebin, 1981; Drebin et al., 1981; in New Zealand, Miah, 1991; Pallot,
1997; Van Peursem and Pratt, 1998; in the UK, Jones, 1991; Mayston, 1992;
Rutherford, 1992; Taylor, 1989; and in Australia, Greenhall et al., 1988;
Sutcliffe, 1985; Sutcliffe et al., 1991).

A further aspect of the literature is directed at advocating particular approaches to
accounting reform. Such studies are dominated by official-type reports, research
seminars, public lectures and publications in quasi-academic journals from the
organised profession and other advocates of reform. These works generally
promote the adoption of professional accounting standards that endorse accrual-
based reforms for public sector organisations. The studies inevitably advocate the preparation of general purpose financial reports in order to measure the "full cost" of government services and programs which, in turn, is assumed to lead to the enhanced accountability and performance of public sector organisations and their management. While many of these studies and the bases on which such claims are made are examined in detail in later chapters, in reviewing the literature relating to public sector accounting, it is important to provide a sense of how accounting is commonly depicted within a relatively large collection of published work. The extracts below indicate the manner in which accounting is typically portrayed:

... while cash accounts are fundamental to the management of cash flows, a consequence of having only cash accounts is that the cash deficit/surplus for the budget year gives no clue as to the operational cost or effectiveness of government operations (Humphry, 1986, p.18);

... without accrual based information, it is very difficult if not impossible, to carry out many of the crucial functions of government and the parliament (Humphry 1987, p.124);

[accrual-based information] can facilitate the assessment of program performance by showing the full cost of programs; facilitate the assessment of financial position by showing all resources and obligations; enhance the accountability of management for their performance (Mackintosh, 1992, p.38; see also DoF, 1990, 1992a);

Accrual information is a useful aid to management decisions about total resource allocation, and enables managers to discharge their accountability responsibilities for overall resource management (JCPA, 1995b, p.3).

Stewart (1988, p.4) provides an overview of many of the studies that adopt this perspective:

... accounting techniques and practices are viewed as technical, facilitative rules, used to meet the needs of management and other users. Accounting is seen as a value-free, neutral discipline that responds to the various influences and pressures in and outside the organisation. The technical practices are given the status of supra-historical techniques transcending time and space. Furthermore, accounting is viewed as a problem-solving technology that responds or adopts to the needs of the emerging organisation so as to facilitate organisational action.

In addition, studies have also discussed and debated the most appropriate basis of accounting measurement for particular items included in public sector financial statements (Lapsley, 1988). One of the most commonly discussed matters addressed by these researchers is the appropriate treatment of capital expenditure, most commonly in the context of infrastructure. Researchers have discussed and debated a range of issues in relation to the accounting for expenditure on infrastructure resources. These issues include how best to account for the impact of inflation on the disclosed amounts for these items and the role of depreciation techniques given a diversity of resource types, as well as the associated consequences of recognising such resources as assets for the presentation and assessment of the financial position, accountability and performance of the

A further category of studies have been set in the context of specific public sector organisations. Examples include research directed at public health services in the UK (Broadbent, 1992, Broadbent et al., 1991, Laughlin, 1991; Nahapiet, 1988), in the USA (Arnold, 1991), in Australia (Chua, 1995) and in New Zealand (Van Peursem and Pratt, 1998). Accounting practices and approaches in educational facilities have also been researched (see, for example, Laughlin, 1991, Parker and Jary, 1995; Pollit, 1995). A debate has also arisen concerning the application of full accrual accounting, particularly the recognition, especially by not-for-profit public museums, of their cultural, heritage and community resources as assets in general purpose financial reports (Barton, 2000; Carnegie and Wolnizer, 1995a, 1995b, 1996, 1997, 1999, 2002; Griffin, 1995; Harris, 1995; Hone, 1997; Micallef and Peirson, 1997; Micallef, 1998; Newberry, 2001, 2002; Tyzack, 1998). This debate continues to occupy sections of the academic and general press.

A further group of studies has discussed and debated the appropriate bases on which particular public sector organisations and their management should be assessed and held accountable. Inherent in many studies of this genre is an awareness of the difficulties involved with adequately capturing the performance and accountability of diverse public sector organisations in a number of financial measures or even in a single measure such as periodic profit or loss (Corbett,
1992; Funnell and Cooper, 1998; Kent, 2000; Parker, 1993a, 1993b, 1996; Parker and Guthrie, 1993; Sinclair, 1995; Van Peursem, 1990a, 1990b, 1991). According to Parker (1996, p.12), many not-for-profit organisations in the public sector typically have artistic, cultural, welfare or sporting objectives. In such instances, some authors have argued that presenting and assessing accountability and performance for such organisations in general purpose financial reports does not reflect the fundamental reason for the existence of the organisations concerned (see, for example, Carman et al., 1999; Carnegie and Wolnizer, 1995a, 1995b, 1996). In several instances the authors involved have also advocated a range of detailed accountability and performance measures or techniques that are considered as suitable for specific public sector organisations (see, for example, Carnegie and Wolnizer, 1996; Falk and Neilson, 1993; Guthrie, 1993; Parker, 1996; Parker and Guthrie, 1993, pp.68–9; Rentschler and Potter, 1996; Walker et al., 1999, 2000b). The suggested systems typically assert broad notions of performance and accountability, and require the collection of qualitative and quantitative data to enable the accountability and the performance to be assessed against the mission statements and published objectives of the organisations concerned. The systems put forward do not advocate the wholesale preparation of general purpose financial reports for diverse public sector organisations and generally argue against the recognition of certain types of “assets” in general purpose financial reports such as infrastructure and heritage resources.

Other studies have embraced the formation and operation of regulatory institutions associated with public sector accounting such as the PSASB in Australia (see, for example, Chua and Sinclair, 1994; Kent, 2000; Shand, 1989;
Walker, 1989) and the GASB in USA (Chan, 1985). According to Chua and Sinclair (1994), the prevailing political, economic and social environment in the early 1980s presented the accounting profession in Australia with both opportunities and threats. These authors maintain that an important part of the profession's response was to develop the PSASB as a means of not only protecting existing standard-setting structures and processes from government intervention, but also as a means of establishing a role in the regulation of public sector accounting in Australia and transferring accrual accounting into that sector (Chua and Sinclair, 1994; Kent, 2000).

The final collection of studies reviewed in this chapter are those which focus on the political nature of public sector accounting regulation in light of the wide range of interest groups that are affected when accounting standards are developed and applied (Carnegie et al., 1999, pp.4-5; Godfrey et al., 1997, p.338; Kent, 2000, p.22; Walker and Robinson, 1994, p.119). Studies in this area have typically focussed on the influence of particular constituent groups in shaping detailed accounting standards developed in the APS (see, for example, Carnegie and West, 1997; Mignot and Dolley, 2000; Ryan et al., 1999). For example, Carnegie and West (1997) specifically examined the impact of constituent responses to the ED 50 Financial Reporting by Local Governments and the accounting standard subsequently developed, AAS 27, with the same title. Carnegie and West (1997) maintained that the results of their study raised questions about the responsiveness of accounting regulators to the views of constituents and suggest that any claim that the requirements of ED 50 and AAS
27 regarding the recognition of infrastructure items were “supported” can be contested, based on the official responses received on ED 50.

Lobbying activities in relation to other accounting standards developed more recently for the APS have also been examined. According to Ryan et al. (1999), despite the strong motivations to participate in the development of ED 55 Financial Reporting by Government Departments, the number of responses to the draft document from the preparers, that is, government departments, was generally low. Other groups such as Treasuries and Auditors-General were far better represented as respondents to ED 55. According to Ryan et al. (1999, p.194), the stated overall position of respondents to ED 55 were largely supportive of the substantive changes proposed in the exposure draft.

The examination of public sector accounting literature undertaken in this section reveals that, in a relatively short period, a body of published work has emerged that has considered many pertinent issues using a variety of research approaches. The insights provided in this work do not, however, embrace the process by which detailed standards are developed and applied. Two previous authors who have focussed attention on this area are Ryan (1995, 1998, 1999) and Kent (2000). Accordingly, this study seeks to build on the work of these authors.

In a series of studies, Ryan (1995, 1998, 1999) sought to explain various factors that have shaped accounting standards developed for the APS. Ryan’s primary focus was: (i) to explain why public sector professional accounting standards became an issue in Australia between 1976 and 1993; and (ii) to examine how
rules governing financial reporting by public sector agencies were formulated during this period (see, for example, Ryan 1995, p.10). There are two findings reported by Ryan that are particularly relevant to this study. First, according to Ryan (1995, 1998), once a climate for reform was created and political commitment for reform obtained, accounting standards were developed and promoted for the APS “not in Parliament or cabinet, but in policy communities; that is, within the institutionalised relationships between governments, state bureaucracies and organised interest groups” (Ryan, 1995, p.ii). Thus, Ryan identified a small and tightly knit group consisting of accounting professionals in central rule-making agencies, members of the PSASB, and AARF personnel (Ryan, 1995, p.16) as influential in shaping the reforms developed. According to Ryan (1998), not one actor or event has expressly determined the nature of the accounting reforms developed in the APS. Rather, according to Ryan (1998, p.534), a careful examination and interpretation of the actions of the actors involved, particularly within the confines of their organisations, and the local, time-specific economic, legal and political factors can explain much about the standards developed.

Second, underlying Ryan’s work is the notion that accounting regulation takes place through contested and complex processes, in which detailed standards are developed as a result of the cooperative efforts of several actors and institutions (Ryan, 1999, p.562, also, see Kent, 2000; Parker and Guthrie, 1990). In such an environment, the role of the organised accounting profession in regulating public sector accounting in Australia was, initially, by no means certain, even after the decision was made at governmental level to develop accounting standards for the
APS (JCPA, 1982). Thus, Ryan (1995, 1998) portrayed the efforts of the organised profession during this time as largely directed towards establishing itself and particularly its PSASB as the appropriate venue for developing these regulations.

The suggestion that accounting regulation is complex and contested is also present in the work of Kent (2000). In her study, Kent (2000) used the theoretical perspectives of regulatory space and the logic of appropriateness to examine the role of the organised profession in expanding the application of accrual accounting to the APS. According to Kent (2000, p.146), the accounting profession occupied an uneasy position in the regulation of public sector accounting due to the difficulty of enforcing compliance with its recommendations. As a consequence, according to Kent (2000) and consistent with Ryan (1995, 1998), the activities of the profession’s key regulators were directed at establishing the legitimacy of its activities in the eyes of other regulatory space participants with the capacity to develop legislation. According to Kent (2000, pp.147-8), an important part of the strategy of the accounting profession for establishing this legitimacy was to develop a series of concepts statements that would constitute its CF and to release three detailed accounting standards, as identified earlier.

This study seeks to build on the earlier work by Ryan and Kent in at least three main ways. First, it is not clear from the work of these authors how the CF has shaped the content of the detailed accounting standards developed for the APS, particularly in light of the array of studies that argue that such frameworks are of
only limited benefit as technical tools (see, for example, Chambers, 1995, 1996; Dopuch and Sunder, 1980; Gerboth, 1987; Miller, 1990; Pacter, 1983; Peasnell, 1982; Samuelson, 1996; Schuetze, 1993, 2001; Solomons, 1986). Kent (2000, p.151) did, however, recognise the need for research in this area to elucidate what she found to be the “supremacy” of the framework in shaping the regulatory agenda in Australia. Thus, by applying the unique combination of theoretical perspectives identified, this study, set in the specific case of not-for-profit public museums, offers an opportunity for an enhanced understanding of the political role of the framework in enabling specific accounting reforms to be advocated and implemented within the public sector. Second, the research undertaken by Ryan (1995, 1998, 1999) and Kent (2000) did not encompass consideration of the likely impacts of applying accrual-based accounting and reporting techniques on the organisations involved, although Ryan (1998, p.534) acknowledged the need for further research in this area. Finally, many unresolved questions remain in relation to the nature and extent of the role of the tightly knit group of technical experts from central rule-making agencies, the PSASB and AARF, that, according to Ryan (1995, p.16), was influential in developing and promoting detailed accounting standards in the APS. Accordingly, what brought these actors together and galvanised their commitment to the implementation of accrual accounting in the APS is an issue that is pursued throughout this study.
CONCEPTUAL FRAMEWORKS

It is only relatively recently, primarily in the past two to three decades, that CFs have been formally prepared and applied. The recent development of these frameworks, which has largely been confined to countries such as Australia, Canada, New Zealand, the UK and the USA, explains the relative paucity of research that is directed at exploring the roles of such frameworks in instances of accounting reform. Research that has been conducted to examine the roles of such frameworks has generally been conducted along functionalist grounds, advocating the preparation of theoretical frameworks for the "improvement" of accounting regulation and practice (Young, 1994). Studies undertaken from this perspective generally depict CFs as influential in shaping accounting reforms. However, these studies typically attribute CFs with functional or technical roles, asserting that such frameworks enable the resolution of accounting controversies and facilitate the "better" measurement of accountability and performance and a more efficient allocation of scarce economic resources (see, for example, McGregor, 1990a, 1990b, 1993a, 1993b, 1999; Pallot, 1997; Rowles, 1991, 1992, 1993a, 1993b, 2002a, 2002b).

More recently, however, a relatively small group of authors have argued that CFs should be understood, instead, as "functional failures" (Hines, 1989a, 1989b, Power 1994b). These authors criticise the frameworks on a number of grounds, including suggestions of "incompleteness", "internal inconsistency", "ambiguity", "circular reasoning", and "unsubstantiated assertions" (see, for example, Agrawal, 1987; Chambers, 1995; Dopuch and Sunder, 1980; Gerboth, 1987; Hines, 1989a, 1991a; Howicson, 1993; Miller and Redding, 1986; Pacter, 1983; Peasnell, 1982;
Samuelson, 1996; Scheutze, 1993, 2001; Soh, 1993; Solomons, 1986). Specifically, these authors offer a range of theoretical arguments to demonstrate the inability of CFs to provide clear guidance on the choice between alternative accounting policies or the resolution of accounting controversies.\footnote{11}

Despite being widely regarded as functional failures, CFs continue to be pursued in many countries. In addition, many definitions and concepts articulated in these frameworks are continually used as primary justification for a range of detailed accounting standards developed in recent years, particularly in countries such as Australia and USA (see, for example, McGregor, 1993a, 1993b, 1999; Micallef, 1998; Micallef and Peirson, 1997; Rowles, 1991, 1992, 1993a, 1993b; Young, 1996). Thus, the seemingly extensive influence of CFs, particularly in light of their problematic technical capabilities, has prompted researchers to consider the non-technical, political roles that might be attributed to these frameworks (Dopuch and Sunder, 1980; Hines, 1989a, 1991a; Miller, 1985). According to Hines (1989b, 1991a), for example, CFs can form an important part of a considered response by the organised accounting profession that is faced with threats to the profession's legitimacy when the knowledge base underpinning accounting rule-making processes and accounting practices is called into question. Hines (1989b, p. 85) maintained that in such instances, CFs can represent "strategic manoeuvres", by enabling the accounting profession to create the appearance that accounting practices and standards are developed from the theoretical concepts as outlined in the CF and are, accordingly, based on a coherent body of knowledge (see also Dopuch and Sunder, 1980, p. 19; Hines, 1991a, pp. 315-7; Hopwood, 1990d, p. 83).
In a broadly similar manner, Power (1994b, p.6) argued that CF projects can be understood as moves by the presiding profession to generate the support of a "critical mass of practitioners" for existing accounting standards and practices. According to Power, (1994b, p.6) as a consequence of the need to engender the broad acceptance of existing standards and practices, most CFs are constrained "by the need to appear rational while retaining the bulk of existing practice as it is". As a consequence, CFs have been criticised for leaving many substantive accounting issues untouched (Dopuch and Sunder, 1980; Hopwood, 1988, 1990d; Peasnell, 1982; Power, 1994b). Hopwood (1988, p.16), in writing about the US-based conceptual framework, articulated the strategic roles which CFs can serve:

The Conceptual Framework studies of the FASB have many of the characteristics of ... strategically oriented research. They are cast in general, even ambiguous, terms. The aspirations of the project are as yet more important than its specific technical enabling properties. Emphasis has been placed on scholarly respectability and the studies have been put into the public domain at an unusually early stage of their development.

When viewed in this way, CFs can be implicated in enhancing the accounting profession's ability to maintain existing standard setting-structures and financial reporting regimes as well as the power to self-regulate (Booth and Cocks, 1990; Power, 1994b). Such frameworks can also be seen to mobilise existing accounting practices in new areas by advocating and re-enforcing the potential benefits associated with the preparation of financial reports (Hopwood, 1990d, p.86; Power, 1994b, p.21). Studies from this perspective which specifically focus on how this can occur in specific contexts can enable global explanations of particular episodes of accounting reforms to be cast. Such studies can thus augment an understanding of the rationales associated with accounting as well as the process by which the accounting domain is constituted and re-constituted in
specific instances. Studies adopting such perspectives that examine particular instances of accounting regulatory reform are, however, in short supply. Accordingly, this study seeks to build on aspects of this literature.

CONCLUSION

The chapter has reviewed a body of literature that informs this study and upon which the study seeks to augment. The first section reviewed the literature depicting accounting as a social and institutional practice rather than a mere technical practice which, in turn, emphasised the three distinct aspects of this broader perspective of accounting, namely, accounting as a technique, the rationales of accounting and the domain of accounting. This literature was examined to inform the present study and provides the broad parameters from within which this study is undertaken.

Viewing accounting as a social and institutional practice, and applying the unique combination of theoretical perspectives adopted, namely, institutional thinking, problematisation and epistemic communities, this study offers the opportunity to explain aspects of the recent financial reporting reforms introduced for application within the APS. The study, located in the unique organisational setting of not-for-profit public museums, explores the actual application of commercial accounting practices to these organisations, as well as the associated consequences of applying those practices, both for the organisations involved, and for society as a whole. The study is not bound by the highly generalised images of the asserted benefits that are typically associated with such changes and which dominates the literature on this subject that is concerned with advocacy. Accordingly, the study
seeks to assist an enhanced understanding of the role of the CF as a political tool, thereby building on aspects of the existing literature.

The second substantive section of this chapter contained an examination of the specific aspects of the literature on which this study seeks to build. This involved a discussion of the literature relating to public sector accounting as well as a collection of studies that consider the roles of CFs in instances of accounting innovation. This examination also revealed that, with the exception of the recent work of Kent (2000) and Ryan (1995, 1998, 1999), few studies have focussed on the process by which detailed reforms have been developed for the public sector. The examination of the literature discussing the roles of CFs revealed that such frameworks may fulfill both technical and non-technical, political roles in specific instances. Studies that embrace such roles to examine the development, promotion and defence of detailed standards in specific instances are however, relatively rare. The present study seeks to augment aspects of the existing literature on public sector accounting and on conceptual frameworks, as well as the specific insights provided by Kent (2000) and Ryan (1995, 1998, 1999), by examining a specific instance of major accounting change from the perspective which depicts accounting as a social and institutional practice.

The next chapter identifies the methodology through which these themes will be addressed, and the theoretical perspectives relevant to the study are also explained.
NOTES

1. According to Hines (1991a), social reality is reflectively constituted by accounts of reality and when decisions and actions of social agents are based on these accounts, the result is to construct, maintain, reproduce, and thus validate, that reality (see also Hines, 1988, 1989a, 1994b).

2. Power (1994a) discusses this point further in the context of financial statement audit. According to Power (1994a, p.304), such a conclusion is warranted since “considerable symbolic and financial capital is invested in the activity of audit without a corresponding publicity of process and results” (see also McSwweeney, 1997).

3. The terms calculable selves and calculable spaces are used to refer to the quantification of activities, processes and events and the associated implications for creating ways in which individuals and organisations may be transformed and managed. For further discussion of the nature and implications of calculable selves and calculable spaces, refer to Miller, 1992, pp.69-78; Miller and Rose, 1990, pp.5-7.

4. The ways in which various forms of accounting can influence the actions of others has been considered in relation to the notion of “action at a distance”, articulated in the writings of Callon and Latour (Callon, 1986; Callon and Latour, 1981; Latour, 1986, 1987) and recently applied by several others (see, for example, Miller, 1994; Miller and Rose, 1990; Rose and Miller, 1992). According to these authors, action at a distance becomes possible when people, processes and events are rendered visible and linked to “centers of calculation” through a range of possible calculative technologies. With this particular type of information at hand, people, processes and events can be governed, even when located in far-off places.

5. As indicated in chapter one, the theoretical perspective of institutional thinking is central to the framework utilised in this study while the research undertaken by Young (1996) provides both the motivation and opportunity for this study to be mounted. As such, the theoretical perspective of institutional thinking is discussed in further detail in chapter three.


7. According to Miller (1991, p.738), for problematisation to occur, translation is needed whereby particular accounting problems and practices are re-stated or re-interpreted in specific ways to engender the support for the notion that the asserted problem exists and can be rectified by the accounting solution advanced. According to Miller (1991), translation can occur when particular accounting practices become tied to broader, widely desirable goals such as enhanced accountability and a more efficient resource allocation. Where this occurs, particularly across an array of diverse forums, the proposed innovation becomes more difficult to argue against.

8. Miller (1994b, p.605) used the term “margins” to refer to “that part of the terrain or surface of accounting that is immediately within its boundaries”.

9. Research conferences which frequently feature papers on public sector accounting research include Asian Pacific Interdisciplinary Research in Accounting, Interdisciplinary Perspectives in Accounting, Critical Perspectives on Accounting and the annual conferences of the American Accounting Association, the British Accounting Association and the Accounting and Finance Association of Australia and New Zealand.

10. These techniques include the development of commercially-based, market-oriented management systems and structures, the promotion of accrual-based financial reporting systems in government, and reliance on professional accounting standards (Humphrey and Guthrie, 1996, pp.284-5; Guthrie, 1998; Olson et al., 1998, p.18).

11. An example of the technical deficiency of the Australian framework in the context of the APS is provided in the work of Carnegie and Wolnizer (1995a). Notwithstanding that the asset definition contained in SAC 4 had been used continually to promote and justify the implementation of accrual accounting in the APS and the recognition, in particular, of cultural, heritage and community resources as assets for financial reporting purposes, Carnegie and Wolnizer (1995a) demonstrate that the definition does not provide clear, unequivocal guidance as to what should be considered to be an asset in specific circumstances. Rather, according to Carnegie and Wolnizer (1995a), the definition is sufficiently broad and vague enough to command the non-recognition of such items as assets. The issues raised by Carnegie and Wolnizer in their 1995 study and other subsequent studies are considered in detail throughout this study.
CHAPTER 3 THEORY AND METHODOLOGY

INTRODUCTION

Chapter one provided an introduction to the study, identifying the basic area of investigation, the major research objective and the specific research questions, as well as the general approach adopted in addressing the research questions and also outlined the study's limitations. Chapter two examined the literature relevant to this investigation and on which this study seeks to build. The purpose of this chapter is to outline the theory and methodology adopted for the study.

The chapter is divided into three main sections. The first section explains the research design. This section features a discussion of interpretive and critical case-study research as the genre of investigation to which this study belongs, and includes a consideration of the methods of collecting and analysing data within this research approach. The theoretical perspectives applied in this study, while introduced in chapter one and discussed in chapter two, are elaborated upon in this section. The second section of the chapter deals with the limitations of the research approach. These limitations primarily involve the explanatory potential of the research, the hurdles for determining "facts" and for maintaining "objectivity" in interpretive and critical studies as well as the potential for the wider generalisation of the findings of case-based research. The third and final section contains concluding comments.
The research objective, as identified for the study in chapter one, leads to the adoption of an interpretive and critical, historical case-study as the primary method of inquiry. This research method is further explained in the next section.

RESEARCH METHOD

To address the research objective outlined in chapter one, an historical approach is adopted in this study. This approach enables, *inter alia*, the documentation and explanation of contexts, causes and consequences of events, decisions and relations that, in turn, can inform an understanding of different aspects of the specific instance of accounting reform examined (Bedian, 1998; Carson and Carson, 1998, pp.39-40; Fleischman *et al.*, 1996; Parker, 1997, p.112, 1999, p.17; Previts *et al.*, 1990a, p.3, 1990b). The utility of an historical research approach has been established and discussed at a general level by several authors (see recent examples such as Bedian, 1998; Carnegie and Napier, 1996; Carson and Carson, 1998; Fleischman *et al.*, 1996; Miller and Napier, 1993; Mills, 1993; Oldroyd, 1999; Parker, 1997, 1999; Previts *et al.*, 1990a, 1990b). While the general arguments establishing and justifying the efficacy of the historical research approach need not be reiterated in this study, the remainder of this section encompasses a discussion of the appropriateness of this approach for the specific research questions identified.

Historical researchers often tend to consider their work as belonging to either "narrative" or "interpretive and critical" categories. Conventionally, the narrative has been "the preferred means of historical discourse for historians since the time of the ancients" (Funnell, 1998, p.145, see also Funnell, 1996, p.57). Narrative
research has traditionally been depicted as seeking to identify and describe specific events or episodes in a factual, non-analytical manner, thereby offering a representation of history which most closely reflects "enacted experience" (Funnell, 1998, p.146, see also Previts et al., 1990a, p.2). In many instances, narrative research can also gain considerable strength from the manner in which the "facts" are arranged and communicated throughout the "story" being told (Carnegie and Napier, 1996, p.14; Carson and Carson, 1998, p.31; Funnell, 1998, p.147; Parker, 1997, p.139)\(^1\). Interpretive and critical research, on the other hand, is argued to go beyond the narrative style which has a descriptive focus and seeks to specifically explain and evaluate the historical events under consideration, while at the same time preserving standards of thoroughness and detail (Parker, 1997, p.122; Previts et al., 1990a, p.2). In doing so, interpretive and critical research typically draws upon a range of sociological, political or theoretical perspectives to explicitly inform the investigations undertaken (Carnegie and Napier, 1996, p.17; Miller et al., 1991, p.400). This study seeks to extend beyond "the descriptive" to an identification of key explanatory variables that have shaped recent accounting standards developed, promoted and defended for public sector organisations in specific settings. In doing so, this study adopts theoretical perspectives drawn from a substantial body of literature and, accordingly, this study can be recognised as "interpretive and critical".

The nature of the research questions addressed in this study gives rise to the selection of an interpretive and critical, historical "case-study" as the primary approach for collecting and analysing the data. Case-based research offers a high degree of relevance for presenting, explaining and understanding complex
historical situations as they actually occurred (Previts et al., 1990b, p.149). Such an approach can facilitate a qualitative, holistic analysis, by allowing the researcher to look at problems as a “whole” and to take into account a multiplicity of variables from which the significance of specific factors, events or processes only become apparent in light of the wider situation (Previts et al., 1990b, p.149). Such a method is adopted in order to enable a balanced interpretation of various aspects of the period under consideration, gaining insight into all relevant aspects, by initially not excluding too many variables (Hagg and Hedlund, 1979, p.139).

The adoption of an interpretive and critical, historical case-study offers three specific advantages for this study. First, such an approach enables the development, promotion and defence of accounting standards relating to the APS to be examined and understood within the context in which these processes and events occurred. The failure to do so may mean that these events become abstracted from their historical context and are evaluated without an appreciation of the influential variables prevailing during the period in which they occurred. In such instances, the analysis and interpretation of the data collected loses much of its relevance since the research may not reflect the notion that ideas and attitudes change, and what might have been an ethical, moral or otherwise reasonable standard or approach at one time may not be so at another time (Bedian, 1998, p.6; Mills, 1993, p.801; Parker, 1999). Instead, by approaching the major research objective in the manner outlined, it is argued that the analysis is enhanced by the exposure to methodological and theoretical frameworks which can facilitate greater rigour in examining and interpreting the data collected (Carnegie and

Second, the interpretive and critical case-based approach used in this study enables the investigation to be conducted in a manner that is not constrained by the assumption that history is necessarily a story of direct evolutionary progress from the "primitive" past to the "more sophisticated" present (Bedian, 1998; Carson and Carson, 1998, p.33; Carnegie and Napier, 1996; Parker, 1999). In the present study, such an assumption would almost certainly lead to the unquestioning acceptance of conventional arguments put by vested interests that have been frequently advanced to support the implementation of accrual accounting to the APS. Such arguments, primarily advanced by key regulatory agencies and their representatives, justify the accounting standards developed based on assertions made about enhancements to be derived in the accountability and performance of the organisations involved, as well as "usefulness for decision making" by financial statement users (AARF, 1991, 1993, 1995b; ASCPA, 1987, 1991a, 1991b, 1993, 1996; Barrett, 1993a, 1993b, 1994a, 1994b; DoF, 1995a, 1995b; JCPA, 1995a, 1995b, 1995c; McGregor, 1990a, 1990b, 1993a, 1993b, 1999; McPhee, 1992, 1994a, 1994b; NSWPAC, 1988, 1994, 1996a, 1996b; Rowles, 1992, 1993a, 1993b; WPAA, 1992). In such instances, the actual application and consequences of the reforms may not be considered, let alone evaluated, and the nature and extent of the influence of the CF would remain beyond question.
Finally, the research approach is consistent with the call made by Carnegie and Napier (1996) who discussed the adoption of historical research approaches for examining different aspects of accounting regulation. Specifically, Carnegie and Napier (1996) identified interpretive and critical, historical research studies as appropriate for probing the roles of conceptual frameworks in enabling commercial accounting to be promoted as superior to traditional cash-based systems (Carnegie and Napier, 1996, p.25). By doing so, they advocated that such research could elucidate the various roles and contemporary significance of these frameworks in facilitating the extension of full accrual accounting to specific public sector organisations such as the repositories of "cultural, heritage, scientific and library collections and national archives" (Carnegie and Napier, 1996, p.27; Previts et al., 1990a, p.6). By adopting the research approach outlined, this study challenges the notion that detailed accounting standards developed and applied within specific public sector organisational contexts can necessarily be justified by assertions of purported enhancements in the accountability and performance of organisations involved and the provision of "better" information for the financial decisions of interested users.

The choice of data sources is determined by the research questions and the theory and methodology applied in addressing those questions, as well as the availability of primary source records and other historical evidence such as oral history. The data utilised in this study comprises exposure drafts of proposed accounting standards and accounting concepts, official reports, discussion papers and other memoranda issued by professional accounting bodies and accounting regulators and other advocates of accounting reform in the public sector. In selecting data,
concern was held for studying the breadth of official-type material pertaining to
both the development of the institution of the CF and the development, promotion
and the defence of the detailed accounting pronouncements for application within
the APS. All of the data sources utilised in this study were prepared with the
intention of being publicly available. Hence, the selection of these readily
available sources is appropriate for elucidating how a relatively small group of
technical experts located within the organised accounting profession and within
key regulatory agencies were able to gain widespread acceptance for the three
detailed accounting standards developed. The data sources were analysed both
within the prevailing, time-specific context and in light of the tenets of the
theoretical perspectives adopted.

To enable interpretive and critical case-based research to be undertaken, a variety
of theoretical perspectives may be adopted (Carnegie and Napier, 1996, p.14).
The specific theoretical perspectives adopted in this study are discussed in the
next section.

THEORETICAL PERSPECTIVES ADOPTED

The main theoretical perspective adopted in this study is that of institutional
thinking which is explained in this section. This is followed by discussion of two
supplementary perspectives applied to inform the investigation: problematisation
and epistemic communities. As will be explained, these additional perspectives
extend the application of institutional thinking and also influence the collection
and interpretation of the data collected for the study.
Institutional Thinking

In her influential work entitled *How Institutions Think*, Mary Douglas (1986) examined the impact of what is identified as “the collective” on the members of small groups. The general thesis put forward by Douglas is that thinking is an inescapably social activity (see also Young, 1996, p.489), whereby an individual’s most elementary cognitive process depends on an association with, or membership of, social institutions (Douglas, 1986, p.45). According to Douglas, individuals do not make important decisions in isolation, but rather draw on shared classifications and moral standards when making decisions within particular communities. Based on these classifications and standards, societies and cultures develop legitimised social groupings, such as families, or legitimised social processes, such as games and ceremonies (see also Young, 1996, p.488). Throughout, Douglas refers to these legitimised groups or processes as “institutions”.

According to Douglas (1986), an institution is denoted not by its formal structure or practical arrangement, but by its enabling role in shaping the cognitive processes of the individuals associated with, or belonging to, that institution. Douglas argues that, in this way, the label of “institution” may be applied broadly to any level of group organisation and would necessarily exclude only group arrangements that are undertaken for purely instrumental or practical reasons, which have little or no impact on shaping the cognitive processes of individuals associated with them (Douglas, 1986, pp.46, 53). According to Douglas, in order to survive, every type of institution must be founded in nature and reason and when challenged, established institutions are able to rest their claims to legitimacy.
on their apparent fit with fundamental and widely accepted "natural" laws or truths (p.46). For example, Douglas (1986, p.47) argues that a convention or concept has become institutionalised:

... when, in reply to the question 'Why do you do it like this?', although the first answer may be framed in terms of mutual convenience, in response to further questioning the final answer refers to the way in which the planets are fixed in the sky or the way that plants or humans or animals naturally behave.

Institutions encode information and, in doing so, provide individuals with convenient, plausible and ready-made frames for organising individual thought processes. Through the frequent use of terms and phrases, institutions bestow an element of sameness on otherwise disparate processes and events, enabling individuals to recognise and classify issues that arise, placing such issues within established institutional classifications. In this way, institutions can operate by conditioning individual thinking and decision making, with the effect of enhancing an individual's capacity for handling information, turning individual thought to "auto pilot" (p.63). According to Douglas, once individuals are able to classify phenomena according to known and visible institutions, they save themselves the trouble of justifying the classification (p.94). The result is a reduction in time and energy spent on difficult decisions as the founding analogies of the relevant institution take over.

In elucidating the power of institutions on individual thought processes, Douglas also provides a message of caution, identifying a restrictive or limiting potential:

Institutions systematically direct individual memory and channel perception into forms compatible with the relations they authorize. They fix processes that are essentially dynamic, they hide their influence, and they rouse our emotions to a standardized pitch on standardized issues. Add to all this that they endow themselves with rightness and send their mutual corroboration cascading through all
levels of our information system. No wonder they easily recruit us into joining their narcissistic self-contemplation. Any problems we try to think about are automatically transformed into their own problems. The solutions they proffer only come from the limited range of their experience (Douglas, 1986, p.92, emphasis added; see also Young, 1996, p.488).

Any institution then starts to control the memory of its members; it causes them to forget experiences incompatible with its righteous image, and it brings to their minds events which sustain the view of nature that is complementary to itself. It provides the categories of their thought, sets the terms for self-knowledge and fixes identities (Douglas, 1986, p.112, emphasis added).

Thus, institutions create shadowed places in which little or nothing can be seen and few, if any, questions posed, thus restricting or limiting the capacity for independent, critical and analytical thought that is necessary in order for individuals to challenge the prevailing or conventional wisdom. While institutions might enable associated individuals to save time and energy in making difficult decisions, they also standardise or limit the ways in which those individuals conceptualise particular problems or issues, allowing or directing particular problems or issues to a certain category or class. Such problems and issues can then only be addressed through a limited number of standard and familiar "institutional" means. For example, individuals can draw upon institutions to classify certain problems or issues as "financial" in nature. Using institutions in this way, individuals associated with, or connected to, those institutions may experience difficulty in seeing past the "financial" classification provided for them. In such instances the creativity of those individuals in developing new and novel, perhaps even "non-financial", classifications for addressing a problem or issue diminishes, and their ability to develop non-standard and/or non-financial solutions becomes stifled or limited. Such conditions may, in turn, inhibit the ability of individuals to evaluate the application and consequences of this classification and prevent them from acknowledging the merits of alternative
classifications offered by others using different institutional frameworks for thinking, particularly where those alternative classifications are inconsistent with the classifications provided by their institutions.

Throughout this study, the CF developed to date in Australia is depicted as an institution. The Australian CF sets out the objective of financial reporting for public and private sector entities and defines “elements” to be included in general purpose financial reports. In doing so, the CF effectively limits both the types of issues which can be conceived as “accounting” issues and confines the types of “appropriate” accounting solutions to those involving accrual accounting disclosures (see also Young, 1996, p.490). According to SAC 2 Objective of General Purpose Financial Reporting, the periodic preparation of general purpose financial reports is intended to provide information that is useful to a wide range of interested users for decision making about the allocation of scarce resources. According to SAC 2, “useful” information is that which pertains to the accountability and performance of the entity concerned and which, in turn, is captured within traditional accounting tasks such as the identification, recognition, measurement and disclosure of assets, liabilities, equities, revenues and expenses. Under SAC 2, unless items constituting financial statement elements are recognised, the performance and accountability of the organisations involved would not be adequately captured and reported while the asserted benefits of enhanced resource allocation decisions would not eventuate (see also Rowles, 1992, p.49).
By requiring the preparation of general purpose financial reports containing the disclosure of financial statement elements, the CF prescribes the means by which the accountability and performance of entities, whether commercial in nature or not, is made visible in financial terms. Applying SAC 2, the accountability and performance of specific entities, such as not-for-profit public museums, would be captured and reported in accrual-based general purpose financial statements that are typically associated with profit-seeking entities in the commercial domain. Applying the CF, such reports would include, inter alia, the monetary valuation of cultural, heritage and scientific collections and their disclosure as assets in statements of financial position. In such instances, the CF offers an automatic starting point for the presentation and assessment of the accountability and performance of these organisations as well as a basis for developing detailed accounting rules that apply accrual accounting within specific organisational settings. In doing so, the CF acquires a legitimacy that extends well beyond its formal structure or practical arrangement, even though the primary objectives of the organisations involved, and many of the items disclosed in the reports are, by nature, non-financial within specific organisational contexts. This resulting and newly created financial visibility has far-reaching consequences, some of which were seemingly not contemplated nor ever imagined by accounting regulators.

ADDITIONAL THEORETICAL PERSPECTIVES

It is contended that Douglas (1986) provides a compelling basis for understanding how accountability and performance “problems” for public sector organisations have been constructed in a way that enables their resolution through the application of conventional accounting concepts and practices. At the same time,
however, there is comparatively little discussion of *how* specific institutions, such as CFs, are initially constituted, how they gain support and continue to exert their influence on individual thought, or how they operate to reform accounting practice in specific settings. Insights in these respects are available in the existing literature which focusses on *problematisation* and *epistemic communities*.

**Problematisation**

Chapter four explains that while accounting pronouncements developed by the organised accounting profession are not directly binding on government entities, including departments and agencies, the pronouncements have become, and continue to be, influential in shaping the content of DoF guidelines\(^6\). Understanding how this pervasive influence has been maintained necessitates an appreciation of the manner in which accounting reforms are developed, and become embedded within the APS. In this study, public sector accounting reforms are depicted as a complex activity, influenced by many factors that are not restricted to administrative and political structures or material distributions of power.

Throughout the study, public sector accounting reform is depicted as a "problematising" activity which is shaped by a series of *ad hoc* and historically significant factors (Rose and Miller, 1992, p.174). According to Rose and Miller (1992, p.177), from this perspective, accounting change can frequently occur through a process of *problematisation*, whereby the application of contemporary practices is reviewed and found to be deficient in some way, leading to the identification of an accounting "problem" for resolution. New accounting
practices or approaches are put forward or, alternatively, existing accounting techniques are applied in "new" contexts. Such new applications of accounting, supported by generalised images of the asserted benefits linked to their application, are claimed by advocates of the reforms to not only remedy the existing defects, but to offer enhancements or improvements not otherwise available through alternative approaches. According to Rose and Miller (1992), while not all such instances result in accounting change, particular accounting changes may emerge for adoption, either generally or specifically.

As discussed in chapter two, the existing literature on problematisation offers the opportunity in this study to assist in enhancing an understanding of how accrual accounting has come to be embedded in the APS in specific organisational settings. Such a perspective also assists in explaining how accrual accounting has come to be widely promoted as technically superior to cash-based accounting systems or modified accrual accounting systems that have traditionally operated within many public sector organisations, as well as how the CF has enabled this to occur.

Epistemic Communities

The literature on epistemic communities can elucidate how and by whom the problematisation of existing practices can occur in specific instances as well as explain how the influence of institutions such as the CF might not be restricted to particular vocational jurisdictions or contained within national boundaries (Adler and Haas, 1992; Haas, 1992). Accordingly, this study adopts the perspective available in the literature on epistemic communities. This literature attributes to
such groups the ability to influence individuals in authority and thereby the potential to shape significantly the development and diffusion of public policy. Such cross-national communities, while typically small in size, can shape the ideas, perceptions and beliefs of those in positions of power and, therefore, have an impact on the identification of specific “problems” or “issues” that are deemed to require attention. As explained in chapter two, *epistemic communities* can also drive the development and diffusion of public policy directed at addressing the problems or issues identified.

It is contended that the literature on *epistemic communities*, although relatively under-developed in relation to accounting (Laughlin and Pallot, 1998), assists in enhancing an understanding of the aggressive way in which reforms to public sector accounting in Australia came to be developed, promoted and defended. Such a perspective provides a basis for understanding the role of the small but influential group of technical experts in accounting during the reform period. These experts, located in various influential positions in accounting and related fields, enthusiastically applied the institutional content of the CF, effectively constructing the accountability and performance of public sector organisations in financial terms through the preparation of general purpose financial reports.

The utilisation of the insights provided by the existing literature on *epistemic communities* can elucidate how the influence of the CF seems to have extended far beyond the limits of its formal structure or authority, with implications for individuals comprising different vocational groups, both in and beyond accounting, and also within society in general. Such a perspective can also assist
in augmenting explanations of how a climate of acceptance was rapidly created in relation to the need for reform and the specific contents of the accounting standards developed. The result is that accounting standards have been developed which were widely perceived as inevitable (Barrett, 1993a, p.1; JCPA, 1995a, 1995b, 1995c; McPhee, 1994b; OECD, 1993), even though several problems associated with the standards remained unresolved, while the reforms themselves are devoid of strong support based on available research evidence in Australia (Walker et al., 2000a, 2000b). Rather, during the period such reforms were being developed and initially applied, little rigorous research, whether empirical or otherwise, was available for examination. When potential hurdles arose, whether expected or not, that put the successful implementation of this solution in some doubt, the broad and abstract concepts of financial reporting, as outlined in the CF, were continually re-interpreted and re-applied, the momentum and direction of the reforms was able to be maintained.

The explanation of the specific theoretical perspectives applied in this study is now complete. The next section addresses the limitations associated with the research approach adopted in this study.

**LIMITATIONS**

The research approach identified above is argued to be appropriate for this study on several grounds, although there are three primary limitations associated with the research approach adopted. The limitations that are discussed below relate to the explanatory potential of interpretive and critical, historical case-based
research, the "facts" or "objectivity" in such studies and the generalisability of the findings of case-based research. This section addresses these limitations.

In conducting interpretative and critical case-studies, the researcher exploring the past generally seeks to move from a concept of what happened, to an understanding of how it happened. As for all historical research, facts are necessarily selected and organised through a judgemental process, constrained by time, the availability of evidence, as well as the researcher's theoretical orientation and perception of the role and influence of key explanatory contextual variables (Parker, 1997). The methods of generating data from an interpretive and critical case-study, the treatment of data extracted and the procedures for analysing the data are less well-specified than for several other research approaches such as survey research (Hagg and Hedlund, 1979, p.141). To compensate, the research is required to be carefully planned and conducted.

As a consequence of the broader approach typical of most interpretive and critical case-based research, there may not be a single or unequivocal cause of an event or process, but the researcher may have to deal with a multiplicity of causes (Carr, 1970, p.89). In such instances, the analysis of the data collected is influenced by a range of factors, including the theoretical and methodological assumptions made and approaches adopted. Accordingly, the explanation of the historical subject rests largely not only on possibility or probability, but also on adjudged plausibility. As a consequence, the possibility arises that several different histories might be constructed from the same events (Carnegie and Napier, 1996, p.30; Fleischman et al., 1996; Parker, 1997, 1999, pp.28-30; Previts et al., 1990a, pp.8-
While research conducted on the same archival material may indeed yield alternative, and even conflicting interpretations of the same events, such diversity should be celebrated rather than feared or criticised (Fleischman et al., 1996; Miller et al., 1991; Oldroyd, 1999; Parker, 1997). While not all perspectives and approaches are equally robust (Fleischman and Tyson, 1997, p.101; Oldroyd, 1999, p.98), revisiting historical events from differing perspectives can, according to Parker (1997, p.130), provide:

... the opportunity to accumulate incremental knowledge concerning different dimensions of particular historical events, situations and periods. Some may be additive and complementary and others may conflict and thereby challenge previously held views that may previously have been uncritically accepted.

While such diversity can lead to the development of a rich historical literature, implications arise for the approach to be adopted by researchers. While researchers need not be constrained by “slavish subservience to a set of methodological principles” (Parker, 1997, p.130), robust interpretive and critical, historical studies should be undertaken with due regard for fundamental considerations of historical research and explanation (Previts et al., 1990a, p.150). These considerations primarily involve the researcher remaining aware of fundamental approaches to matters such as:

... researcher beliefs and attitudes, the question of objectivity, the conceptual nature of historical events, facts and ideas, the attribution of causation, the process of interpretation and explanation and the discovery role of historical writing (Parker, 1997, p.130).

In such instances, the researcher typically adopts a “satisficing” approach, which is summarised by Mills (1993, p.802) in the following way:

... choose an interesting research issue; use evidence that is varied, accessible and reliable; draw on a variety of views and techniques ... to interpret that evidence;
seek out other explanations and examples that would confound our overall argument; and finally, to convey our findings in as clear a manner as possible, eschewing jargon and esoteric language ... anything else is a betrayal of the historian's real mission.

The second acknowledged limitation of the approach adopted in this study concerns the search for historical "facts" or "objectivity" in interpretive and critical, historical research. The limitation arises since studies of the past are invariably infused with the interpretation of a range of evidential material by individuals with different backgrounds, experiences and perspectives. If "objectivity" is defined in narrow terms to represent the reflection of "fact" or external reality, then the search for "objectivity" in interpretive and critical, historical case-studies may remain an elusive challenge. If, on the other hand, it is recognised that the concept of objectivity itself is subject to multiple interpretations, then the quest for objectivity may not be the difficult challenge for the interpretive and critical historian that might have been previously assumed (Parker, 1999). Rather, historical objectivity may be asserted to be enhanced when the necessarily subjective interpretations of a number of historians about particular historical subjects are tending to be in general accord (Parker, 1997, p.134). In such instances, objectivity for the historian acquires a different meaning to that of the scientist or positivist. Consistent with this view, Miller et al. (1991, pp.396-7) summarised the major characteristics of objectivity in historical studies as follows:

... these include a commitment to the reality of the past, and to historical truth as correspondence to that reality; a sharp separation between the knower and the known, as well as between facts and values, history and fiction; a notion that historical facts are prior to and independent of interpretations and a view that historical truth is unitary rather than perspectival.
A further limitation of this study involves a concern for the generalisability of the results of individual case-studies to a wider population. While it is recognised that generalisation may be more possible on the basis of several cases or observations, rather than one case or observation, the findings of case-based research in unique organisational and social contexts constitute valuable evidence in their own right and, accordingly, this study seeks to provide such benefits. Specifically, probing the reforms undertaken in Australia offers opportunity to explore accounting within its organisational and social contexts and to elucidate the broader impacts of the reforms on the managerial philosophies and practices applied in the organisations involved (Guthrie, 1998). The complex pressures impacting upon the reform processes can be exposed and the non-technical, political roles of the CF can be identified and evaluated. The reforms may be examined to assess their actual impacts, both intended and unintended, on organisational and social affairs, rather than merely addressing their conventionally asserted potential, for assisting the decision making of financial statement users and for enhancing accountability. The result is to provide a perspective to assist policy makers in understanding the organisational and social implications of policy decisions.

Inevitably, however, among the primary reasons for undertaking case-based research is the accumulation of knowledge that may be applied in other situations. This case-study of public sector accounting reform in Australia is no exception. The wider application of the findings of this study is argued to be possible since the study examines the research problem identified within a framework constructed from a well-formulated body of literature.
CONCLUSION

This chapter has explained the research methodology applied in this study. In the first section, the research approach was identified and discussed. The research approach was identified to be an interpretive and critical, historical case-study, which presents three specific advantages for the present study. Specifically, this approach was argued to enable the development, promotion and the defence of accounting standards relating to the APS to be examined within the context in which these processes and events occurred. Second, adopting such an approach in this study enables the investigation to be undertaken in a manner that is not constrained by the assumption that history is necessarily a story of evolutionary progress or on-going improvement. Instead, the actual application and consequences associated with the reforms can be considered. Accordingly, the study is not constrained by accepting the reforms, without question or debate, based on their asserted benefits for enhancing the accountability and the performance of the organisations involved and informing the financial decisions made by financial statement users. Finally, it has been argued in this chapter that the approach adopted in the study is appropriate for probing the roles of the CF in enabling accrual accounting reforms to be advocated as superior to traditional cash-based systems in the public sector. Thus, adopting this approach in addressing the primary research objective, the study is consistent with the call made by Carnegie and Napier (1996, pp.26-7) who advocated interpretive and critical, historical approaches to examining the significance of CFs in facilitating the application of accrual accounting in not-for-profit public museums and other heritage organisations.
The research approach is informed by the major theoretical perspective of institutional thinking and this perspective was elaborated upon in this chapter. The supplementary theoretical perspectives adopted in this study, namely problematisation and epistemic communities, were also explained. Collectively, these theoretical perspectives provide the basis for interpreting the study's findings. In the section preceding the conclusion, the limitations associated with interpretive and critical, historical case-based research were identified and discussed. These limitations concerned the explanatory potential of the research, the difficulties of determining facts and of maintaining objectivity throughout the investigation, and the potential for the wider generalisation of the study's findings. The potential impact of the acknowledged limitations on the present study were also identified.

The next chapter examines the construction of the institution, the CF, from which financial notions of accountability and performance for Australian public sector organisations were derived. The chapter examines the development of the four formal statements of accounting concepts that comprised the CF at the time of writing, along with their forerunner documents, within the prevailing economic, social and political contexts. These documents, taken together, underpinned the subsequent promulgation of public sector accounting standards mandating the application of accrual accounting practices within the APS.
NOTES

1. For further discussion of narrative research and the potential for narrative studies in both "traditional" and "new" accounting history, refer to Punnell, 1996, 1998.

2. In recent years researchers have studied institutions and the institutionalisation process in the organisational context (for example, see Bealing et al., 1996; Carruthers, 1995; DiMaggio and Powell, 1983; Hunt and Hogler, 1993). Within this literature, several authors advance different definitions of institutions and adopt various perspectives on the institutionalisation process. While the perspective on institutions offered by Douglas is broadly consistent with elements of this literature, as noted by Young (1996), Douglas (1986) does not explicitly draw upon the work of these authors in defining institutions or exploring their impact.

3. As alluded to earlier and discussed further in chapter four, the content of the component statements comprising the CF are not directly binding on the reporting practices of government departments or agencies, nor were they mandatory within the accounting profession when detailed accounting standards were developed for the APS. Despite this, financial reporting concepts outlined in the CF continue to pervade government accounting and reporting guidelines and accounting standards developed by the accounting profession. This apparent influence of the CF extending well beyond the limits of its formal authority is typical of the institutional definition offered by Douglas. According to Douglas, an institution is denoted not by its formal authority, structure or practical arrangement, but by its role in shaping the thinking of individuals belonging or connected to that institution. Chapters 5 to 7 demonstrate that despite a lack of formal authority, the influence of the CF lay primarily in its asserted ability to facilitate the presentation and the enhancement of the performance and accountability of the organisations concerned.

4. Evidence in respect of these issues is presented and discussed in chapters five and seven.

5. Chapters 5 to 7 indicate that at no stage during the development of accounting standards for not-for-profit public museums was it evident that specific alternative, non-financial notions of performance and accountability were under consideration for adoption. Similarly, the likely consequences of the "new visibility" for the organisations concerned, or for society as a whole, were not specifically identified or evaluated by accounting regulators.

6. For example, concepts of financial reporting outlined in the CF were incorporated into DoF guidelines in 1991-1992, even though one CF component, SAC 4, was still in draft form. Further, notwithstanding the fact that the mandatory status of the CF was withdrawn in 1993, concepts of financial reporting outlined in the CF continue to pervade DoF guidelines.

7. Several authors have elaborated on this point, re-enforcing the suggestion that interpretive and critical, historical research is not alone in being subject to such limitations (see, for example, Bedian, 1998, p.11; Previts et al., 1990a, p.9).
CHAPTER 4
THE CONSTRUCTION OF AN INSTITUTION

INTRODUCTION

Consistent with the structure of the study as outlined in chapter one, the literature which informs the study and on which the study seeks to build was reviewed in chapter two. Chapter three explained the research methodology adopted in this study. It explained the research approach adopted for the study, which was identified as an interpretive and critical, historical case-study. Chapter three also outlined the specific advantages of adopting such an approach for addressing the research questions identified for the study, and discussed the general limitations which may be associated with the research approach adopted in the study.

This chapter is the first of four chapters which, taken together, address the primary research questions identified for the study. The purpose of this chapter is to explain the construction of the institution from which financial notions of accountability and performance for diverse public sector organisations were derived. Thus, the chapter seeks to address the first of the two primary research questions identified for the study. This question is re-stated as follows:

How were financial notions of accountability and performance of Australian public sector organisations constructed during the period 1976-2001 and articulated in the CF, once its development began, within this reform period?
It is argued in this chapter that during the period in which many public sector organisations were being criticised for inadequate accountability and poor financial performance, the accounting profession in Australia had developed a CF which purported to provide a key solution to these “problems”. This chapter shows that through a process of deductive reasoning applied in preparing the four formal components of the presently incomplete CF, a seemingly immutable and unquestionable connection was established between the provision of general purpose financial reports and the accountability and performance of entities in both the public and private sectors. The chapter demonstrates that much of the content of the component statements of the CF is vague and abstract, therefore lacking the capacity to discriminate between alternatives, and as a consequence, cannot be used to provide clear guidance in specific instances of accounting policy choice. Thus, a key conclusion of the chapter is that technical capabilities of the framework are, at best, problematic. Notwithstanding, by developing the framework at a time when the accounting profession in Australia was facing a number of challenges, the result was the development of an institution which served at least two identifiable non-technical roles for the Australian accounting profession. First, the CF appeared to provide the much needed theoretical knowledge base that could enhance the general legitimacy and acceptability of the then existing accounting standards and practices. Second, the CF appeared to also justify the application of accrual accounting practices to a diverse range of public sector organisations, including not-for-profit public museums, for the first time. Accordingly, the second key conclusion of the chapter is that the framework is best understood as a political tool for its role in enhancing the legitimacy of existing accounting standards and practices and for providing general justification
for detailed accrual accounting reforms to be introduced for application throughout the Australian public sector.

The remainder of this chapter is arranged as follows. The next section briefly outlines a number of opportunities and challenges facing the accounting profession during the 1970s and early 1980s in order to elucidate the context in which the institution of the CF was constructed. The section thereafter outlines a key response of the accounting profession to the opportunities and challenges, that is, the construction of an institution. This section demonstrates that the four Statements of Accounting Concepts comprising the present iteration of the CF were crafted in a way that enabled financial notions of accountability and performance that had been developed for commercial, profit-seeking organisations to be introduced for virtually unmodified application within diverse public sector organisations. The final section contains concluding comments.

OPPORTUNITIES AND CHALLENGES FACING THE ACCOUNTING PROFESSION IN AUSTRALIA

This section identifies a range of opportunities and challenges that faced the accounting profession in Australia during the 1970s and early 1980s. Based on a review of several formal inquiries into the operation of government conducted during this time, as well as a consideration of an array of official-type reports and other commentaries, three opportunities for the accounting profession in Australia can be identified. These are: (i) the findings of a range of formal inquiries into the setup and operation of government which included recommendations for widespread accounting reform within government; (ii) the advocacy and
implementation of accrual accounting reforms by Auditors-General, parliamentary committees and central rule-making agencies across several jurisdictions in Australia which seemed to create a climate conducive to accounting reform; and (iii) the perceived deficient state of accounting expertise in the public sector at the time. Two key challenges can also be identified, namely: (i) broad criticism that was levelled at the performance of the organised accounting profession and the AARF which, in turn, meant that the self-regulation of the profession was under threat from government intervention; and (ii) the initial disagreement between senior members of the accounting profession as to the nature of the role, if any, the profession would pursue in regulatory space for the public sector. A discussion of these opportunities and challenges provides the context in which the CF was developed. It also assists in elucidating the framework’s role as a political tool. These opportunities and challenges are now discussed.

OPPORTUNITIES FOR THE ACCOUNTING PROFESSION

The environment during the mid 1970s and early 1980s provided at least three opportunities for the accounting profession to establish a role in regulatory space for the APS.

(i) Government Inquiries – Criticisms and Strategies for Reform

The findings of the RCAGA inquiry, released in 1976, are widely considered to be significant for heightening the general awareness of the need for enhancements in the accountability and performance of public sector organisations (Halligan and Power, 1992; Hazlehurst and Nethercote, 1977; Kent, 2000, p.77; Parker, 1977,
Indeed, several formal inquiries conducted at around the same time at federal, state and territory government levels were also widely critical of the perceived inefficiency and inadequate accountability of government agencies\(^2\). While the detailed "solutions" outlined in each inquiry differed according to the specific nature and extent of the "problems" identified in each instance, recommendations for strategies of decentralisation and devolution were common (see, for example, Corbett, 1975; RCAGA, 1978; Wilenski, 1977).

Several of the inquiries also made specific recommendations with respect to reforming public sector accounting regulation and practice. For example, RCAGA (1976) emphasised the importance of improved financial reporting by Commonwealth departments and statutory authorities, but did not, however, formally recommend the preparation of standardised financial reporting nor did it specifically advocate the widespread preparation of accrual accounting reports within government. The inquiries in Victoria (Bland, 1975) and South Australia (Corbett, 1975) also acknowledged the need for public sector accounting reform and, while falling short of advocating specific accounting reforms, these inquiries recommended the adoption of detailed strategies to ascertain the most appropriate basis and format for financial reporting by government (Bland, 1975, p.46; Corbett, 1975, p.199). The Public Bodies Review Committee (PBRC), which also related to Victoria, was however, more outspoken regarding the need for public sector accounting reform\(^3\), as was Wilenski in 1977, with both inquiries advocating the adoption of accrual accounting in their respective public sectors. Wilenski (1977), for example, while focussing more closely on reforms required to budgeting approaches in the New South Wales public sector (p.44), also
specifically recommended that commercial accounting practices be considered for broader adoption by "certain statutory authorities" (p.49). According to the PBRC (1981, p.99), financial statements for public organisations should be prepared on an accrual basis and in a format consistent with the financial reports typically prepared for private sector entities. Further, according to PBRC (1981, p.101), existing accounting standards had "significantly improved the standard of private enterprise financial reporting" over the preceding decade. As a consequence, PBRC (1981, p.102) concluded its deliberations on this issue by recommending "the adoption by public bodies of Australian Statements of Accounting Standards". Thus, each inquiry had acknowledged a need for public sector accounting reform as an important step toward remedying perceived deficiencies in public sector financial management (Chua and Sinclair, 1994, p.679). However, while accrual accounting reforms had been expressly advocated for implementation by inquiries conducted in the states of Victoria and New South Wales, the recommended approaches to accounting reform in the other inquiries were generally different.

(ii) A Climate Conducive to Accounting Reform

Despite an absence of specific accounting standards relating to public sector accounting, by the mid 1970s several Auditors-General at state level, along with the then Commonwealth Auditor-General, were systematically advocating the adoption of private sector accounting standards in their Annual Reports to Parliament (Chua and Sinclair, 1994, p.690; Kent, 2000, p.99; Ryan, 1995, pp.88-94). The Commonwealth Auditor-General had also initiated the formation of a Joint Working Party, along with the Department of Finance, to develop
appropriate accounting reforms applicable to Commonwealth Undertakings. The Joint Working Party released its report in June 1980, in which it called for standardised financial reporting for all Commonwealth undertakings and the “adoption of existing professional accounting standards wherever appropriate” (DoF/AG, 1980, p.95). The principal effect of the recommendations made by the Joint Working Party was to require the “use of full accrual accounting by all undertakings except where reporting objectives could reasonably be deemed to be achieved by ‘cash’ based statements” (DoF/AG, 1980, p.78).

Also during this time, several Parliamentary committees had begun to examine the financial reporting practices of statutory authorities. At federal government level, the Senate Standing Committee on Finance and Government Operations and the Joint Committee of Public Accounts (JCPA) both reported their findings during this period which included the need for standardised and comprehensive financial reporting and the widespread adoption of accrual accounting by statutory authorities (Chua and Sinclair, 1994, pp.678-9; JCPA, 1982; Ryan, 1998, p.522). There were also developments at State Government level, with several state governments advocating the adoption of accrual accounting in various contexts within their respective jurisdictions. The NSW government is generally considered to be the first government jurisdiction in Australia that gave a “political commitment” to accrual accounting reform during the mid 1980s (Christensen, 2002; Kent, 2000, pp.112-5; Ryan, 1995, p.16). During the early to mid 1980s, accrual accounting reforms were also being advanced by key regulatory agencies including the Public Accounts and Estimate Committee and the Public Accounts Committees in the state of Victoria, while such reforms were
also under consideration by similar committees in South Australia and in Tasmania (Ryan, 1995, pp.131-40). Such reforms were not being specifically advocated by such committees in the states of Western Australia or in Queensland or, apart from the recommendations of Report 199, by the JCPA during this time (Ryan, 1995, p.144). In all, during this period, there seemed to be "a general reach for an accounting solution in government" (Chua and Sinclair 1994, p.678), with various approaches to accounting reform underway in several jurisdictions across Australia. These approaches included, but were not limited to, recommendations for the adoption of full accrual accounting and for the widespread application of Statements of Accounting Standards that had been developed by the organised accounting profession.

(iii) The Perceived State of Public Sector Accounting Expertise

During the mid 1970s to the early 1980s, the general level of accounting expertise in the public sector was broadly criticised. Chua and Sinclair (1994) have identified three key reasons for what appeared to be a lack of appeal of public sector accounting positions. First, according to Chua and Sinclair (1994, p.685), public sector accountants appeared to have an "image problem". A survey conducted by Ryder and Watson (1981), which canvassed the views of accounting students on this issue, identified the perception among those surveyed that public sector accounting jobs "had lower intrinsic rewards, poor job conditions, less autonomy, variety and less feedback from co-workers relative to accounting jobs in public practice or industry" (Chua and Sinclair, 1994, p.685). Second, the pay rates for government accountants were seemingly less attractive than for accountants in public practice or in industry, or for other professionals in the
public sector such as lawyers or engineers (Chua and Sinclair, 1994, p.685).
Third, the nature of the work typically undertaken by government accountants
was widely perceived to be mundane compared to that performed by accountants
in public practice or in industry (Allan 1988; Ryder and Watson, 1981).
Government accounts were largely kept on a cash basis and public sector
accounting work largely involved adherence to routine procedures in order to
comply with government regulations (Chua and Sinclair, 1994, p.685; Kent, 2000,
p.76). The government accountant typically had little involvement in the
management or in the major decision making of government entities (Chua and
Sinclair, 1994, p.685). Perhaps as a consequence of the apparent lack of appeal of
public sector accounting positions, several authors concluded at the time that there
was a lack of professional accounting expertise in the public sector (Bakewell,
1978; Chua and Sinclair, 1994, p.685; Corbett, 1975, p.162; Humphry, 1985;
Monaghan, 1983; RCAGA, 1976, p.20). The result was a widespread perception
that, if any systematic “improvement” in public sector accounting was to occur,
an injection of suitably qualified accounting personnel was needed, as was the
improved education and training of existing staff (Allan, 1988; Barrett, 1993a,
1993b, 1994a; Mellor, 1994; ANAO, 1995). If specific accounting reforms were
to occur, particularly those involving the adoption of accrual-based accounting
and reporting techniques and philosophies, there was a belief that such reforms
could not be handled without educational and technical assistance 

Thus, taken together, these three opportunities facing the accounting profession in
Australia during the 1970s and early 1980s seemed to create the conditions
conducive for the profession to take a formal role in regulatory space for the
public sector. There were, however, at least two significant challenges that also confronted the accounting profession during this time and which presented hurdles to be overcome before this could occur. These challenges are now discussed.

**CHALLENGES FACING THE ACCOUNTING PROFESSION**

(i) **Who Should Regulate the Profession?**

By the late 1970s, there was a crisis of confidence emerging over the accounting profession’s ability to regulate itself (Chua and Sinclair, 1994, p.689). Accountants were continually plagued by the absence of a formalised and generally accepted theoretical framework that could legitimise and justify existing accounting standards and practices. Accounting standards were perceived as a residual of an arbitrary and political process rather than the outcome of the application of a coherent knowledge base. In its *Report 199*, JCPA (1982, pp.16-7) identified what it claimed were three major failings of financial statements prepared under the then existing accounting standards. These “failings” are reproduced below:

1. **failure to determine full cost by ignoring the existence of inflation**;
2. **failure to provide a framework for communicating management’s expectations and estimates (a material deviation from adequate accountability and control in the public sector)**; and
3. **failure to specify the nature and extent of large scale contracts and commitments**.

According to JCPA (1982, p.17), a conceptual structure was needed in order to address these weaknesses and to enhance future accounting standards as well as to improve the structure and contents of financial reports prepared through adherence to these standards. The absence of a suitable knowledge base
underpinning accounting standards and practices may have also intensified specific criticisms levelled at the then recent performance of the accounting profession in a range of liquidators’ and corporate regulators’ reports from a series of much publicised corporate collapses during the 1960s to 1970s period. The findings of these reports, which permeated the academic and general press, most notably the *Australian Financial Review*, contained “savage” criticism of the accounting and auditing performance of professional accounting firms (Chua and Sinclair, 1994, p.680; Zeff, 1973, p.54). These criticisms included widespread departures from prevailing accounting pronouncements identified in the audited accounts of a large number of Australian companies, the perceived failure of audited financial reports to warn investors and others of pending corporate failure as well as the ongoing difficulties faced by the organised accounting profession in ensuring future compliance with accounting and auditing pronouncements (ASA, 1966; Chua and Sinclair, 1994, pp.679-81; Gibson, 1979, pp.28-31; Gibson and Arnold, 1981, pp.59-60; Zeff, 1973, p.54).

During this time, the accounting profession in Australia formed the body, which became known as the Australian Accounting Research Foundation (AARF) (1965), to “improve the quality of financial reporting in Australia” (AARF, 1966, p.1). However, the AARF was unable to appoint a full-time research director for several years after its formation and, seemingly without adequate funding, the profession’s primary body responsible for developing accounting standards initially struggled to establish itself as a viable entity (Gibson and Arnold, 1981, pp.58-60; Zeff, 1973, pp.45-6). Perhaps not surprisingly, the regulatory output of the AARF in its early years was low and the activities of the Foundation during
this period mainly consisted of attempts to research and take stock of existing accounting practices (Zeff, 1973, p.48). As a consequence, the AARF was widely criticised. Furthermore, there is evidence to suggest that by the late 1970s the ability of the organised accounting profession in Australia to regulate itself was under serious threat from government intervention (Chua and Sinclair, 1994, pp.680-1; Gibson, 1979, pp.28-31; Gibson and Arnold, 1981, pp.59-60).

(ii) Regulating Public Sector Accounting

A further challenge for the accounting profession during this time concerned the role, if any, the profession would covet in regulatory space for the public sector. Several senior members of the profession disagreed about the applicability of commercial accounting principles and practices in the public sector, the appropriateness of applying existing accounting standards to diverse public sector organisations and the role, if any, the profession should pursue in the development of future accounting standards for the public sector (Chua and Sinclair, 1994, pp.689-90; Hardman, 1982; Kenley, 1978, p.340; Kent, 2000, pp.81-2; Stevenson, 1982). Perhaps as a consequence, in the late 1970s and early 1980s, the AARF demonstrated little formal interest in the development of accounting standards for the public sector (Kent, 2000, pp.83-4; Chua and Sinclair, 1994, p.687)5.

This period also coincided with the findings of several government inquiries which provided different viewpoints on the extent to which the accounting profession should be involved in the regulation of public sector accounting. The JCPA (1982, p.8), for example, while cautiously advocating the application of existing professional accounting standards within the public sector, also warned
that such standards “are not in themselves a sound, complete basis for the
construction of public sector reporting standards”. The JCPA (1982, p.13) was
also particularly uncertain about the role of AARF in developing public sector
reforms. On the other hand, according to an earlier report of the Joint Working
Party on Accrual Accounting, consisting of the DoF and the Commonwealth
Auditor- General, professional accounting standards should not receive uncritical
acceptance in the public sector, although it asserted that “strong arguments exist
for their adoption wherever appropriate” (DoF/AG, 1980, p.5).

Clearly these were challenging times facing the accounting profession in
Australia. There was a general threat to the perceived legitimacy of accounting
standards and practices as well as adverse publicity relating to the recent
performance of several professional accounting and auditing firms. The
performance of the AARF was also criticised widely. In addition, several senior
members of the accounting profession were initially divided in their views on
what role, if any, the profession should pursue in public sector accounting
regulation and several formal government inquiries had differed in the role they
foresaw for the AARF in the development of accounting standards for the public
sector. As a result, despite a general perception that accrual accounting reform
was almost inevitable in the APS, how and by whom specific accounting
standards implementing this form of accounting would be developed and enforced
was not clear. A key response of the accounting profession to these opportunities
and challenges is outlined in the next section.
A KEY RESPONSE OF THE ACCOUNTING PROFESSION – DEVELOPING AN INSTITUTION

The opportunities and challenges facing the Australian accounting profession during the late 1970s and the early 1980s seemed to reinforce the notion that the development of accounting standards in both the public and private sectors was severely restricted in the absence of a coherent and rigorous theoretical framework (Barton, 1975; Burrows, 1996, p.159). Such frameworks had, for some years, been touted as a means of enabling the development of logical, consistent and comparable accounting standards and practices (see, for example, Barton, 1975, p.xi; DoF/AG, 1980, p.77; JCPA, 18, p.1982; Kenley and Staubus, 1972, pp.104-6; Zeff, 1973, pp.59-63). Such frameworks have been widely asserted to deliver a range of specific benefits for accounting standards and practices, some of which are reproduced below:

(a) Accounting Standards should be more consistent and logical, because they are developed in the context of an orderly set of concepts;

(b) increased international comparability of Accounting Standards should occur, because they are developed in the context of a conceptual framework that is similar to the explicit conceptual frameworks used by the International Accounting Standards Board (IASB) and major overseas national standard-setters;

(c) the AASB should be more accountable for its decisions, because the thinking behind specific requirements should be more explicit, as should any departures from the concepts which may be included in particular Accounting Standards;

(d) the process of communication between the AASB and its constituents should be enhanced, because the conceptual underpinnings of proposed Accounting Standards should be more apparent when the AASB seeks public comment on them; and

(e) the development of Accounting Standards and other authoritative pronouncements should be more economical because the concepts developed by the AASB will guide the AASB and the UIG in their decision making.

(AARF/AASB, 2002, para.7)
By the mid 1970s in the USA, a CF was already in preparation under the auspices of the Financial Accounting Standards Board (FASB). The FASB had defined its CF as:

... a coherent system of interrelated objectives and fundamentals that is expected to lead to consistent standards and that prescribes the nature, function and limits of financial accounting and reporting ... (FASB, 1980a, p.i).

The first formal moves toward developing a similar framework in Australia came in 1974 when A.D. Barton, a Professor of Accounting at the Australian National University, was commissioned by AARF to develop the Accounting Theory Monograph (ATM) No. 2 entitled *Objectives and Basic Concepts of Accounting*. ATM2 was subsequently published in 1982. According to Barton (1982, p.1), the purpose of the ATM2 was to provide the basis for a “logical framework of basic concepts of accounting within which accounting standards for individual subjects can be formulated”. By the time ATM2 was published in 1982, the AARF was openly pursuing the development of a CF. According to Burrows (1996, p.160), much of the early impetus for the CF project had come from AARF’s then Technical Director, Kevin Stevenson, who had prepared a document entitled “Towards a Conceptual Framework for Accounting Standards” which was tabled at the meeting of the Executive Committee of AARF in May 1980. The document included a proposed justification for developing a CF as well as outlining how the AARF could develop such a framework. According to Burrows (1996, p.160), the document suggested that AARF develop its framework “borrowing heavily from the FASB’s project, adapting, refining and extending where necessary”.
Thus, work began to develop a CF that was applicable to both the private and public sectors according to a grand design which came to be known as the "Tentative Building Blocks of a Conceptual Framework for General Purpose Financial Reporting". The diagram outlining the design of the Framework is reproduced in Appendix 1 of this study. The method adopted by the AARF for developing its CF involved contracting outsiders to develop Accounting Theory Monographs (ATMs) for each component of the framework, with Foundation staff then taking responsibility for developing exposure drafts and concepts statements that would be based on the relevant ATMs produced. By 1983, several such monographs had begun to accumulate. Along with Barton's (1982) "Objectives" ATM came Coombes and Martin's ATM entitled *The Definition and Recognition of Revenue* (1982) and, shortly after, Kerr's ATM entitled *Definition and Recognition of Liabilities* (1984).

**PSASB FORMED**

In September 1983, the formation of the Public Sector Accounting Standards Board (PSASB), as an official arm of the organised accounting profession, was announced. The main objective of the PSASB, which was located within the AARF, was the development of statements of accounting concepts and statements of accounting standards applicable to the public sector. The formation of the PSASB signalled the profession's clearest indication of an intention to enter regulatory space in the context of public sector accounting for the purpose of undertaking a significant regulatory role (Kent, 2000, p.105; Ryan, 1995, p.119). There are three points worthy of note in relation to the setup and early operation of the PSASB. First, according to Chua and Sinclair (1994, p.699), the formation
of the PSASB represented a “political compromise” in light of the prevailing pressures to reform the financial management and reporting practices in the public sector. Several key government agencies and parliamentary committees had called for a separate standard setting body to be created with responsibility for regulating public sector accounting. However, the establishment of a separate public sector regulatory body which was independent of AARF would equally not be acceptable to the accounting profession which had already indicated its intention to take a major role in regulating public sector accounting. Thus, creating a separate PSASB, but locating it within the AARF, appeared to be “the most viable solution” (Chua and Sinclair, 1994, p.699).

Second, the accounting standards and pronouncements released by the PSASB had little direct authority in the APS, with accounting requirements for public sector bodies primarily enforced by governments and parliaments, and contained in guidelines such as those released by the DoF since 1983. The PSASB endeavoured to counter this limitation by explicitly adopting a range of “appropriate” strategies to overcome the lack of formal authority of its pronouncements. These strategies included:

(a) using, to a maximum, the approaches and output of the Accounting Standards Board;
(b) employing common staff resources;
(c) designing a work programme in an orderly and rigorous manner; and
(d) obtaining the goodwill of those with authority to require compliance with accounting standards in the public sector.

(AARF, 1984b)

Finally, the first ATM prepared on behalf of the PSASB relating to the CF was *Financial Reporting in the Public Sector* (ATM5). ATM5 was issued in 1985. This monograph is relevant to this study for two key reasons. First, in ATM5,
Sutcliffe (1985, pp.2-3) questioned the appropriateness of applying the same accounting procedures for public and private sector organisations, indicating, instead that public sector financial information should be prepared for the purpose of enhancing the accountability of the entities involved within their specific organisational contexts. Second, in ATM5, Sutcliffe (1985, p.30) was doubtful whether the asset definition developed in the FASB’s CF was generally applicable in the APS. Further discussion of the asset definition subsequently adopted in the CF and elaboration of how these doubts expressed by Sutcliffe were subsequently addressed, follows in later sections of this chapter.

**SAC 1 RELEASED**

The first formal CF document was released in Australia in 1985 and was entitled *SAC 1 Objectives of Financial Reporting by Public Sector Entities*. With the release of SAC 1, the PSASB could, at least, demonstrate some progress toward its stated objectives. However, even though the PSASB’s stated objectives related solely to accounting in the public sector, the release of SAC 1, which was solely focussed on the public sector, is rather curious. Some three years earlier, the JCPA, in its *Report 199*, had recommended the development of separate conceptual frameworks of accounting for the public and private sectors that would embrace the distinct nature of the organisations located in these respective sectors (JCPA, 1982, p.18). Despite this, there is evidence to suggest that shortly after its formation, the PSASB had already decided to pursue a common CF that would apply to both public and private sectors, accommodating the differences between entities in these sectors within specific accounting standards (AARF, 1984a; Ball, 1988; Humphry, 1986, p.456; Kent, 2000, p.108; McGregor, 1985; PSASB/AcSB,
1986, *minute 429*). Around the time of the initial release of SAC 1, progress was already underway to develop similar theoretical documents that specifically related to profit-seeking organisations in the private sector. Thus, in the years following the initial release of SAC 1, PSASB proceeded to work closely with the AcSB to develop a CF that could be applied to entities in both the public and private sectors (AARF, 1984a; Kent, 2000, p.108).

The objectives of financial reporting outlined in SAC 1 were the “tentative suggestions” that had been outlined in the forerunner ATM5. In ATM5, Sutcliffe (1985, p.17) had suggested that the objective of general purpose financial reporting encompass the disclosure of financial information as stated below:

(i) useful in making economic decisions (including those relating to matters of public policy); that is information to assist users in making judgements and decisions about such matters as resources to be allocated to particular entities, the nature and cost of services to be provided by those entities and their future consumption of those services; and,

(ii) for accountability purposes; that is information to assist users in assessing the extent to which managers have discharged their responsibilities with respect to the use of public monies, the delivery of particular services and the achievement of specified objectives.

This objective was reflected in SAC 1 (para.31) which identified the objective of general purpose financial reporting by Public Sector Entities⁸ to be the disclosure of information “useful in making economic decisions; and, to satisfy accountability”.

The remainder of SAC 1 proceeded to re-enforce the need for general purpose financial reports by presenting arguments that linked their preparation to
enhancements in the accountability and the performance of public sector entities. According to SAC 1:

... the usefulness of such reports will be enhanced by the application of generally accepted and well understood concepts and principles. Statements of Accounting Standards developed primarily for application in the preparation and presentation of general purpose financial reports are intended to enhance the usefulness of these reports (para.8).

In order to facilitate assessments of the accountability and the performance of such entities, these financial reports, according to SAC 1, should outline the "financial position, past performance, financing and investing activities and liquidity and solvency of the entity" (para.23). In order for this to occur, general purpose financial reports should include disclosures for "revenue, expenses, net assets and changes in them" (para.25). According to SAC 1, to satisfy the stated objectives, general purpose financial reports were also required to include specific disclosures regarding the "cost of particular services, the economic efficiency and effectiveness of particular activities and the sources and uses of funds" (para.26).

The objectives attributed in SAC 1 to general purpose financial reports of enhancing the accountability and the performance of public sector organisations are difficult to contest in broad terms, since the opposite are organisations which are, in essence, "unaccountable" as well as "performing sub-optimally". Such objectives however, as proposed at a time when many public sector organisations had been criticised on those very grounds, seemed to deliver the impression that general purpose financial reports represented an obvious solution to the perceived problems. In addition, prevailing generally accepted accounting concepts and principles and existing accounting pronouncements had been developed and applied in the preparation of general purpose financial reports for the seemingly
more efficient commercial, profit-seeking organisations. Thus, by advocating the preparation of these reports according to prevailing accounting concepts, principles and pronouncements, SAC 1 effectively applied the same, financial notions of accountability and performance that had previously existed for organisations in the private sector, to a diverse range of public sector organisations for the first time. This, even though the objectives or missions of many of the public sector organisations captured within the definition of “Public Sector Entities” are primarily not, if at all, of a financial nature.

The application of accrual accounting practices to particular public sector organisations may have significant and far reaching consequences, whether intended or unintended, for organisational and social functioning. Yet surprisingly, there is little evidence of direct opposition, discussion or debate about SAC 1 immediately upon its release. Several reasons are posed to explain this lack of interest in the concepts involved. For example, as indicated previously, in endorsing a financial reporting objective that was based on enhancing accountability and performance, SAC 1 appeared to present the solution to specific problems that were portrayed to exist in the APS. In addition, SAC 1 provided an objective of financial reporting which no-one could seriously dispute as unacceptable, while the concepts statement specified no concise time for the application of its content. In addition, the specific form that the general purpose financial reports would take was not clearly specified, nor was the preferred measurement system for reporting financial statement elements held by these entities. As a consequence, many of the likely implications of applying the
content of SAC 1 in specific organisational settings were not immediately explicit or made clear.

There were, however, two obvious and significant hurdles to overcome before the smooth implementation of the content of SAC 1 could occur. First, as indicated above, general purpose financial reports of the type advocated in SAC 1 had been historically prepared for profit-seeking entities in the private sector as well as business entities in the public sector. Typically, while such reports had been prepared by Government Business Entities and Statutory Authorities in Australia for several years, the suggestion that these reports should also be prepared for other public sector organisations, such as not-for-profit public museums, was contestable. Yet throughout SAC 1 there was little effort made to clearly explain how the preparation of general purpose financial reports could lead to the enhanced accountability and performance of these other non-commercial public sector organisations, as readily identified by means of their mission or objective statements.

Second, in advocating the preparation of general purpose financial reports according to generally accepted accounting concepts and principles and existing accounting standards, SAC 1 clearly endorsed the accrual basis of accounting and reporting. There are, however, several different forms of accrual accounting, distinguished largely by different definitions and interpretations of financial statement elements, such as assets and liabilities (Walker, 1988, pp.22-3). As indicated in chapter one, the adoption of “full” accrual accounting requires disclosure, at monetary valuation, of all financial statement elements pertaining to
the entity which meet the definitions and recognition criteria specified for such items. Without the development of generally accepted guidelines for defining and recognising fundamental financial reporting concepts, such as assets and liabilities, it was unlikely that the implementation of the reforms advocated in SAC 1 could occur. Hence, a further hurdle existed for the implementation of accrual accounting in the APS which also impeded the accounting profession’s regulatory role in that sector. When SAC 1 was released, there was no generally accepted, authoritative asset definition developed in Australia. Furthermore, resources held by many public sector entities, such as the collections of not-for-profit public museums, are inherently non-financial resources, whilst the control by such organisations over these resources is typically limited or restricted. Also, many public sector resources located in the public domain have not been acquired at financial cost and, in most cases, there are substantial statutory, moral and political restrictions placed on their disposal. As a consequence, such resources have no easily ascertainable financial magnitude, thus presenting the accounting profession with a further hurdle to the successful implementation of SAC 1.

By 1984-1985 work was underway on several CF-related accounting theory monographs which, taken together, would encompass both public and private sector organisations. Monographs that were commissioned during this time included Financial Reporting in the Public Sector (ATM5, written by Paul Sutcliffe), Financial Position: Nature and Reporting (ATM6, written by Robert Newman); Definition and Recognition of Assets (ATM7, written by Malcolm Miller and M. Atiqul Islam); Definition of the Reporting Entity (ATM8, written by Ian Ball) and The Definition of Equity (ATM9, written by Jean Kerr). Many of
these monographs provided considerable explanation outlining how the concepts
developed therein could be applied to public sector organisations. In doing so,
these monographs assisted in enabling the ready acceptance of many concepts
later articulated in the formal CF component statements, thereby assisting the
adoption of full accrual accounting in the APS. For example, in ATM7 Miller and
Islam (1988) discuss the definition and recognition of assets. Within this
discussion, there is explanation of how the definitions developed could be applied
in an array of contexts in the public sector in order for the objective of general
purpose financial reporting to be satisfied. For example, in the extract from
ATM7 which is reproduced below, Miller and Islam (1988, pp.40-1) discuss the
notion of “future economic benefits” which they associated with the asset
definition developed:

A particular view of assets related to the benefits concept is that they are cash and
potential sources of future net cash inflows ... While the net cash inflow view is
sustainable in respect of business entities, whether in the private or public sectors,
it is too narrow in the context of non-business entities, including both government
business and non-business entities and not-for-profit entities in the private sector.
The recipients of the goods and services supplied by non-commercially oriented
entities may not be expected to pay in full or at all for the benefits distributed to
them. Such entities typically rely on contributions, donations or appropriations of
cash to finance or to subsidise their operations. Consequently, the assets of such
entities may not contribute to net cash inflows. However, they do provide scarce
means that are useful in carrying out the entities’ objectives.

ATM 8 also contained discussion of a similar nature. Ball (1988) explained, in
detail, how the reporting entity concept may be applied to organisations in the
private sector (pp.48-51), while providing considerably longer explanation
justifying the applicability of the concept to organisations in the public sector
(pp.51-7). According to Ball (1988, p.57), the criteria provided for implementing
the concept in both sectors will ensure that the reports are produced in a manner
that is consistent with the objective of general purpose financial reports as
outlined in the CF. Discussion such as that provided by Miller and Islam (1988) and by Ball (1988), and similar discussions in other ATMs released during that time, have assisted to establish a basis for applying a range of concepts of financial reporting to diverse public sector organisations by means of subsequent CF-related exposure drafts and the formal component statements comprising the CF. The CF-related exposure drafts and the formal component statements of the CF are discussed in the remainder of this section.

CF-RELATED EXPOSURE DRAFTS RELEASED

In December 1987, four exposure drafts were released with the following titles: ED 42A Objective of Financial Reporting; ED 42B Qualitative Characteristics; ED 42C Definition and Recognition of Assets; and ED 42D Definition and Recognition of Liabilities. Two further CF exposure drafts followed shortly after in April 1988 entitled ED 46A Definition of the Reporting Entity and ED 46B Definition and Recognition of Expenses. In May 1988, with the first six CF exposure drafts released, several senior staff at the AARF conducted seminars in all mainland capital cities around the country aimed at promoting the framework and its content (Burrows, 1996, p.168). These CF exposure drafts were directly related to the components of the broader design (see Appendix 1) and will now be discussed.

Objective of Financial Reporting (Framework Component 3)

This component of the CF “specifies the broad objective which financial reporting should seek to serve. It identifies the users of financial reports, their needs in terms of information and the type of reporting needed to meet those needs”
(AARF, 1987a, para.10). ED 42A specifically addressed this aspect of the framework in the context of both the private and public sectors.

The express objective of ED 42A was to “establish the objective of general purpose financial reporting … by entities in both the private and public sectors” (AARF, 1987b, para.1). In doing so, ED 42A reflected the stance taken in SAC 1 as released in 1985 and identified a broader objective of financial reporting than was conventionally attributed to financial reports prepared for profit-seeking entities in the private sector. In the same way that SAC 1 had done earlier, ED 42A advocated the preparation of general purpose financial reports containing disclosures for revenues, expenses, assets, liabilities and equity. According to ED 42A, such information is argued to assist users in making and evaluating decisions on the allocation of scarce resources and in assessing the accountability and the performance of both public and private sector organisations (AARF, 1987b, paras. 38-39).

In outlining an objective of financial reporting that underpinned the preparation of general purpose financial reports, it is worthy to note that neither the words *accrual* nor *accrual accounting* were mentioned anywhere within ED 42A. The reason for this is not immediately clear, particularly since implicit in most definitions of this form of accounting is its assumed superiority when compared to accounting on a cash basis. It could be argued that direct reference to *accrual accounting* did not appear in the CF for political reasons, since the private sector orientation of this form of accounting could have presented a further hurdle to the implementation of general purpose financial reporting in the public sector. Indeed,
accounting regulators and other advocates of accrual accounting in the public sector would later indicate as much, often avoiding the term accrual completely in an array of official-type reports, public lectures, conference presentations and other publications. Instead, many of these advocates opted for labels such as “Full Financial Accounting”, “Comprehensive Accounting”, and “Comprehensive Accounting Budgeting and Resource Accounting” (see, for example, Barrett, 1993a, p.5; JCPA, 1995a, p.65; Mackintosh, 1992, p.2; NSWG, 1992/3; OECD, 1993, p.8; Scullion, 1995; WPAA, 1992, p.2). Whether such instances indicate a degree of confusion or a deliberate acknowledgement of the potential difficulty caused by the commercial orientation of this form of accounting is not clear. There is some evidence to suggest that the latter might be the case, since Mackintosh (1992, p.17) used the term “Full Financial Accounting”, largely because such a term, as argued, is “harder to argue against, as the variant is partial financial accounting.”

Thus, with the release of ED 42A, the asserted link between general purpose financial reports and enhancements in the accountability and the performance of both private sector and public sector organisations was formally put in place. However, in establishing such a link, it appears that at least two aspects of financial reporting for diverse public sector organisations had been overlooked. First, under ED 42A, assertions that general purpose financial reports would naturally lead to enhancements in the accountability and the performance of the organisations involved were largely based on the purported ability of the reports to reflect the total costs of public sector services and programs (see, for example, AARF, 1987b, paras.19-28). However, while efforts to encourage the effective
management of the costs of public sector services and programs are not to be
derided, cost control is not the sole purpose served through the preparation of
financial reports by public sector organisations, nor does the information
contained in general purpose financial reports fully encompass the complex
aspects of accountability and performance that typically apply to the organisations
involved (Barton, 1999a, p.28; Carnegie and Wolnizer, 1996, p.84). At the
macroeconomic level, public sector activity requires the diversion of resources
from private consumption. This is done by means of taxation, or through the use
of borrowings. Allocations of resources by means of periodic depreciation charges
are irrelevant for assessing the burden of public sector services and programs in
any one accounting period (Ma and Mathews, 1993, p.77). Second, profit-seeking
organisations in the private sector typically must demonstrate, by means of
general purpose financial reports, that they possess sufficient assets to enable
them "to repay debts in the short run (liquidity) and the long run (solvency)"
(Barton, 1999c, p.214). The statement of financial position need not serve this
purpose for public sector organisations, since governments rarely depend on
selling assets to be able to pay debts, but instead, possess a power not available to
private sector organisations generally – the power to levy taxation (Carnegie and
Wolnizer, 1995a, p.38; Ma and Mathews, 1993, p.74). Yet a failure to recognise
this different focus of the statement of financial position for entities in the public
sector appears to have contributed to the assumption that the disclosure of diverse
public sector resources as assets for financial reporting purposes is required, even
in cases where significant statutory, political and moral restrictions generally exist
which preclude their disposal. Notwithstanding, underlying the content of ED
42A is the notion that without the disclosure of those resources, the asserted
benefits of general purpose financial reports for enhancing the accountability and the performance of the relevant public sector organisations will not eventuate (see, for example, Rowles, 1992).

Despite not directly addressing the above-mentioned aspects of financial reporting in the public sector, ED 42A provided a seemingly direct link between enhancements in the accountability and the performance of diverse organisations and the preparation of general purpose financial reports. The objective established for general purpose financial reports within ED 42A was broad enough to include a diverse range of public sector entities. The next step was to identify the criteria that should be adopted to determine when a reporting entity exists and thus for identifying those organisations for which general purpose financial reports would be required.

**Determination of the Reporting Entity (Framework Component 2)**

This component of the CF is directed at “setting down the criteria which should be adopted to determine when a reporting entity should be recognised to exist and, therefore, be required to prepare general purpose financial reports” (AARF, 1987a, para.9). In 1988, the AARF released its Accounting Theory Monograph No.8 (ATM8) entitled *Definition of a Reporting Entity* written by Ian Ball, who was consulting to AARF at the time. At the time of writing ATM8, Ball was the Director, Financial Management Support Service, New Zealand Treasury, and a staunch advocate of the adoption of accrual accounting practices in public sector organisations.
In ATM8, Ball sought to outline those entities that should produce general purpose financial reports. According to Ball (1988, p.viii), the reporting entity should be defined in terms of “user needs rather than any legal, administrative or institutional concept”. The definition of reporting entities proposed by Ball (1988, p.ix) is set out below:

... any unit or activity which controls the utilisation of scarce resources in order to generate economic benefits or service potentials, and which is judged to be sufficiently significant to warrant the preparation of general purpose financial reports for use in economic decision making and accountability.

Ball argued that the reporting entity concept developed in ATM8 is appropriate in Australia for several reasons, providing circular justification that was based on other components of the CF and the apparent ability of the concept to be used to capture entities in both sectors. For example, Ball (1988, p.viii) asserted that the reporting entity concept outlined in ATM8 was appropriate since:

... it is consistent with the conceptual framework being developed by the accounting profession in that it has clear links both to the nature and objectives of financial reporting; [and]
... it has application to both sectors.

By defining reporting entities in this fashion, Ball effectively broadened the context in which such reports were required. The reporting entity concept developed by Ball was incorporated into ED 46A and eventually became part of SAC 1 upon its re-release in 1990.

Qualitative Characteristics (Framework Component 4)
The release of ED 42B directly addressed this level of the Australian CF which was directed at “setting down the orderly set of characteristics ... which are needed if information is to serve the objective of financial reporting” (AARF,
1987a, para.11). According to ED 42B, if information contained in general purpose financial reports is to meet the objectives stated in ED 42A, it should primarily satisfy the tests of *relevance* and *reliability*. Definitions of *relevance* and *reliability* contained in ED 42B are reproduced below.

"*relevance*" means that quality of financial information which exists when that information influences decisions of an economic nature by users by:

(a) helping them form predictions about the outcomes of past, present or future events; and/or
(b) confirming or correcting their past evaluations;

and which enables users to assess the rendering of accountability by preparers;

"*reliability*" means that quality of financial information which exists when that information can be depended upon to represent faithfully, and without bias or undue error, the transactions or events that either it purports to represent or could reasonably be expected to represent.

(AARF, 1987c, paras.4c-4d)

In specifying such universally desirable, although difficult to operationalise qualitative characteristics, ED 42B is typified by a degree of circularity, both within itself and with other exposure drafts released\(^1\). For example, in order to meet the objective of general purpose financial reporting, which is to provide information that is *useful* to a wide range of users, the information must be *relevant*. *Relevance*, in turn, is defined according to its ability to be used, that is, its *usefulness* to the decisions made by interested parties. In addition, such information should also be *reliable*, which is defined in terms of other, similarly non-operational qualities including *representational faithfulness* (para.15-17) and *neutrality* (para.20). In addition, ED 42B identified the *costs versus benefits* as a constraint on the preparation of relevant and reliable financial information, before adding that "[t]here is no universally accepted methodology for measuring the costs and benefits of financial information" (AARF, 1987c, para.44). Thus, the
necessary and sufficient conditions required in order to satisfy the qualitative characteristics of relevance and reliability were not clearly explained in ED 42B. This, in turn, leaves little basis on which to evaluate the information contained in general purpose financial reports or specific components of such information. However, although not defined in a manner that could be readily applied in specific instances, the qualitative characteristics outlined in ED 42B have been almost taken for granted by accounting regulators and by other advocates of reform in advocating and implementing general purpose reports for preparation by diverse public sector organisations. Further discussion is provided in chapters 5 to 7 to demonstrate how these advocates have associated general purpose financial reports with information that is relevant, reliable and, therefore, useful to an array of interested parties for decision-making purposes. These chapters also demonstrate that depicting the reports in this way effectively affords a power and validity to existing accounting standards and practices and, therefore, to accrual accounting, in specific organisational settings which may be unjustified (Hines, 1989a, p.54; Guthrie, 1993, p.15).

Thus, with the release of ED 42A and ED 42B, the AARF had identified a broad objective for financial reporting which was supported by a range of universally desirable, yet difficult to operationalise, qualitative characteristics. With diverse organisations located in the public sector now required to produce such reports, two significant hurdles to applying accrual accounting practices in the public sector had been overcome. There was, however, one remaining hurdle, namely the need to define assets in a way that was broad enough to capture diverse resources located in the public domain.
Financial Statement Elements (Framework Components 5 and 6)

These components of the CF deals with the “identification, definition and establishment of criteria for the recognition of financial statement elements (assets, liabilities, equity, revenues and expenses) that should be measured in financial statements if they are to satisfy the objective of financial reporting and the qualitative characteristics set down” (AARF, 1987a, para.12). Exposure Drafts 42C, 42D, 51A and 51B are directed at this component of the framework within the context of general purpose financial reports.

The definition of “assets” impacts directly on what is to be identified, measured and disclosed in an entity’s balance sheet and largely defines the form of accrual accounting that is adopted in specific organisational contexts (Samuelson, 1996, p.147). Indeed it may be argued that the release of ED 42C Definition and Recognition of Assets provided the CF with the necessary “form” which enabled the accounting profession to overcome the remaining hurdle for the smooth implementation of accrual accounting in the APS. The remainder of this section discusses the asset definition in detail.

That assets are “things” which are owned or controlled and which provide an entity with net cash inflows, is nothing new and is evident in many early asset definitions. For example, Lisle (1899, p.67) perceived assets as “property or rights belonging to a business which have money value”, while Paton (1949, p.15) labelled assets as “any factor, tangible or otherwise, owned by a specific enterprise and having economic significance” (see also Canning, 1929; Goldberg and Hill, 1958, p.17; Paton, 1922; Sanders et al., 1938; Sprague, 1908, p.36).
Some writers have also included exchangeability in their asset definition. For example, MacNeal (1939, p.200) argued that “the best indication of the economic value of an asset is its price in an acceptable market”. Chambers (1966, 1967) also emphasised the exchangeability and severability of assets arguing that “net realisable value” is the most appropriate and informative indication of net worth (see, for example, 1967, p.8). According to Chambers (1967), “current cash equivalent” is comparable, both between periods and between entities (p.36), relevant for business decisions, (p.64), and able to be independently authenticated (p.149; see also Wolnizer, 1987).

As a part of its CF, the FASB defined assets as “probable future economic benefits obtained or controlled by a particular entity as a result of past transactions or events” (SFAC 3, para.19). According to SFAC 3, the common characteristic possessed by all assets is future economic benefits or service potential. In the case of business enterprises, future economic benefit or service potential was asserted to eventually result in net cash inflows (FASB, 1980b, para.22).

In 1985, SFAC 6 *Elements of Financial Statements* replaced SFAC 3 and, in doing so, signalled the development of a broader asset definition by the accounting profession in the USA. The link between future economic benefits or service potential and net cash inflows that was so evident in SFAC 3 was nowhere to be seen in the new concept statement. Instead, SFAC 6 advocated that such a relationship may often be indirect in both business enterprises and not-for-profit organisations (FASB, 1985, para.28).
At around the time SFAC 6 was released, AARF released its ATM5 entitled *Financial Reporting in the Public Sector – A Framework for Analysis and Identification of Issues*. ATM5 sought to identify "conceptual matters" worthy of detailed investigation, and by 1987, by means of ED 42C, the AARF asserted that it had the answers to these "conceptual matters" identified (Walker, 1989, p.9). As indicated previously, according to ATM5, the appropriateness of the FASB definition of assets (emphasising future economic benefits) for application in the public sector environment was "not clear" (Sutcliffe, 1985, p.30). The extract below indicates the arguments put forward in ATM5 to support this view:

... many public sector "assets" such as parks or memorials, are anticipated to generate negative cash flows over their life. Their economic benefit to the entity is therefore questionable and they may be more properly considered as liabilities. The extent to which public sector entities control "assets" and receive benefits from them is equally questionable. Many public sector entities use "assets" which are subject to legislative or ministerial restrictions or are held in trust for the community. The ability of the entity to freely use these "assets", control access to services provided by them and receive any resultant benefits may well be limited in the public sector (Sutcliffe, 1985, p.30).

The definition and recognition of assets in relation to specific organisational contexts in the public sector represented a challenge to the successful implementation of accrual accounting in that sector (Mackintosh, 1992; McHugh, 1993, p.166; Wallace, 1994, pp.13-4). However, the challenge seemed to lay not in examining resources held by specific public sector organisations in light of conventional notions of assets for financial reporting purposes, but in developing an asset definition and recognition criteria that were sufficiently broad enough to capture most resources held in the public domain. Thus, upon its release in 1987, ED 42C *Definition and Recognition of Assets* (para.7) defined assets as "service potential or future economic benefits controlled by the reporting entity as a result of past transactions or other past events".

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The following extracts from ED 42C elucidate the explanation given to support the broad asset definition and the circumstances in which “future economic benefits” and “service potential” are considered to exist:

In pursuing their operating objectives, both business and non-business entities provide scarce goods and services that have the capacity to satisfy human wants and needs. Both types of entity create utility and value in essentially the same way — by using assets to provide goods and services that their customers or beneficiaries desire or need. Thus, assets provide a means for reporting entities to achieve their missions or objectives (para.11);

In non-business entities, including both government non-business entities and not-for-profit entities in the private sector, the service potential or future economic benefit is also used to provide goods and services in accordance with the entities’ objectives. However, since the entities do not pursue profit objectives, the provision of goods and services may not directly result in net cash inflows to the entities as the recipients of the goods and services may not transfer cash and other benefits to the entities in exchange (para.13);

The fact that entities do not charge or do not fully charge their beneficiaries or customers for the goods and services they provide, does not deprive those outputs of utility or value; nor does it preclude the entities from benefitting from the assets used to provide the goods and services. For example, assets such as monuments, museums, cathedrals and historical treasures provide needed or desired services to beneficiaries, typically at little or no cost to the beneficiaries. These assets benefit the reporting entities by enabling them to meet their objectives of providing the needed services to beneficiaries (para.14);

The service potential or future economic benefit can be distinguished from the source of the benefit — a particular object or right. The proposed definition refers to the benefit and not the source … (para.16).

The asset definition and subsequent interpretation of the definition provided in ED 42C effectively divorced the notions of future economic benefit and service potential from net cash inflows and this meant that part of the difficulty identified in ATM5 had been addressed. Given this contrived conceptual justification, many non-financial resources in the public domain such as cultural, heritage, scientific and community collections held for their intended purpose could, legitimately be recognised as assets in general purpose financial reports. Applying ED 42C, items were required to be recognised as assets for financial reporting purposes if they
could assist the entity to meet its objectives. Notwithstanding, these items may not be readily exchangeable or may not generate net cash inflows at any time (AARF, 1987d, para.14). Nowhere to be found in ED 42C was there any acknowledgement that specific resources held by particular public sector organisations, such as the collections of not-for-profit public museums, do not meet the conventional definition of assets and the recognition criteria specified (Carnegie and Wolnizer, 1995a). In addition, those responsible for developing the exposure draft and the subsequent CF elements have yet to explain clearly how such disclosures could ever enable the presentation and assessment of the accountability and the performance of the organisations concerned based on their mission statements or organisational objectives (Barton, 2000; Carnegie and Wolnizer, 1995a, 1996, 1997, 1999; Walker et al., 1999, 2000a, 2000b).

ED 42C acknowledged that while the possession or the ownership of an object or right would normally be synonymous with control, this is not essential. According to ED 42C, items are required to be recognised as assets, depending on the ability of the entity to benefit from the asset and to deny or regulate access of other entities to that benefit. ED 42C elaborated on this broad notion of control in the following way:

The capacity of an entity to control the service potential or future economic benefits would normally stem from legal rights and may be evidenced by title deeds, possession or other sanctions and devices that protect the entity’s interests. However, legal enforceability of a right is not a prerequisite to the establishment of control over service potential or future economic benefits ... (para.18);

Possession or ownership of an object or right would normally be synonymous with control over service potential or future economic benefits embodied in the object or right. However, these are not essential asset characteristics (para.19);

The control notion permits weight to be given to economic and social sanctions where they are effective in inducing entities to fulfil promises or to comply with
widely accepted business practices or customs. Thus, inclusion in the definition of assets of a control test rather than a legal enforceability test means the definition is less rigid and more reliable in assessing the capacity of an entity to secure the service potential or future economic benefits (para.21).

Since many items in the public domain are not legally owned by the presiding government department or agency, removing “ownership” from the asset definition meant that another potential hurdle for the successful implementation of “full” accrual accounting in the APS was removed (Wallace, 1994, pp.13-4).

Efforts to develop a broad notion of assets under ED 42C, seemingly to capture particular, not previously recognised, resources in the public domain, prompts a re-examination of the nature and purpose of providing any asset definition for application at all. The extract below is from Webster’s New International Dictionary (1924, pp.585-6) and outlines the generic characteristics commonly associated with an operational “definition”:

A description of a thing by its properties, or of a conception of its attributes; a brief explanation of the meaning of a word or term, such an account as intelligibly relates the idea defined to analogous or related ideas. Formally, a definition consists of a statement of the class in which the subject of a definition is included, and an enumeration of the differentiae, or specific marks or traits, which distinguish it from other members of the same class. A definition is adequate or exact when the differentiae makes certain the identification of the object intended (emphasis in original).

Evident in the above is the discriminatory potential of an adequate definition – the ability to identify an object by its attributes or traits. Yet, it seems that the ED 42C asset definition exhibits little discriminatory potential and as a result, the ability of the definition to suit its intended purpose, that is, to assist decisions regarding what is, and what is not an asset, seems problematic. This may be the type of instance that Cohen (1932, p.35) had in mind in stating that “the tendency to make
a term cover everything, prevents it from denoting anything definite”. Despite this, the ED 42C definition of assets, which was subsequently incorporated into SAC 4 upon its release in 1992, was interpreted broadly to maximise the potential to recognise public sector resources of all kinds as assets and thus provide unyielding support to the development, promotion and defence of accrual accounting technology in the APS.

SACS 1-3 RELEASED

In August 1990, the first three component statements of the revised CF were released. The forerunner SAC 1, as originally released in 1985, was amended to include private sector organisations and re-released as SAC 2 Objective of General Purpose Financial Reporting in 1990, with no reference to “Public Sector Entities” in its new title. Other concepts statements released at this time were SAC 1 Definition of the Reporting Entity and SAC 3 Qualitative Characteristics of Financial Information. These SACs closely reflected the content of EDs 42A, 46A and 42B. The exposure drafts released at this time were ED 51A Definition of Equity and ED 51B Definition and Recognition of Revenue.

DISCUSSION

With the release of the three concept statements, combined with ED 42C, the accounting profession had constructed an institution that could apply financial notions of accountability and performance that had previously applied to commercial, profit-seeking entities to a diverse range of public sector organisations for the first time. To elaborate, SACs 1-3, along with ED 42C, established those entities which were required to prepare general purpose
financial reports and outlined the information to be disclosed within those reports. According to SAC 2, the preparation of general purpose financial reports on a periodic basis enables the accountability and performance of entities in both public and private sectors to be presented and assessed in the same, structured ways within general purpose financial reports. Applying SAC 2, these complex aspects of the operations of all organisations could be presented and assessed if the reports contained financial disclosures for assets, liabilities, equity, revenues and expenses. According to SAC 2, unless general purpose financial reports are prepared containing full disclosure of financial statement elements, aspects of accountability and performance would not be captured adequately and the benefits claimed relating to resource allocation would not be forthcoming (see also Rowles, 1992, p.49).

The objectives of enhancing the efficiency and accountability of organisations, whether public or private are difficult to argue against and, in this sense, SAC 2 and its forerunner documents had been carefully crafted. Such familiar and universally desirable terms appeared to deliver the impression that the “problems” which were portrayed to exist in the public sector could be resolved by means of the preparation and presentation of general purpose financial reports. At the same time, plainly worded objectives such as these contain a range of inherent assumptions about the role and objectives of the organisations concerned and the information requirements of financial statement users (Gowers, 1973, pp.70-1; Whorf, 1972, p.244). According to SAC 2, accounting for commercial and non-commercial entities need not be different as accrual accounting systems provide useful information for readily assessing the accountability and the performance of
all organisations. The result is to introduce notions of accountability and performance that were conventionally applied to commercial organisations for virtually unmodified application in the public sector. Thus, according to SAC 2, presenting and assessing these difficult and complex aspects of organisational activities in specific public sector organisational settings becomes a relatively simple task that appears essentially technical and financial in nature (Aiken and McCrae, 1992, p.17; Carnegie and Napier, 1996; Gowler and Legge, 1983, p.221).

By applying conventional private sector notions of accountability and performance applicable to commercial, profit-seeking organisations, to a diverse range of public sector organisations, the restrictive or limiting potential of institutions described by Douglas becomes apparent. With the conceptual justification for preparing general purpose financial reports already established within the CF, the resolution of specific accountability and performance "problems" in particular public sector organisational settings appears to require little more than the application of existing and familiar accounting tasks including the identification, measurement and disclosure of financial statement elements. Any possibility of presenting and assessing the accountability and the performance of these organisations based on other, non-financial information is effectively dismissed. In this way, the CF offers an automatic starting point for addressing the accountability and performance of such organisations, notwithstanding that the primary missions and objective statements of many of these organisations are social, rather than financial in nature. This creates a type of financial visibility for these organisations which, in turn, may have far reaching
consequences for organisational and social functioning that were seemingly not
contemplated nor ever imagined by accounting regulators\textsuperscript{13}.

In addition, by presenting the apparent means by which the accountability and the
performance of all organisations could be presented, assessed and thereby
enhanced, the CF acquires a legitimacy that extends far beyond its formal
structure or authority. The content of the CF is not directly binding on the
accounting and reporting practices of government departments or agencies, nor
were they mandatory for members of the accounting profession when detailed
accounting standards were developed for the APS. Despite this, financial
reporting concepts outlined in the CF continue to pervade government accounting
and reporting guidelines and the accounting standards developed by the organised
profession (see, for example, AASB, 2001). This influence of the CF extending
far beyond its formal authority, is typical of the institutional definition offered by
Douglas, whereby institutions are primarily denoted by their role in shaping the
thinking of individuals associated with, or connected to, those institutions. In
Australia, the influence of the CF has largely arisen from its assumed ability to
lead to enhancements in the accountability and the performance of the
organisations concerned.

By March 1992, the fourth component of the CF (SAC 4) entitled \textit{Definition and
Recognition of the Elements of Financial Statements} had been released, although
three major issues were still to be addressed by accounting regulators. First, at no
stage was it evident in the CF components released that the primarily non-
financial nature of the accountability and the performance of many public sector
organisations was ever acknowledged. Thus, the usefulness of accrual accounting information for specific public sector organisations in measuring and assessing accountability and performance against stated organisational missions or aims was not clearly explained. In addition, there is no indication that the potential organisational and social consequences, whether intended or unintended, of applying accrual accounting practices to diverse public sector organisations were ever fully considered or evaluated. Finally, the asset definition developed in SAC 4 was sufficiently broad and abstract to capture many resources in the public domain, such as cultural, heritage and scientific collections, that did not meet the conventional definition of assets as generally accepted in the context of commercial, profit-seeking organisations. At the same time, how the financial disclosure of these items in general purpose financial reports could enhance assessments of the accountability and the performance of these organisations was not clear. Chapter seven demonstrates that when such concerns were subsequently raised which cast doubt over the application of financial notions of accountability and performance for the organisations concerned, the specific questions raised or challenges made were ignored or dismissed by accounting regulators. Those involved in such defences seemed to be reluctant to acknowledge that such disclosures may not deliver the asserted benefits outlined in the CF and the classification of the performance and accountability of many public sector organisations as primarily “financial” issues has remained largely beyond question.

In the period immediately following its release, SAC 4 was widely criticised due to several “contentious” and “controversial” implications of applying the broad
and abstract definitions of financial statement elements, particularly assets, and
primarily in the context of commercial, profit-seeking entities (Walker, 1993a,
p.15). Seemingly as a consequence, the mandatory status of SAC 4 was removed
by the accounting profession in December 1993. Notwithstanding, the broad and
abstract content of the CF continues to pervade legislative guidelines. Chapters
five to seven demonstrate how this content has also subsequently shaped the
development, promotion and defence of detailed accounting rules released by the
accounting profession directed at specific public sector organisations.

CONCLUSION

This chapter has outlined the construction of an institution from which financial
notions of accountability and performance for diverse public sector organisations
were derived. It is arguable whether the development of the formal CF
components has had a discernible impact on accounting standards and practices
relating to commercial, profit-seeking organisations. However, this chapter shows
how the broad and abstract content of the CF has enabled the accountability and
the performance of a diverse range of public sector organisations to be portrayed
in financial terms, thereby limiting or preventing complex aspects of
organisational activity and responsibility from being portrayed in other non-
financial ways. Thus, it is argued that the CF is better understood not as a
technical tool alone that can be used to resolve specific instances of accounting
policy choice, but as a political device that has enabled the accounting profession
to enhance the legitimacy of its standards and practices and justify a role in
regulatory space for the APS.

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With the role of general purpose financial reporting established for public sector organisations, universally desirable qualitative characteristics and an asset definition that could capture “almost anything and everything” (Schuetze, 1993, p.68), the development of detailed accounting rules for specific jurisdictional contexts was set to begin. The next chapter examines the development of three accounting standards which applied to public sector organisations alone in specific contexts. The chapter explains how, with the first four component statements of the CF in place, the resolution of accountability and performance issues became a relatively simple task involving the identification, measurement and disclosure of financial statement elements.
NOTES

1. *Regulatory space* was discussed in chapters one and two. Regulatory space in the context of the public sector, is the conceptual space within which participants can interact to discuss, debate and subsequently develop detailed accounting standards to be applied to public sector organisations (Kent, 2000; Latour, 1987; Miller and Rose, 1990; Rose, 1990; Young, 1994, 1995b).

2. The findings of several of these inquiries were introduced in chapter one. For example, the Bland inquiry in Victoria (1973-1975) called for a restructuring and streamlining of the operation of government. The Corbett (1973-1975) inquiry, conducted during the same period, was also critical of the growth of government and the lack of accountability and advocated greater financial visibility as one of the primary solutions to the problems that were identified in the state of South Australia (Chua and Sinclair, 1994, p.678). In general, the findings of the inquiries reflected a widely held perception that public sector entities were less efficient and inadequately accountable compared to entities in the private sector (Chua and Sinclair, 1994, p.679). For a detailed discussion of the findings of these inquiries, refer Davis et al., 1989; Halligan and Power, 1992; Parker and Guthrie, 1990; Power, 1990 and Smith and Weller, 1978.

3. The study team of the PBRC comprised seven members, each of whom was employed by the professional accounting firm Touche Ross & Co. at the time. As a consequence, it is perhaps not surprising that this team would express definite views on the nature and direction of public sector accounting reform. The perceived connection between PBRC and its report and the firm Touche Ross & Co. was such that the PBRC report is commonly referred to as the "Touche Ross" report.

4. This perception was, however, not universal, and was the subject of several animated exchanges during a NSW Public Accounts Committee Seminar in 1988 (NSWPAC, 1988, pp.91-5).

5. By late 1982 however, those at AARF had seemingly experienced a change of heart regarding the regulation of public sector accounting and had formed a united front in advocating the involvement of the profession, and the AARF in particular, in the development of accounting standards for that sector.

6. The delay from the commissioning of ATM2 to its eventual publication can be explained by Barton's repeated revision of ATM2 during that period as the FASB's CF developed (Burrows, 1996, p.160).

7. Both Kent (2000, pp.9-10) and Ryan (1995, pp.16-7) discuss further the strategies adopted by the accounting profession to overcome this "uneasy authority" position in the public sector. According to these authors, the choice of such "appropriate actions" was paramount for the profession to establish itself in regulatory space and to enable it to be perceived as an "acceptable partner" within that space.

8. "Public Sector Entities" are defined in SAC 1 (para.3) to include "ministerial departments, statutory authorities, local government councils and other forms of authority".

9. There are many other examples throughout ATM7 where extensive explanation is provided to justify the application of the asset definition to the public sector, particularly in the discussion of the characteristics of "control", "exchangeability and severability" and "legal enforceability" (Miller and Islam, 1988, pp.42-53).

10. For some examples of definitions of accrual accounting that assert the superiority of this form of accounting when compared to accounting on a cash basis, refer to AARF, 1995a, para.8; Bevis, 1965, p.95; FASB, 1978, para.44; Sprague, 1908, p.74; Vatter, 1950, p.40; Vance, 1961, p.377. These definitions generally suggest that accrual accounting leads to the "more timely" recording of transactions and several benefits for the users of the financial reports are assumed to follow. However, there remains no concise, authoritative explanation of how or why accrual information enables the provision of more timely information, and no clear specification of the point(s) at which revenues and expenses should be recognised under this form of accounting.

11. Similar criticisms have also been levelled at CFs developed in countries developed outside Australia, particularly in the USA (see, for example, Dopuch and Sunder, 1980; Hines, 1991a; Peasnell, 1982).
12. "Service potential" was removed from the asset definition subsequently contained in SAC 4.

13. In chapter two, research was examined which identifies significant, organisational and social consequences of specific applications of accounting (see, for example, Hopwood, 1990a; Miller, 1994; Miller and O'Leary, 1990, p.480; Parker and Guthrie, 1990, p.115; 1993, p.63; Porter, 1995; Young, 1995b, p.56). At no stage during the development of public sector accounting standards in Australia was it evident that such issues were duly considered by accounting regulators.
CHAPTER 5
DEVELOPING DETAILED ACCOUNTING STANDARDS FOR SPECIFIC PUBLIC SECTOR ORGANISATIONS

INTRODUCTION
Consistent with the structure of the study outlined in chapter one, chapters two and three have, respectively, examined the literature relevant to the study and explained the research methodology adopted. The previous chapter explained the construction of the institution from which financial notions of accountability and performance for diverse public sector organisations were derived. It was established in chapter four that within the formal components comprising the CF, a seemingly logical and unquestionable connection was established between the provision of general purpose financial reports and enhancements to the accountability and performance of diverse organisations, especially in the public sector. It was argued that as a consequence, although much of the content of the CF is broad and abstract and, therefore, cannot be generally applied to clearly resolve specific instances of accounting policy choice, the accounting profession had in its possession an institution which served two identifiable political roles. First, the framework appeared to provide the much needed theoretical knowledge base that could enhance the general legitimacy of existing accounting standards and practices which had been subject to widespread criticism for being prepared in the absence of such a framework. Second, the framework effectively imposed the application of accrual accounting practices upon a diverse range of public sector organisations for the first time. Accordingly, the key conclusions from chapter four were that the technical capabilities of the framework are, at best,
problematic, and, secondly, that the framework is, instead, best understood as a political tool.

This chapter is the second of four chapters which, collectively, seek to address the two research questions identified for the study. The purpose of this chapter is to explain how the concepts of financial reporting comprising the CF were interpreted and applied in the development of detailed accounting standards addressing the accountability and the performance of specific types of public sector organisations. By doing so, the chapter seeks to address the relevant component of the second research question identified for the study as outlined in chapter one and re-stated as follows:

How were these notions and other concepts of financial reporting outlined in the CF interpreted and applied in the (i) development; (ii) promotion; and (iii) defence of detailed accounting standards for not-for-profit public museums in Australia during the period under investigation?

It is argued in this chapter that even though much of the content of the CF is vague and abstract, it has been interpreted and applied in particular ways to develop three accounting standards requiring the preparation of general purpose financial reports for the three major levels of government in Australia. In doing so, the standards namely, AAS 27 Financial Reporting by Local Governments, AAS 29 Financial Reporting by Government Departments and AAS 31 Financial Reporting by Governments have introduced financial notions of accountability and performance to a diverse range of public sector organisations. The introduction of these notions within Australian public sector management occurred through the institution of the CF which guided and constrained the thinking of the accounting regulators and other advocates involved. During this
time, the traditional accounting tasks of identifying, measuring and disclosing financial statement elements were continually emphasised. This occurred, even though, as will be shown, there was little clear explanation of how the required disclosures could assist any applicable assessment of the accountability and the performance of the organisations concerned as articulated in their mission statements.

As will be demonstrated, during this time, only certain questions were asked and certain issues addressed, and a range of problems associated with applying the standards in specific contexts were not considered by accounting regulators or other advocates of the reforms. In addition, the impacts, whether intended or unintended, of applying accrual accounting practices to such organisations were not clearly articulated, let alone evaluated during this period. Thus, the key conclusion of this chapter is that the development of the three standards was largely guided and constrained by institutional thinking in the form of the institution of the CF.

The remainder of this chapter is arranged as follows. In the next section, the development of detailed accounting standards relating to different levels of government is discussed. This section commences with a consideration of an early detailed accounting pronouncement relating to local governments in Australia, namely, AAS 27 Financial Reporting by Local Governments, along with a consideration of its forerunner documents, Discussion Paper No.12 (DP 12) and Exposure Draft No.50 (ED 50), both entitled Financial Reporting by Local Governments. The section then considers, in detail, the development of
accounting pronouncements specifically relating to government departments which, as defined in AAS 29 *Financial Reporting by Government Departments*, include diverse not-for-profit entities such as public museums. The section demonstrates how the concepts of financial reporting outlined in the CF were applied to develop AAS 29 along with forerunner documents ED 55 and DP 16 (both of which were also entitled *Financial Reporting by Government Departments*) as well as DP 17 entitled *Financial Reporting of Infrastructure and Heritage Assets by Public Sector Entities*. A brief discussion of the most recent accounting standard relating to government, AAS 31, is then undertaken. This discussion of AAS 31 also demonstrates that the broad and abstract content of the CF significantly influenced the contents of the standard, even though by the time AAS 31 was released, the mandatory status of SAC 4 had been withdrawn. Taken together, AAS 27, 29 and 31 provide a seemingly comprehensive set of financial reporting guidelines encompassing each level of government in Australia. The final section of the chapter contains concluding comments.

**DEVELOPING DETAILED ACCOUNTING STANDARDS FOR THE APS**

This section discussed the development of detailed accounting standards directed at addressing the accountability and the performance of local government entities, government departments which encompass not-for-profit public museums and also whole of government as a reporting entity. Accordingly, the section contains a discussion of the development of AAS 27, 29 and 31, along with their forerunner documents. The documents discussed in the remainder of this chapter are outlined in the table below.
Table 1: Documents examined in this chapter

<table>
<thead>
<tr>
<th>Local Governments</th>
<th>Year of issue</th>
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<tbody>
<tr>
<td>DP 12</td>
<td>1988</td>
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<td>ED 50</td>
<td>1989</td>
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<tr>
<td>AAS 27</td>
<td>1990</td>
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<tr>
<td><strong>Government Departments</strong></td>
<td></td>
</tr>
<tr>
<td>DP 16</td>
<td>1991</td>
</tr>
<tr>
<td>DP 17</td>
<td>(November) *1992</td>
</tr>
<tr>
<td>ED 55</td>
<td>(January) 1992</td>
</tr>
<tr>
<td>AAS 29</td>
<td>1993</td>
</tr>
</tbody>
</table>

**Whole of Government**

| DP 21             | 1994          |
| ED 62             | 1995          |
| AAS 31            | 1996          |

* DP 17 addressed the recognition of both infrastructure and heritage resources generally, and hence relates to both local governments and government departments.

FINANCIAL REPORTING BY LOCAL GOVERNMENTS

Discussion Paper No.12 (DP 12) Released

In 1988, the AARF released Discussion Paper No.12 (DP 12) entitled *Financial Reporting by Local Governments*. The authors of DP 12 were D.T. Greenhall, a municipal auditor consulting to the AARF, and AARF staff members J. Paul and P. Sutcliffe. DP 12 constituted the first formal forerunner document to detailed accounting standards developed for specific levels of government in Australia.

The stated purpose of DP 12 was:

... to identify and consider issues relevant to the preparation of financial reports intended to disclose information about the local government which is useful for decision-making and accountability purposes, and to encourage debate on those issues (Greenhall *et al.*, 1988, p.1).
Even though DP 12 was published at a time when the exposure drafts of formal component statements of the CF had only recently been released\(^1\), these draft statements were relied upon by the authors. The influence of the documents comprising the CF in shaping the content of DP 12 was clear from the outset. The extract below is illustrative:

As a basis for analysis of specific issues, the paper adopts the objectives of financial reporting as reflected in Statement of Accounting Concepts SAC 1 “Objectives of Financial Reporting by Public Sector Entities” issued in December 1985... and now updated in exposure draft 42A (ED 42A) “Objective of Financial Reporting” issued in December 1987. SAC 1 and ED 42A establish that the objective of general purpose financial reports is to disclose information useful for making and evaluating economic decisions and for accountability purposes (Greenhall et al., 1988, p.2).

As confirmed in DP 12, the then existing systems of local government accounting were cash-based or fund-based\(^2\), and were subject to criticism on several grounds. According to the authors, such systems of accounting produced financial reports that were of limited usefulness to the financial decisions made by interested parties, largely due to the asserted inability of the reports to capture the costs of services and programs provided by the entities concerned (Greenhall et al., 1988, p.8). The financial reporting by local government authorities during this time was also demonstrated by the authors to be inconsistent across different jurisdictions within Australia (Greenhall et al., 1988, pp.8-9).

To address these criticisms, the authors applied the broad and abstract requirements of SAC 1, as released in 1985, along with the content of ED 42A in recommending the preparation of general purpose financial reports. The justification provided in DP 12 for requiring such information to be prepared is reproduced below:
SAC 1 (and ED 42A) argue that users require the disclosure of financial information useful in assessing such matters as the financial position of the local government, and changes therein; its performance, and whether it has complied with relevant finance-related rules and regulations which govern its operations. Disclosure of this information is, of course, central to any evaluation of the local council’s management of resources during the period, and is therefore required for accountability purposes and as an input for future resource allocation decisions (Greenhall et al., 1988, pp.16-7).

Further justification for the preparation of these reports was provided in DP 12 based on references to a range of widely desirable, yet broad qualitative characteristics of financial information namely, relevance, reliability, comparability as well as understandability. As is evident in the extract from DP 12, reproduced below, these qualitative characteristics which were outlined in ED 42B were claimed to enable general purpose financial reports to address the perceived deficiencies in the existing financial reports prepared by local governments:

While broad in nature, these characteristics directly address a number of the criticisms levelled at financial reporting by local government; for example, the relevance of the information to users’ needs and its understandability .... While these characteristics provide only broad guidance to preparers, they, together with clearly identified objectives, will play a central role in the design of any useful reporting model - they establish the parameters of that model and provide direction for the resolution of practical issues. In addition, subject to the exercise of sound judgement by preparers and auditors, they will dictate the content and basis of presentation of the financial reports themselves (Greenhall et al., 1988, p.19).

In advocating and applying these characteristics in the manner outlined, the authors clearly offer the impression that such broad characteristics can be used in a technical manner to guide the selection and presentation of information included in the reports in specific instances. However, nowhere in DP 12 do the authors clearly explain how these qualitative characteristics may be applied in specific public sector organisational settings. Furthermore, while advocating the application of these characteristics, the authors of DP 12 also acknowledge the
strong likelihood that trade-offs will occur when attempting to apply the characteristics of relevance and reliability in specific instances (Greenhall et al., 1988, p.19). Notwithstanding, there is no explanation provided within DP 12 of how the likely tradeoffs between relevance and reliability might be resolved in specific instances. Thus, DP 12 does not make evident that the operationalisation of these characteristics is, at best, problematic.

The remainder of DP 12 is directed at addressing specific issues relating to the preparation of general purpose financial reports within local government entities across Australia. These issues are inevitably addressed within the confines of the concepts of financial reporting contained in the draft CF documents. According to DP 12, the preparation of general purpose financial reports will provide a range of benefits for the organisations involved and enhance the financial decisions made by interested parties. The justification provided in DP 12 for requiring the preparation of these reports is reproduced below:

For purposes of accountability and decision-making, general purpose financial reports should provide users with information about the costs of operations during the period, the extent to which revenue raised during the period is greater than the costs consumed during that period, the resources the entity controls and the liabilities it has incurred. Consistent with these requirements, this paper supports the adoption of accrual accounting for general purpose financial reporting by local governments (Greenhall et al., 1988, pp.51-2).

The authors of DP 12 then devote considerable attention to applying the content of ED 42C Definition and Recognition of Assets to justify the recognition of a diverse array of infrastructure resources as assets for financial reporting purposes, thereby endorsing the application of full accrual accounting within local government. The authors acknowledge that many infrastructure resources are subject to restricted control and cannot readily be sold (Greenhall et al., 1988,
p.55). Notwithstanding these difficulties, the authors conclude that such resources should be measured in financial terms and disclosed as assets in general purpose financial reports (Greenhall et al., 1988, p.55).

By requiring the preparation of general purpose financial reports for local government, DP 12 applied financial notions of accountability and performance that had previously existed for commercial, profit-seeking entities, to local government entities for an historic first time. The broad objective of financial reporting and the widely desirable, yet broad qualitative characteristics of financial information, along with the vague and abstract asset definition and recognition criteria formed a solid basis for advocating the preparation of these reports as maintained throughout DP 12. This advocacy was able to occur, even though the CF component statements in which these concepts were outlined had only been released during the previous year and were still in exposure draft form. The requirement to disclose particular items of infrastructure as assets for financial reporting purposes, particularly land under roads, has generated considerable controversy, which is discussed further in later sections of this chapter.

**Exposure Draft No.50 (ED 50) Released**

In November 1989, the Exposure Draft (ED 50) Financial Reporting by Local Governments was released and was available for comment for a period of four months ending 31 March 1990. The stated purpose of ED 50 (para.3) was to:

... set out standards for the form and content of general purpose financial reports of local governments so that those reports provide information that is both relevant and reliable to users for making and evaluating decisions about the allocation of
scarce resources, and assist users in assessing the accountability of local governments.

As was outlined in chapter four, general purpose financial reports had been defined in SAC 1 and ED 42A in such terms, based heavily on the asserted benefits for the accountability and the performance of organisational management, and on the asserted improvements in economic decision-making to be made by interested parties. Accordingly, it was of little surprise that ED 50 reflected many of the recommendations made in DP 12 and formally mandated the preparation of general purpose financial reports for local governments.

According to ED 50 (AARF, 1989, para.26), general purpose financial reports for local governments should include "a statement of financial position, a statement of changes in equity and a statement of sources and applications of funds". Within the statement of financial position, ED 50 also expressly required the disclosure of assets, liabilities and equity (AARF, 1989, para.28). More specifically, the draft document required the measurement in financial terms and disclosure as assets of a range of resources in the public domain, including "buildings, monuments and infrastructure assets such as roads, bridges and underground pipes" (AARF, 1989, para.40). According to ED 50 (paras.39-41), the availability of such disclosures would lead to enhancements in the accountability and the performance of local governments and assist the decisions made by interested parties, thereby improving the prospects of attaining the objective of general purpose financial reporting outlined in SAC 1 and ED 42A. The controversy caused by requiring such disclosures is discussed in the next section.
AAS 27 Released

The accounting standard AAS 27 Financial Reporting by Local Governments was released in December 1990, nine months after the closing date for submissions to ED 50. Upon its initial release, AAS 27 was required to be applied in financial reporting periods ending on or after 30 June 1993. The content of AAS 27, largely reflected the content of the forerunner documents, DP 12 and ED 50. Particularly, AAS 27 reflected the assertion, as outlined in the CF, that commercial systems of accounting are relevant for assessing the accountability and performance of local governments. This assumption was to remain almost beyond question, even when several specific issues and problems arose regarding the implementation of AAS 27.

The stated objective of AAS 27 is to prescribe the form and content of the financial reports by local governments (AARF, 1991, para.8). In doing so, the reporting entity concept outlined in SAC 1 provided the starting point in AAS 27 from which the form and content of financial reports for local government could be advocated and specified. Under AAS 27, “each local government is a reporting entity, and is therefore required to prepare general purpose financial reports” (AARF, 1991, para.3). Under the standard, the preparation of general purpose financial reports is asserted to enable the accountability and the performance of local governments to be presented and assessed in financial terms. In order for these asserted benefits to eventuate, according to AAS 27, the statement of financial position prepared for local governments should include disclosures for assets, liabilities and equity at the reporting date (AARF, 1991, para.27). Furthermore, consistent with DP 12 and ED 50, AAS 27 formally required public
buildings, monuments, roads, bridges and underground pipes to be recognised and disclosed as assets in the statement of financial position (AARF, 1991, para.35).

The requirement to recognise land under roads as assets in financial statements of local governments has given rise to considerable controversy (see, for example, Barton, 1999a, 1999b, 1999c, 2002; Bellamy, 1992; Carnegie and West, 1997; Molland and Bellamy, 1997; Neilson, 1993; Pallot, 1990, 1992, 1997; Rowles, 1991, 1992; Rowles et al., 1998, 1999; Walker et al., 1999, 2000b). According to Carnegie and West (1997, p.35) in their analysis of the submissions to ED 50 *Financial Reporting by Local Governments*, it is not clear that respondents supported the requirement to recognise a diverse array of infrastructure resources as assets in general purpose financial reports. Carnegie and West (1997, p.35) elaborate on this key finding:

Marginal majority support is yielded only by adding to the unqualified expressions of support the views of those whose support was qualified (often significantly) and ignoring those which did not reflect a clear view on the issue. The clearest impression is of no overwhelming view for or against a policy that would mark a major and costly change in accounting practice, with potentially significant implications for organisational and social functioning. It might therefore have been expected that an accounting standard incorporating such a policy would have been developed cautiously. Far from indicating that caution was exercised, the recent amendments suggest that the standard was premature, particularly with respect to land under roads.

Carnegie and West (1997) specifically identify a range of respondents submissions to ED 50, particularly from the preparers of the reports mandated (or intended to be mandated), which demonstrate specific and direct opposition to the recognition of land under roads as assets for financial reporting purposes. There were several grounds upon which these requirements were opposed. Such grounds included the difficulty of arriving at a meaningful and reliable financial valuation
for infrastructure items, the restricted control by local government authorities over these resources and, therefore, the irrelevance of such disclosures for assessing the accountability and the performance of local government entities (Carnegie and West, 1997, p.35). The conclusions reached by Carnegie and West (1997) were to be later supported by the findings of a study by Rowles et al. (1998), who surveyed local government financial managers from municipalities around Australia to ascertain their views on the recognition of land under roads as required under AAS 27.

According to Rowles et al. (1998) local government financial managers with responsibility for managing infrastructure items generally viewed the financial measurement and disclosure as assets of land under roads as a costly and pointless exercise. According to the local government financial managers surveyed, land under roads should not be recognised as an asset in financial statements because it has no market value and the resulting information is costly to produce and has no useful purpose (Rowles et al., 1998, pp.47-9). These views expressed by respondents directly contradicted the asserted usefulness of general purpose financial reports for the accountability and the performance of local governments and thereby questioned the functional justification upon which AAS 27 was based. Notwithstanding, the authors effectively dismissed their own findings and confidently attributed the results to shortcomings in the knowledge and understanding of respondents. The extracts below illustrate the manner in which Rowles et al. (1998, p.49) conclude their study:

In this respect, the survey seems to indicate misunderstanding about the purpose of general purpose financial reporting by local government (and, perhaps by extension, government generally). The survey indicates that it is important to
understand the assumption accepted by public sector financial managers in forming their views on general purpose financial reporting \ldots\ As already noted, survey responses indicate considerable cynicism about the usefulness of recognition. The perception gained from the comments of the financial managers surveyed is that many negative views about the recognition of land under roads are based on the mistaken belief that all such land must be recognised. If this were so, much of the cynicism would be warranted since, in many instances, such land has no value to alternative users and no useful information will have been provided to the users of local government financial statements. But under the requirements of AAS 27 and the SAC 4 definition of an asset, such a view is incorrect, and cynicism and hostility is misplaced.

The survey also highlighted a lack of understanding by local government financial managers about the potential usefulness of the information, rather than any technical deficiency in the application of the principle. On this issue, the PSASB task seems educational rather than technical.

The findings of the survey by Rowles et al. (1998) in relation to the disclosures required under AAS 27 were consistent with the findings in a series of other studies covering similar issues (see, for example, Falk and Neilson, 1993; Walker et al., 1999, 2000a, 2000b)\textsuperscript{3}. These studies have specifically questioned the relevance of the monetary valuation and disclosure of land under roads as assets in financial reports in assessing the accountability and the performance of local government entities. According to Walker et al. (2000b, p.143), local government managers and other interested parties, in dealing with infrastructure management, prefer non-financial, engineering-based information rather than accounting-based information (see also Van Daniker and Kwiatkowski, 1986). Despite the findings of this other research, as well as the findings of their own study, Rowles et al. (1998) perceived little reason to question the asserted justification for the disclosures mandated under AAS 27 and SAC 4. They concluded that the major task of accounting regulators in relation to this issue was “educational” rather than “technical” (p.49)\textsuperscript{4}. In this way, evidence indicating that local government financial managers considered that the information required under AAS 27 was largely irrelevant to their decision processes was effectively dismissed.
The manner in which Rowles et al. (1998) dismissed the significance of these results is curious for two reasons. First, as will be explained in later sections of this chapter, Rowles is recognised as the sole author of Discussion Paper No.17 (DP 17) entitled *Financial Reporting of Infrastructure and Heritage Assets by Public Sector Entities*. Throughout DP 17, Rowles advocated the recognition of heritage and infrastructure items as assets in general purpose financial reports. Rowles (1992) justified the recognition of these items largely based on an uncritical appeal to the vague and abstract concepts within the CF, concluding that the recognition of such assets was necessary in order for the accountability and the performance of relevant public sector organisations to be presented and assessed.

Second, as a co-author of Rowles in the 1998 study, Bellamy had undertaken prior research into a range of issues associated with AAS 27 (see, for example, Bellamy 1992; Molland and Bellamy, 1997). The conclusions reached by Bellamy in (1992) are not entirely consistent with those reached in the jointly authored article with Molland which was published in 1997, nor do they appropriately reflect the conclusions reached in the study by Rowles et al. (1998). In her 1992 study, Bellamy had opposed the recognition of heritage and infrastructure resources as assets, concluding that:

... the arguments for capitalising heritage and infrastructure assets are conceptually sound, but that the approach will not necessarily lead to the production of financial statements which enhance economic decision-making (Bellamy, 1992, p.2).
According to Bellamy (1992, p.12), the initial release of AAS 27 was somewhat “premature”, since DP 17 which specifically addressed the recognition of both infrastructure and heritage resources was not completed until nearly one year after AAS 27 had been released. To support her conclusion that the disclosure of these resources should be re-considered, Bellamy identified a range of practical and conceptual problems associated with measuring these resources in financial terms and reporting them as assets. The practical implementation problems identified by Bellamy (1992) included the difficulties of arriving at meaningful and reliable financial valuations for such resources, as well as the possible adverse impacts on present and future generations of periodically depreciating the financial magnitudes disclosed (Bellamy, 1992, pp.12-3). According to Bellamy (1992, pp.13-4), the monetary valuation of such resources and their disclosure as assets is also not without its conceptual difficulties. The difficulties identified by Bellamy (1992, p.14) concern:

... the relevance of reporting such assets in the financial statements, whether the loss of service potential in heritage and infrastructure assets should be accounted for and reported as an expense, the relevance of capital maintenance concepts to public sector entities, and how to measure the cost of these assets (Bellamy, 1992, p.14).

As a consequence of such difficulties, Bellamy maintained that even though heritage and infrastructure resources might be interpreted to fall within the definition of assets, “it does not necessarily follow that they should be recognised in the body of local authority financial statements”. Bellamy (1992, p.16) concluded her study in the following way:

... the practical problems involved in measuring the cost of heritage and infrastructure assets, coupled with the expense involved in maintaining detailed asset registers, would seem to make the provisions of the standard somewhat impractical, especially at a time when so many of the issues relating to public
sector asset measurement remain unresolved … . Perhaps further consideration should be given to the real information value of capitalizing heritage and infrastructure assets.

In a subsequent, jointly-authored article written with Molland and published in 1997, it appeared that Bellamy had begun to reconsider her position regarding the recognition of infrastructure resources as assets in general purpose financial reports. In their study, Molland and Bellamy (1997) surveyed financial officers from a total of 78 local authorities in Victoria and sought information on a range of issues including:

... how local councils valued and depreciated their infrastructure assets, whether problems experienced in the valuation/depreciation exercise varied across infrastructure assets of different types and which assets in particular have proved to be problematical. An indication was sought also of the level of commitment on the part of senior municipal officers to the requirements of the standard as they relate to the accounting treatment of infrastructure assets.

The findings of the study by Molland and Bellamy (1997) indicated that nearly seven years after the initial release of AAS 27, there was still much opposition from local authorities toward the monetary valuation and disclosure as assets of particular infrastructure resources, especially land under roads. According to Molland and Bellamy (1997), the respondents identified a range of problems associated with making such disclosures. These problems included “valuation issues”, “depreciation issues” and the “attitudes of municipal officers” (Molland and Bellamy, 1997, p.35).

The findings of the study by Molland and Bellamy (1997) provided a further opportunity to challenge the asserted usefulness of the disclosure requirements specified in AAS 27, as Bellamy had done in 1992. The findings had also offered the opportunity to propose a range of alternative, non-financial information on the
usage and management of such resources for accountability and performance assessment purposes. Notwithstanding, Molland and Bellamy (1997) concluded that the solution to the problems and issues identified by the respondents lay with the accounting regulators and other advocates of reform. According to Molland and Bellamy (1997), those involved should more widely promote the asserted, although largely unsupported, benefits of disclosing the required information. The extract below indicates how the authors justified this view.

The message is that standard-setters need to promote accounting standards and their benefits more effectively to those who have the task of applying the provisions ... . As this study has revealed, there are wide disparities in how some councils are selecting and applying valuation and depreciation approaches; this has serious implications for financial reporting. More detailed technical and practical guidelines by the AARF and local government organisations would have assisted local authorities in the application of the standard (Molland and Bellamy, 1997, p.37).

Accordingly, even though the results of their study indicated that the preparers of local government financial reports believed that these disclosures were costly and of limited usefulness, the asserted benefits of the disclosures, outlined in the CF, remained largely intact. In 1992 Bellamy had concluded that these difficulties were sufficient to render the recognition of these resources impractical. Five years or so later, this was seemingly not the case.

In light of the controversy surrounding the recognition of land under roads in general purpose financial reports, it is not surprising that accounting regulators have deferred the requirement to recognise such resources several times in recent years, with the period most recently extended "indefinitely" (Martin and Dixon, 2002, p.74). The transitional period for the non-recognition of such resources was initially allowed to "provide an adequate period within which interested parties
can address whether and, if so, how concerns about reliable measurement of land under roads can be overcome" (AARF, 1996, preface). The latest, indefinite, extension is provided since accounting regulators seem to have finally conceded an inability to derive a method of reliably measuring land under roads in financial terms and, according to Carnegie and West (2002, p.22), it "marks a major technical fiasco in Australian standard-setting".

It is also worthy to note that the initial transitional period for recognising land under roads as assets was provided to enable regulators to determine how land under roads might be measured and disclosed in accounting reports. The stated purpose of these time extensions did not extend to a re-appraisal of the appropriateness of providing such disclosures for local governments in the first place. By adopting such a focus for the transitional period, the notion that these disclosures may not assist the presentation and assessment of the accountability and performance of local governments was, evidently not addressed. As a consequence, any opportunity to evaluate the appropriateness of alternative, non-financial means for presenting and assessing the accountability and performance of local governments beyond a set of general purpose financial reports was not taken up. It is for the future to disclose whether AAS 27, or any other public sector accounting standard to be released will, with the benefit of hindsight, encourage the development of alternative systems of accountability and performance measurement based on the generation of non-financial information about the usage and management of such resources.
ACCOUNTING FOR GOVERNMENT DEPARTMENTS

This section considers the development of detailed accounting standards relating to diverse government departments. A government department is defined in Australian accounting pronouncements as "a government-controlled entity, created pursuant to administrative arrangements or otherwise designated as a government department by the government which controls it" (see, for example, AARF, 1992a, para.8). As defined, government departments encompass most not-for-profit public museums in Australia. Accordingly, this section discusses the development of AAS 29 which also encompasses a consideration of its forerunner documents.

Discussion Paper No.16 (DP 16) Released

In 1991, the AARF released Discussion Paper No.16 (DP 16) entitled Financial Reporting by Government Departments co-authored by AARF staff members P. Sutcliffe, F. Micallef, as well as prominent accounting academic, Professor L.D. Parker. DP 16 constituted one of the first formal steps taken by accounting regulators in Australia toward developing detailed accounting pronouncements relating to not-for-profit public museums in Australia. The stated purpose of DP 16 was to "identify and consider issues in the financial reporting by departments of State, Territory and Commonwealth Governments, and to encourage debate on those issues" (Sutcliffe et al., 1991, p.1). The authors of DP 16 sought to address this stated objective from within the CF for financial reporting (Sutcliffe et al., 1991, pp.2-3). According to DP 16, government departments are considered to be reporting entities which, by definition, are required to prepare general purpose
financial reports. The authors provide the following justification for this conclusion:

(i) departments command significant resources;
(ii) departments use of those resources can have a significant impact on the social and/or economic well being of members of the community; and
(iii) there is a separation between management and ownership of those resources.

(Sutcliffe et al., 1991, p.11)

While applying the reporting entity concept to all government departments, irrespective of their organisational missions, the authors also noted that other accounting issues concerning the preparation and presentation of general purpose financial reports for specific government departments are not as easily resolved.

According to the authors:

... agreement that departments are reporting entities will not resolve issues about such matters as the content of the financial report, the reporting formats that should be adopted to communicate the financial information, where the boundaries of the department should be drawn for financial reporting purposes ... and the frequency and timeliness with which those reports should be made available (Sutcliffe et al., 1991, p.19).

Thus, DP 16 endorsed the preparation of general purpose financial reports for government departments, although the authors also warned of undisclosed shortcomings in merely applying commercially oriented systems of accountability and performance measurement for government departments. The extract below illustrates the manner in which this warning was given:

The paper recommends that the accrual basis of accounting be adopted for general purpose financial reporting by departments. However, it does not advocate adoption of a commercial reporting model constructed around primary financial statements which highlight profitability and changes in shareholders’ wealth.

This paper recognises that the cash basis of accounting provides useful information for economic decision-making purposes and necessary to demonstrate compliance with spending mandates. Similarly, this paper recognises that general purpose financial reports prepared on a modified accrual basis can highlight information relevant as input for economic decision-making and for accountability purposes;
for example, the financial resources controlled by departments and changes in those resources. However, the cash and modified accrual basis of accounting reflect a narrower view of accountability than does the accrual basis, and inhibit the role that general purpose financial reports can play as vehicles to communicate information useful for economic decision-making and accountability purposes (Sutcliffe et al., 1991, p.55).

In addition, DP 16 applied the then existing CF components in considering the recognition of financial statement elements. According to DP 16, the application of ED 42C raises "new" and "complex" issues in the case of government departments. Accordingly, DP 16 applied the asset definition and recognition criteria contained in ED 42C to infrastructure resources which had previously also been discussed in DP 12, ED 50 and AAS 27. DP 16 also applied the asset definition and recognition criteria in ED 42C to heritage resources for the first time. The authors of DP 16 maintained that "in most cases [infrastructure and heritage resources] will satisfy the definition of assets proposed in ED 42C" (Sutcliffe et al., 1991, p.64). The justification for this conclusion was derived from the contents of ED 42C. According to the authors, the monetary valuation and disclosure of infrastructure and heritage resources as assets for financial reporting purposes is warranted, since such resources:

(i) do assist the department to achieve its objectives, whether those objectives be to produce a rail or road service, a recreational facility or a cultural resource, and therefore represent service potential;

(ii) are controlled, that is, they will be used to achieve the objectives of the department and their deployment will be a function of departmental decision-making (notwithstanding that those decisions will be made within the parameters established by government policy or by donor conditions); and

(iii) are controlled as a result of a past transaction or other past events.

(Sutcliffe et al., 1991, p.65).

Where such resources satisfy the definition of assets contained in ED 42C, the authors assert that the non-disclosure of such resources will impede assessments of the accountability and the performance of the departments involved. Such
conclusions were not, however, supported by rigorous research, empirical or otherwise, conducted in Australia. The authors of DP 16 conclude on this issue in the following way:

Arguments that financial information about the stocks of infrastructure and heritage assets and the costs of consuming them, as well as amounts spent on acquiring them, should be reported in general purpose financial reports for accountability and decision-making purposes, are persuasive (Sutcliffe et al., 1991, p.66).

According to DP 16, all infrastructure and heritage resources which can be reliably measured in financial terms, should also be depreciated. However, in making such recommendations, the authors also note the “acute” practical difficulties which exist in implementing these requirements in specific settings, particularly for those entities which have not been required to maintain comprehensive asset registers in the past (Sutcliffe et al., 1991, p.69). In response to these practical difficulties, the authors recommended general guidelines to be applied in placing financial values on such resources for financial reporting purposes. According to the authors, infrastructure and heritage resources should:

(i) initially be recognised at their acquisition cost ... or, where assets previously acquired are to be recognised for the first time, at their current replacement cost;
(ii) where control of such assets has been acquired other than by an exchange transaction be recognised at “fair value”; and
(iii) subsequent to acquisition, be systematically revalued to their replacement cost and depreciated thereon (Sutcliffe et al., 1991, p.69).

Discussion Paper No.17 (DP 17) Released

Shortly after the release of AAS 27 and DP 16, the AARF released Discussion Paper No.17 (DP 17) entitled Financial Reporting of Infrastructure and Heritage Assets by Public Sector Entities. In DP 17, the AARF, with staff member Tom Rowles as author, sought to identify, address and resolve issues of controversy
about the recognition and measurement of non-current physical assets such as roads, bridges, parks and monuments by public sector entities (Rowles, 1992, p.1). The release of DP 17 less than two years after the original issue of AAS 27 and approximately one year after the release of DP 16 is curious. Both of these earlier documents had already considered such issues in relation to infrastructure resources, while DP 16 had also considered similar issues in relation to heritage resources. In writing DP 17, Rowles appeared to adopt a "defensive stance", perhaps in order to confront criticisms of ED 50, the forerunner document to AAS 27 (Carnegie and West, 1997, p.27), and also to allay concerns about the appropriateness of, and the difficulties in, measuring such resources in financial terms, including those concerns that were outlined in DP 16.

According to Rowles (1992), the objective of providing financial information which is useful to decision making and which would enhance the accountability and the performance of relevant entities is paramount. From the outset in DP 17, Rowles (1992) made clear his views that these desirable goals could be achieved through the preparation of general purpose financial reports. The extract below indicates how this view was expressed:

The use of accrual accounting, and the reporting of all assets, to determine financial position and performance is essential to achieving this purpose. The need for public sector reporting entities, including government departments, to prepare general purpose financial reports on an accrual basis has been recognised, supported and argued by the PSASB for some time. This paper supports these arguments (Rowles, 1992, pp.xi-xii).

For Rowles, the CF was the automatic starting point from which issues concerning the recognition and measurement of non-current physical assets could be addressed and resolved. The following statements confirm his position:
This Paper considers issues about accounting and financial reporting of these assets in the context of the Conceptual Framework for General Purpose Financial Reporting, currently being developed by the Australian Accounting Research Foundation. The Conceptual Framework is applicable to reporting entities in the public and private sectors (Rowles, 1992, p.xii).

The objective sought for financial reporting will determine what is appropriate to report. For Australian purposes, the relevant objective is contained in SAC 2. This objective is the relevant one to resolving issues about accounting for infrastructure and heritage assets (Rowles, 1992, pp.22-3).

Thus, clearly evident throughout DP17 was the notion, as outlined in the CF, that general purpose financial reports were required to be prepared in order to present and assess the accountability and the performance of all public sector organisations. The objective of general purpose financial reports in SAC 1, the asset definition in SAC 4, as well as the content of the other component statements comprising the CF collectively constituted the institution which guided and constrained Rowles' thinking in identifying and considering issues dealing with financial reporting throughout DP 17. This was particularly the case when the disclosure of specific items as assets was discussed, since Rowles (1992, p.23) maintained that "to meet the SAC 2 objectives, disclosure of information about the stock of non-current physical assets, including infrastructure and heritage assets, and consumption of their service potential will be required".

Throughout DP 17, Rowles devoted considerable attention to discussing whether infrastructure and heritage resources possessed the characteristics prescribed within the CF for recognition as assets in general purpose financial reports. According to Rowles (1992), the asset definition in SAC 4 should be used as a
technical tool to resolve this decision. The extract below is illustrative of his implicit portrayal of the asset definition in SAC 4 as a technical tool:

Whether an item should be recognised as an asset for accounting purposes is ultimately decided by testing its characteristics against those contained in an accounting definition of an asset. Application of such a test will be a question of fact to be determined in each situation, and the conclusion reached will depend, inter alia, upon the particular definition employed. Different asset definitions might produce different conclusions as to whether a particular item should be recognised as an asset for accounting purposes. Whether infrastructure and heritage assets should be recognised as assets is therefore resolvable by testing their character against an appropriate definition of an asset. In Australia, the relevant reference as to what should be recognised as an asset is contained in SAC 4 (Rowles, 1992, p.44).

In essence, the analysis by Rowles amounted to little more than an effort to justify why the recognition of such items should occur, mostly in light of the asserted, yet not clearly demonstrated, benefits of providing such disclosures for the accountability and the performance of the organisations involved. The acknowledged difficulties with the monetary valuation and disclosure of infrastructure resources as assets that were expressed in the earlier DP 16 were not as evident in DP 17. The asset definition developed in SAC 4 was sufficiently vague and abstract to support conflicting interpretations to be drawn and, accordingly, for different accounting treatments to be argued for the same item⁵.

Notwithstanding, within DP 17 Rowles (1992) interpreted and applied the definition in a particular way to provide support for the preparation of general purpose financial reports for specific public sector organisations. Thus, not surprisingly, Rowles concluded that infrastructure and heritage items should be disclosed as assets in general purpose financial reports, based on an uncritical appeal to the asset definition specified in SAC 4 and, more generally, to the objective of financial reporting as advanced in SAC 2. This “official” interpretation was afforded weight over other potential and at least equally valid
and thoughtful interpretations of the same vague and abstract concepts. The extracts below indicate how Rowles (1992), relying largely on the CF for support, was able to conclude that infrastructure resources and diverse heritage resources should be measured in financial terms and recognised as assets for financial reporting purposes:

SAC 4 establishes a definition of assets which is consistent with the SAC 2 objective and the circumstances in which those assets are to be recognised in financial statements. Whether infrastructure and heritage resources should be recognised therefore depends upon whether they possess the characteristics of assets and satisfy the recognition criteria. In this Paper it is concluded that infrastructure and heritage type assets do, in general, meet this test (Rowles, 1992, p.49).

Judged against other definitions, and relevant recognition criteria, infrastructure and heritage assets may not possess characteristics necessary for recognition. Similarly, specification of other objectives for financial reporting might produce differing conclusions about the recognition of these assets in financial statements (Rowles, 1992, p.50).

The manner in which Rowles reached these conclusions appears to represent the type of instance that Walker (1994, p.11) had in mind on stating that “AARF’s approach [to developing accounting pronouncements] uses Statements of Accounting Concepts the way religious fundamentalists use theological texts. Answers are pre-determined”.

In concluding DP 17, Rowles had left several important questions unanswered, prompting Walker (1995a, p.11) to conclude, in frank terms, that DP 17 seemed to be “high on waffle and low on logic”. Nowhere in DP 17 was the appropriateness of the asset definition for application in the public sector, especially for diverse not-for-profit entities such as public museums, critically examined. Moreover, throughout DP 17, Rowles made little effort to consider the missions or organisational objectives of the repositories of infrastructure and resources which,
in many instances, are social, rather than financial in orientation. No detailed explanation was offered in DP 17 to elucidate how the financial disclosures for such resources would enhance the accountability and the performance of those organisations in the context of their missions or organisational objectives.

In addition, prior to the publication of DP 17 no research was conducted by accounting regulators in Australia to establish whether such financial information was, or would be, used by managements with responsibility for the care and maintenance of infrastructure items and the conservation and preservation of heritage items. Rowles (1992) made little effort to acknowledge the potentially prohibitive time and cost involved with regularly valuing infrastructure and heritage resources. The potential impact on the operation, service delivery, setup and management of the organisations concerned by making such disclosures was never comprehensively evaluated. Finally, Rowles made several references to a US-based study on infrastructure accounting (Van Daniker and Kwiatkowski, 1986) to support the conclusions reached in DP 17. In doing so, however, he failed to also acknowledge the findings of the same study which suggest that when faced with matters pertaining to infrastructure, financial statement users prefer non-accounting based information (see also Walker et al., 2000b).

Rather than explore the array of complex and difficult issues and problems such as those identified above, a case for recognising such diverse resources was presented and justified by Rowles based largely on a non-critical appeal to AARF’s widely desirable, yet broad concepts of financial reporting outlined in the CF. In this sense, DP 17 was constructed in a way that encouraged little critical
reflection, permitting no valid interpretations of the vague and abstract contents of the CF beyond those made by the author. Thus, throughout DP 17, Rowles constantly claimed, in the absence of research evidence, the benefits of providing such commercial accounting disclosures for assessing the accountability and performance of the many non-commercial organisations involved, including not-for-profit public museums.

**Exposure Draft No.55 (ED 55) Released**

In January 1992, Exposure Draft 55 (ED 55) Financial Reporting by Government Departments was released. The stated aim of ED 55 was to “set out standards for the form and content of the financial reports of government departments” (AARF, 1992b, para.5). According to ED 55, government departments, which encompass most not-for-profit public museums within Australia, should be classified as reporting entities and, therefore, are required to prepare and issue general purpose financial reports (AARF, 1992b, para.15). Consistent with DP 16, ED 55 constituted an application of the concepts statements found in the CF (AARF, 1992b, para.9). According to ED 55, the presentation and assessment of the accountability and performance of government departments required the preparation of general purpose financial reports containing financial disclosures for assets, liabilities, equity, revenues and expenses as well as cash flows. Within the statement of financial position, ED 55 specifically required the disclosure of “all assets, including infrastructure assets, heritage assets, community assets and other assets which provide services or economic benefits over long periods of time” (AARF, 1992b, para.50).
The impact of this requirement was to endorse the disclosure of infrastructure resources which was also required in AAS 27. In addition, pursuant to ED 55 and consistent with DP 16 and DP 17, heritage and community resources, which had not been specifically addressed within AAS 27, were formally required to be recognised as assets (AARF, 1992b, paras.47-52). The primary justification provided to support the recognition of these resources lay in the asserted benefits for accountability and performance as outlined in SAC 2. The following extract from ED 55 illustrates the nature of the justification provided:

The objective of general purpose financial reporting is to disclose information for economic decision making and accountability purposes. For economic decision making and accountability purposes users are likely to require information about the resources controlled by the government department, changes in those resources as a result of the reporting period's operations and the department's performance in using those resources for the achievement of its objectives. The recognition of assets in the statement of financial position informs users of the amount and types of service potential or future economic benefits deployed by the government department to meet its service delivery objectives (AARF, 1992b, para.50).

According to ED 55 (AARF, 1992b, paras.60-69), infrastructure and heritage resources should also be measured and regularly revalued to their written down replacement cost and periodically depreciated.

ED 55 was available for comment for a period of six months, which ended on 30 June 1992. During that time, 46 submissions were received on the draft document. Of the responses received, 20 responses (43 per cent) were from the preparers of the general purpose financial reports required under ED 55, while the remaining responses were received from those reasonably expected to audit or use the reports routinely for decision-making. These respondents included Auditors-General and State/Territory Treasuries with seven and nine responses respectively, professional accounting firms submitted three responses, while seven
responses were received from a range of other interested parties, mostly individuals, located in accounting and related fields.

Ryan et al. (1999) analysed the submissions made to ED 55 and drew conclusions on a number of key issues. First, according to these authors (Ryan et al., 1999, p.193), there was a relative “lack of input” from the group most significantly impacted by the proposals contained in ED 55, that is, the preparers of the accounting reports as reflected in the responses to the draft document received from members of this group. While the responses from this group represented the largest in number, this group was comparatively underrepresented when compared to the possible responses from representatives of government departments across Australia. These authors also found that representatives from State and Treasuries, as well as State and Commonwealth Auditors-General, were comparatively better represented in the responses to ED 55 (Ryan et al., 1999, p.193). One possible explanation put forward by the authors for the low response of preparers resided in their perceived “lack of sophistication with regard to financial reporting issues and the accounting standard-setting ‘due-process’” (Ryan et al., 1999, p.193). Such a view was also expressed by several respondents to ED 55. The extract below is typical of the manner in which this view was expressed:

…it [the application of the proposals outlined in ED 55] is a major and costly task and many practical difficulties would be involved … a major education program for staff would be a mandatory requirement in order to gain acceptance and cooperation for such a significant cultural change … (AARF, 1992a, ED 55 response 2).

Ryan et al. (1999, p.194) also concluded at a general level that the stated positions of respondents to ED 55 “were largely supportive of the substantive changes
proposed by the exposure draft”. However, further direct analysis of the responses received indicates that the stated views of respondents, which specifically related to the recognition as assets and depreciation of infrastructure and heritage resources within general purpose financial reports, were more complex. In total, 38 of the 46 responses received, directly commented on the proposals regarding the disclosure of these resources. Of those respondents who commented specifically on the disclosure of these resources, six responses agreed unreservedly with the proposals outlined in ED 55. A further 19 responses offered qualified support for the substantive proposals in respect of infrastructure and heritage resources. There were 13 responses that directly and unequivocally opposed the proposals outlined in ED 55 in respect of these resources. The extracts below are typical of the responses in the respective categories.

**Unqualified Support**

We entirely support the view adopted in Exposure Draft that all assets, including infrastructure assets, heritage assets, community assets etc. should be recognised in the Statement of Financial Position …. We fully concur with the view adopted in the ED that infrastructure, heritage and community assets be revalued on a regular basis (AARF, 1992b, ED 55 response 7);

The sentiments of this recommendation [valuation of infrastructure heritage and community assets at current cost] are supported (AARF, 1992b, ED 55 response 25).

**Qualified Support**

… it [the implementation of accrual accounting] is a major and costly task and many practical difficulties would be involved, especially in regard to addressing capitalization of infrastructure assets and valuation of assets generally …. The recommendation that government departments revalue their infrastructure, heritage and community assets to written-down current cost on a regular basis whilst acceptable will be a major problem (AARF, 1992b, ED 55 response 2);

We agree with the recommendation [that infrastructure, heritage and community assets be recognised and regularly revalued]. However … we recommend that further guidance be issued on the valuation of heritage and community assets before the exposure draft is released as an Accounting Standard …. In such cases the assets often possess “service potential” in terms of the department’s objectives rather than “future economic benefits”. As such service potential cannot be
expressed in monetary terms it would be difficult to place a reliable value on such assets (AARF, 1992b, ED 55 response 43).

**Opposed**

... it is not possible to value in any meaningful sense, for disclosure in the balance sheet, [infrastructure, heritage and community items] which cannot conceivably be traded in the market place and have no market value. Measurement implies some kind of purpose and there is no conceivable purpose to be achieved in valuing such assets (AARF, 1992b, ED 55 response 46);

The worth of valuing these types (infrastructure, heritage and community assets) must be questioned. It does not appear to be based on any sound cost/benefit analysis in relation to better decision making (AARF, 1992b, ED 55 response 31).

As stated earlier, according to Ryan *et al.* (1999, p.189), respondent submissions to ED 55 were "largely supportive of the fundamental changes proposed in ED 55". However, the extracts above indicate that respondent support for the monetary valuation and disclosure and subsequent depreciation of infrastructure and heritage resources as assets was less clear. Only six responses, including two responses written by former PSASB members who were located in influential management positions in the public sector, unreservedly supported these specific requirements. Furthermore, many of the respondents to ED 55 cited a wide range of practical issues and problems associated with the recognition of these resources as assets for financial reporting purposes. These issues and problems included the difficulties of measuring such items in reliable financial terms and the lack of clear explanation of how, if at all, such information would be useful for decision makers.

**AAS 29 Released**

The accounting pronouncement AAS 29 entitled *Financial Reporting by Government Departments* was released in 1993, eighteen months after the closing date for submissions to ED 55. Despite the questionable level of support for the
recognition of infrastructure and heritage resources as assets in general purpose financial reports expressed by respondents to ED 55, there were no significant amendments to AAS 29 from its antecedent document. The preparation of general purpose financial reports was now required for all government departments in Australia, and in the case of not-for-profit public museums, these reports were specifically required to include disclosures for cultural, heritage and scientific collections, among other heritage resources, for the first time. Therefore, within approximately two years, two accounting standards relating to specific levels of government had been released. With the release of AAS 29, the presentation and the assessment of the accountability and the performance of not-for-profit public museums had to be assessed within the context of general purpose financial reports that had previously been produced by commercial entities with profit seeking, wealth maximisation aims.

Recall that central to institutional thinking is the notion that individuals can save time and energy on difficult decisions by letting the relevant institutions dictate or dominate their stated positions. Once the conceptual justification for preparing general purpose financial reports was established in the CF, the development of detailed accounting pronouncements addressing the accountability and the performance of specific public sector organisations became a relatively standard procedure. With a seemingly immutable and unquestionable justification for the preparation of these reports in place, accounting regulators could, instead, turn their attention to devising guidelines which specified how financial statement elements should be measured and specifically reported upon in specific instances. During the development of AAS 29, little attention was given to the notion that
the specific disclosures required may not in fact be “useful” to the users of the financial reports or that alternative accountability and performance measurement systems not linked to the preparation of general purpose financial reports may be more apt in the specific circumstances.

FINANCIAL REPORTING BY GOVERNMENTS

Discussion Paper No.21 (DP 21) Released

In 1994, the AARF released its Discussion Paper No.21 (DP 21) entitled *Financial Reporting by Governments* (1994), co-authored by AARF staff members F. Micallef and P. Sutcliffe, along with P. Doughty as an external consultant. The stated purpose of DP 21 was to:

... consider the nature of general purpose financial reports that should be prepared by state, territory and Commonwealth Governments in Australia, identify issues to be addressed in the preparation of such reports and to recommend approaches to their resolution (Micallef *et al*., 1994, p.1).

Similar to the earlier documents DP 12, 16 and 17, DP 21 was written with due acceptance of the then existing component statements of the CF (Micallef *et al*., 1994, p.2). Even though significant controversy had surrounded SAC 4 since its initial release in 1993, this statement along with other component statements comprising the CF were applied in recommending the preparation of consolidated general purpose financial reports for governments across Australia. According to DP 21, the whole of government is captured in the definition of the reporting entity which was outlined in SAC 1 (see, for example, AARF/AASB, 1990a, paras.20-22). The justification for classifying governments reporting entities that was provided in DP 21 is reproduced below:
(a) because they command significant resources;
(b) their use of those resources can (and does) have a significant impact on the social and/or economic well being of members of the community; and
(c) there is a separation between the management and the "ownership" of those resources.

(Micallef et al., 1994, p.2)

DP 21 expressly endorsed the preparation of general purpose financial reports on a full accrual basis asserting, in the absence of relevant research evidence, that such reports offer several advantages over those reports prepared on a cash basis and similar reports prepared on a modified accrual basis. Within subsequent sections of DP 21, the authors apply the content of SAC 4 in dealing with the disclosure of financial statement elements. Included in this discussion is a consideration of infrastructure, heritage and community resources, wherein the authors conclude that the recognition of such resources as assets is necessary in order to meet the objective of general purpose financial reporting outlined in SAC 2 (Micallef et al., 1994, pp.88-95). The authors provide circular justification for the disclosure of these resources which is based on the earlier DP 17.

Exposure Draft No.62 (ED 62) and AAS 31 Released

Four months after the publication of DP 21, the AARF released ED 62, also entitled Financial Reporting by Governments, in March 1995. ED 62 was available for comment for a period of three months, ending 30 June 1995.

ED 62 formally incorporated the substantive recommendations made in DP 21 and required the preparation of consolidated general purpose financial reports for governments located across Australia. According to ED 62 (AARF, 1995b, para.37), these reports should include "an operating statement, a statement of
financial position and a statement of cash flows”. Within the statement of financial position, ED 62 specifically required the disclosure of infrastructure, heritage and community resources. The justification for such disclosures was found in the vague and abstract asset requirements in the non-mandatory SAC 4 and the broad objective of general purpose financial reporting contained in SAC 2. There were no substantive amendments to the provisions in ED 62 when the subsequent standard, AAS 31 was released in 1996.

CONCLUSION

This chapter has examined the application of the concepts of financial reporting outlined in the CF in the development of detailed accounting standards addressing the accountability and the performance of specific public sector organisations. It was argued in this chapter that once the connection was established in the CF between the preparation of general purpose financial reports and the accountability and performance of diverse public sector organisations, a ready-made basis was established from which the development of detailed accounting standards for application to particular groups of organisations. Thus, the chapter has examined the development of three accounting pronouncements in particular, AAS 27, 29 and 31 that were released over a relatively short period during which the applicability, along with the implications of many of the substantive changes imposed, were never critically challenged by those individuals and groups associated with, or benefiting from, these reforms.

Throughout the chapter it is demonstrated that the contents of AAS 27, 29 and 31 were largely determined based on an uncritical appeal to the vague and abstract
concepts of financial reporting outlined in the CF. Specifically, it is maintained that the pronouncements were developed with little investigation of the effects of their application for either the organisations involved or for the wider community and with little regard to the problems and issues that might occur, whether intended or otherwise. Such considerations were seemingly not necessary since the CF institution, the contents of which were often unsupported and largely untested by rigorous research conducted in Australia, guided and constrained the thinking of accounting regulators and other reform advocates. The component statements of the CF do not extend to a consideration of the implications of their application, while at the time of writing, a concepts statement on measurement has yet to appear. Notwithstanding, the contents of these component statements comprising the incomplete CF are closely reflected in AAS 27, 29 and 31.

Throughout the chapter it is demonstrated that AAS 27, 29 and 31 were developed based on an unquestioning appeal to the deductively-derived assumption, outlined in the CF, that general purpose financial reports lead to enhancements in the accountability and performance of public sector organisations of all kinds and sizes. The appropriateness of this assumption was seemingly not questioned by accounting regulators and other advocates of the reforms, irrespective of the content of the missions that guide the endeavour of the organisations affected in the contexts in which they operate, and regardless of whether such changes within non-commercial organisations are commendable in the wider public interest. During this time, the appropriateness of providing commercial accounting information for the specific organisations concerned remained largely beyond question from accounting regulators and from other advocates of the reforms.
Those involved have been seemingly unable to visualize proper regimes of accountability and performance of diverse public sector organisations that exist outside the institutional confines of the CF. Furthermore, the demonstrated reluctance to embrace a consideration of the problems, issues and consequences that are likely to arise from addressing the accountability and the performance of these organisations in narrow financial terms leads to the conclusion that the development of AAS 27, 29 and 31 was largely guided and constrained by institutional thinking.

The next chapter explains how accounting regulators and other advocates of accrual-based reforms sought to create conditions conducive to the smooth implementation of the accrual accounting in the APS. It identifies a concerted effort by a relatively small group of technical experts located in influential positions in accounting and related fields to promote accrual accounting for the APS generally and, more specifically, to promote the content of the detailed accounting standards developed for that sector. Just as many questions were left unanswered after the development of accrual accounting reforms, this was also to be the case when these reforms came to be promoted. Thus, the next chapter explores the manner in which these reforms were promoted and considers certain questions that were addressed as well as other questions that were not, and seeks to render an explanation why such patterns emerged.
NOTES

1. At the time of the release of DP 12, EDs 42A, B, C and D had been released for less than one year, while EDs 46A and B were released during 1988.

2. For further discussion of the fund basis of accounting, refer to Greenhall et al., 1988, pp.21-2, and to Sutcliffe et al., 1991, pp.41-2.

3. As a consequence of their respective findings, Falk and Neilson (1993) and Walker et al. (1999, 2000a, 2000b) have offered alternative frameworks for local government accounting. These alternative frameworks remove the emphasis on the monetary valuation of resources such as land under roads and their disclosure as assets in general purpose financial reports, and instead recommend the provision of an array of non-financial information about these resources which is argued to be more relevant to users of reports (Walker et al., 2000b, p.124). The frameworks put forward by these authors, along with the subsequent response from those associated with the standards developed, are discussed further in chapter seven.

4. Chapters six and seven provide further discussion of how those promoting and defending the reforms have constantly asserted the need for the "training" and the "education" of financial statement users. Despite the evidence to suggest that the usefulness of the required disclosures for infrastructure was questionable and that many implementation problems existed, accounting regulators have been generally eager to attribute the apparent "problems" to lack of knowledge of the benefits the reforms will provide, inertia or both on the part of management and users (see, for example, Barrett, 1994a, p.3; Mackintosh, 1992, p.29; McPhiee, 1994a, 1994b; Molland and Bellamy, 1997; Rowles et al., 1998, 1999; Stevenson, 1995, pp.199-203).

5. Carnegie and Wolnizer (1995a) demonstrate this technical deficiency of the asset definition and recognition criteria in the context of cultural, heritage and scientific collections. The asset definition contained in SAC 4 has frequently been put forward to support the recognition of these items as financial assets in accounting reports (see, for example, Rowles, 1992). Notwithstanding, Carnegie and Wolnizer (1995a) apply the definition to support their arguments for not recognising these items. Barton (1999b) provides a further example in relation to the monetary valuation and recognition of land under roads as assets in general purpose financial reports. According to Barton (1999b), such resources do not satisfy the requirements of SAC 4, notwithstanding that their disclosure is required under AAS 27, which purports to be largely derived from the application of SAC 4.

6. Accounting regulators in Australia appear to have given some consideration to implementing a form of modified accrual reporting for such organisations (see, for example, Greenhall, et al., 1988, pp.50-53; Sutcliffe et al., 1991, pp.41-2). Although endorsed in the accounting standards applicable to similar organisations in many other countries, modified accrual systems which do not require the recognition of cultural, heritage and scientific collections as assets in general purpose financial reports could be argued to be inconsistent with the objective of financial reporting in SAC 2. As a consequence, modified accrual accounting was not pursued in Australia. Further, a range of alternative accountability and performance measurement systems designed for specific public sector organisations have gone almost unnoticed (see, for example, Carnegie and Wolnizer, 1996; Guthrie, 1993; Parker, 1996; Parker and Guthrie, 1993, pp.68-9; Rentschler and Potter, 1996; Zan, 2002). The suggested systems typically assert broad notions of accountability and performance, and require the collection of qualitative information and quantitative data. Further discussion of aspects of these systems is reserved for chapter seven.
CHAPTER 6
PROMOTING ACCRUAL ACCOUNTING SYSTEMS IN THE APS

INTRODUCTION

Chapter five explained how the concepts of financial reporting outlined in the CF were instrumental in the development of detailed accounting pronouncements addressing the accountability and the performance of specific public sector organisations in Australia. It was argued in chapter five that the conceptual justification for the preparation of general purpose financial reports as formalised in the CF, made the development of the detailed accounting pronouncements AAS 27, AAS 29 and AAS 31 appear to be a relatively standard process. Evidence was presented to demonstrate how the vague and abstract concepts of financial reporting outlined in the CF were interpreted and applied over a relatively short period of time to produce desired outcomes in the development of these pronouncements. It was argued that as a consequence, many issues and questions concerning the implementation of these pronouncements were left unanswered. The key conclusion of chapter five was that the development of AAS 27, AAS 29 and AAS 31 was largely guided and constrained by institutional thinking.

This chapter is the third of four chapters which, taken together, seek to address the two primary research questions identified for the study. The purpose of this chapter is to explain how the concepts of financial reporting comprising the CF were applied to promote accrual accounting reforms for application within the
public sector. In doing so, the chapter seeks to address the relevant component of
the second research question identified for the study and outlined in chapter one.

It is demonstrated in this chapter how a relatively small but influential community
of technical experts have applied the concepts outlined in the CF to support and
promote accrual accounting systems for application within the APS generally and,
more specifically, to justify the contents of detailed accounting pronouncements
relating to different levels of government. Such promotion occurred through
various means including official-type reports, public lectures, conference
presentations and associated commentaries, as well as research papers published
in quasi-academic and professional journals. Throughout the promotion period, a
constant theme discerned was that the accountability and the performance of
public sector organisations of all types would be enhanced through the preparation
of general purpose financial reports. It will be demonstrated in this chapter that a
primary justification for the preparation of those reports was found in the CF.

Discussion of the promotion of accrual accounting for application within the APS
is undertaken across two periods, specifically during the period 1985 to 1990 and
between the years 1991 and 2001. The year 1985 is selected as the
commencement of the initial promotion period as this coincides with the release
of the accounting profession’s first formal concepts statement, namely SAC 1 The
Objectives of Financial Reporting by Public Sector Entities. As explained in
chapter four, this iteration of SAC 1 required general purpose financial reports to
be prepared in order for the accountability and the performance of diverse public
sector organisations to be presented and assessed. Under SAC 1, those reports
were to include disclosures for assets, liabilities, equity, revenues and expenses. The period 1985 to 1990 also encompasses the release of the first six exposure drafts of statements of accounting concepts EDs 42A-D and EDs 46A and B in 1987-1988, as well as the first three formal components of the revised CF, SACs 1-3 in August 1990. The 1991 year is selected to coincide with the first year of the formal application of the revised CF components. The period spanning 1991 to 2001 also encompasses the development of three detailed accounting pronouncements relating to the three levels of government in Australia namely, local government entities (AAS 27, released in 1990¹), government departments (AAS 29, released in 1993) and the whole of government (AAS 31, released in 1996). The period spanning 1991 to 2001 also encompasses the development of several forerunner documents for the accounting standards developed.

The remainder of the chapter is structured as follows. The next section discusses the promotion of accrual accounting reforms for the APS between 1985 and 2001, commencing with a discussion of the period spanning the years 1985 to 1990. Discussion of the 1985 to 1990 period outlines activities by myriad bodies, including the DoF, State and Territory Treasuries, Auditors-General, the Australian National Audit Office, the JCPA, the AARF, the ICAA and CPA Australia. The section demonstrates how representatives of these bodies aggressively problematised the extant cash-based accounting system in the public sector. Those involved also promoted general purpose financial reports as defined in SAC 1 as a key “solution” to the specific deficiencies that were portrayed to exist. Those advocates have also promoted accrual-based general purpose financial reports generally as being more useful to interested parties for decision-
making purposes than reports prepared under the then existing cash-based system.
The subsequent release of the components of the revised CF, commencing with six exposure drafts during 1987-1988, enabled those involved to assert a means of achieving the widely desirable objective of financial reporting as outlined in SAC 1. As a consequence, the preparation of general purpose financial reports for diverse public sector organisations has, for some time, been generally portrayed as inevitable by those involved.

Thereafter, the chapter considers the promotion of accrual accounting within the public sector during the period 1991 to 2001. The consideration of this period reveals two distinct aspects of the promotion of accrual accounting involving the content of the CF. First, the section outlines how specific concepts outlined in the CF, particularly the objective of general purpose financial reporting and the definition and recognition criteria for financial statement elements, were applied in the ongoing promotion of accrual accounting reforms already underway in the public sector. Second, this section addresses how those concepts were also applied to promote the content of detailed accounting pronouncements AAS 27 and AAS 29 and, more recently, AAS 31. Specific concepts of financial reporting outlined in the CF, including the objective of financial reporting, the reporting entity concept and the definition and recognition criteria for assets. These concepts statements provided structured and understandable building blocks on which these promotional activities were based. The section preceding the conclusion provides a discussion of the findings. It is suggested in this section that, just as many questions were left unanswered during the development of accrual accounting reforms for the APS, this was also the case when these reforms came to be
promoted. The final section of this chapter contains the conclusions. The key conclusion of this chapter is that the promotion of accrual accounting during the period examined was largely guided and constrained by institutional thinking.

PROMOTING ACCRUAL ACCOUNTING IN THE APS

The section provides an overview of the promotion of accrual accounting for application in the APS between 1985 and 1990 and between 1991 and 2001. This section is intended to provide an understanding of how this promotion occurred and elucidate the key advocates involved in the respective periods.

PROMOTING ACCRUAL ACCOUNTING IN THE APS (1985 to 1990)

It will be recalled from chapters 1 to 3 of this study, that researchers are beginning to understand how specific accounting problems can initially arise through a process of “problematisation”, whereby existing accounting practices are subject to criticism when compared with a set of “ideal” practices. According to researchers in this area, these practices may, as a consequence, be portrayed as not fit for their intended purpose or otherwise deficient in a particular way or ways, thus leading to the identification of a specific problem for which an appropriate solution is required (Rose and Miller, 1992). In such instances, certain practices may be promoted that are claimed to not only address the perceived defects, but are asserted to offer something new and better than before (Miller, 1991, 1998b; Power, 1997a).

The process of problematisation was occurring during the mid to late 1980s in respect of public sector accounting in Australia. The system of accounting
traditionally existing in the public sector which was cash-based was widely criticised on several specific grounds and accrual accounting was portrayed as the “solution” to the “problems” identified. This is not to suggest that criticism of cash-based accounting in the public sector was necessarily confined to this period. However, during the 1985 to 1990 period, this form of accounting came to be problematised in specific ways that enabled general purpose financial reports, as defined in SAC 1, to be advanced as the ready made solution to the problems that were asserted to exist. The problematisation of cash accounting and the promotion of general purpose financial reporting as the solution are discussed in the next section.

**Problematising Cash Accounting (1985 to 1990)**

During the 1985 to 1990 period, the problematisation of the existing cash-based accounting system was widespread. Specifically, such systems were criticised for not encompassing non-cash expenses such as depreciation as well as for not enabling the timely recording of accrued revenues and accrued expenses. Advocates of accrual accounting typically asserted that cash-based reports “do not disclose information about the costs of services provided (necessary for any assessment of performance) nor do they provide an accounting for the assets (apart from cash) and liabilities of government” (Greenhall et al., 1988, p.50). Furthermore, according to those advocates “the timing of the cash flows which result from many transactions, and therefore the information disclosed, are capable of manipulation” (Greenhall et al., 1988, p.50). Consequently, this form of accounting was claimed to provide insufficient information for presenting and assessing the accountability and the periodic performance of diverse public sector
organisations. As a consequence, cash-based accounting systems were criticised for inadequately informing the financial decisions to be made by interested parties. The extracts below provide an indication of how and by whom cash-based accounting was problematised during this period.

**AARF/CPA Australia/ICAA**

Objectives of financial reporting which require the disclosure of information useful for an assessment of financial status, performance and compliance call into question the appropriateness of the cash basis of accounting ... (Sutcliffe, 1985, p.29).

Financial reports prepared on a cash basis are simple to compile and may provide information of relevance for decision-making, particularly by management, and for accountability purposes. However, such reports do not disclose information about the costs of services provided (necessary for any assessment of performance) nor do they provide an accounting for assets (apart from cash) and liabilities of the local government (Greenhall et al., 1988, p.50).

The strong reliance upon cash based accounting and reporting as currently applies suggests that all of the State’s resources are not necessarily being effectively managed. In addition, full program costs are not available publicly (Carpenter, 1986, p.16; see also MacMillan, 1985, pp.47-9).

**DoF/State and Territory Treasuries/Auditors-General/ANAO/JCPA**

What we presently focus on [under cash accounting], because there is really no other information, is the cash deficit which, of course, is very important, but does not measure the movements in our net wealth and whether that net wealth is increasing or decreasing (Humphry, 1987, p.123; see also 1986, p.10).

I consider the specific issues are that pure cash based accounting and, to some extent, modified accrual accounting result in the reporting of incomplete information and can:

- lead to the misallocation of resources;
- not adequately disclose the size of assets and liabilities;
- cloud the full cost of programs and cost fluctuations in program costs from year to year;
- impose burdens on future taxpayers by deferring bringing to account of liabilities such as long service leave and employers’ deferred superannuation contributions; and
- impose burdens on future taxpayers, by charging in full each year, the costs of assets purchased rather than capitalising such expenditure and spreading costs over their useful life to bring to account each year the cost of using the assets employed (Robson, 1987a, p.7; see also 1988, pp.9-11).

The problems with only having cash accounting systems make a clear case for accrual accounting for government entities and can be listed as follows: The costs
of operating the program are not clear. Thus performance cannot be fully measured ...
(Shand, 1988, p.45).

Because accrual accounting brings to account all items as they are earned or consumed, the
total cost of government undertakings, including the utilization of physical non-current assets in the form of
depreciation, can be ascertained more accurately than when a cash accounting system is in place (NSWT, 1989,
p.1).

As is evident from the above extracts, those involved have consistently focussed on
the asserted inability of cash-based accounting to capture the total costs incurred by diverse public sector organisations and the claimed inadequacy of
such systems for reporting the periodic performance of the relevant entities. As a consequence, even though cost control is not the sole purpose served by the
preparation of financial reports for public sector organisations, cash-based systems of accounting were widely asserted to be unable to meet the
accountability requirements and the specific information needs of financial report
users. Such criticisms, in turn, enabled general purpose financial reports, as
defined in SAC 1 and traditionally prepared by profit-seeking entities in the
private sector, to be perceived and promoted as the appropriate solution. In so
doing, the accounting profession could claim to offer a formal means, in the form
of the CF, for achieving what was coveted as a widely desirable transformation of
extant public sector financial reporting to general purpose financial reporting. By
doing so, the profession’s primary body responsible for developing accounting
standards, the AARF, could demonstrate the legitimacy of its existing standard-
setting structures and processes, and justify the profession’s role in regulatory
space for the public sector. The manner in which components of the CF were
applied in these contexts is now discussed.
Promoting General Purpose Financial Reports (1985 to 1990)

It was argued in chapter four that SAC 1 (1985) constructed a seemingly clear and logical association between the accrual-based general purpose financial reports and purported enhancements in the accountability and the performance of diverse public sector organisations. Chapter four also discussed how accrual accounting has traditionally been defined through a comparison with the cash-based system of accounting. As explained in that chapter, such comparative descriptions have conventionally portrayed accrual accounting as technically superior to accounting on a cash basis for private sector, profit-seeking organisations (see, for example, AARF, 1995a, para.8; Bevis, 1965, p.95; FASB, 1978, para.44; Sprague, 1908, p.74; Vatter, 1950, p.40; Vance, 1961, p.377). Thus, by prescribing a form of reporting that, seemingly by definition, would enhance accountability and performance of all organisations and permit more informed financial decisions, SAC 1 effectively promoted general purpose financial reports as the ready-made solution to the problems identified in cash-based public sector accounting. In doing so, SAC 1 provided an opportunity to promote the preparation of these reports for diverse public sector organisations, even though the first four formal component statements comprising the CF would not be complete until 1992.

During the period 1985 to 1990, many advocates of accrual accounting reforms simply cited the objective of general purpose financial reporting as specified in SAC 1 as the basis for determining the content of contributions directed at promoting accrual-based accounting reform in the public sector. Some specific examples are provided below:
In Australia the accounting profession through the work of the Public Sector Accounting Standards Board (PSASB) has issued a Statement of Accounting Concepts (SAC 1) outlining the objectives of financial reporting by public sector entities. The statement identifies users of public sector financial reports under the following three categories:

(a) providers of resources or their representatives ... ;
(b) recipients of goods and services ... ;
(c) parties performing a review service relevant to all, or particular sections of the community ... .

The statement indicates that the information needs of these main users should dictate the nature of the information to be disclosed by general purpose financial reporting by public sector entities are stated to be the disclosure of information that is:

- useful in making decisions; and
- satisfies accountability

(Humphry, 1986, pp.15-6).

The statement of accounting concepts “Objectives of Financial Reporting by Public Sector Entities” (SAC 1) issued by the Australian accounting profession indicates that the “objectives” of general purpose financial reporting is to disclose information:

(a) useful in making economic decisions; and
(b) to satisfy accountability.

The accounting professions standards and the above objectives are designed for general purpose financial reporting.

(Carpenter, 1987, p.5; see also 1986, p.6; Shand, 1985, p.7).

Other commentators were more direct in advancing specific concepts outlined in the CF to support and justify particular accrual accounting policies or concepts under consideration or development for the public sector. The extracts below illustrate the manner in which this occurred:

AARE/CPA Australia/ICAA

In Australia, SAC 1 (and ED 42A) represents an authoritative guide to the accounting profession’s perceptions of likely users of public sector financial reports (Greenhall et al., 1988, p.15; see also Newman, 1988, pp.12-6; Sutcliffe, 1990a, pp.103-5, 1990b, pp.52-5).

The qualitative characteristics of relevance strongly affects ... the identification and definition of financial statement elements ... . The definitions of the elements help decide what kind of information should be included in financial reports while the recognition criteria help decide the narrower questions of under what conditions and when elements should be recognised in financial statements (Miller and Islam, 1988, p.2).
... the entity should be defined in terms of user needs rather than any legal, administrative, functional or institutional concept ... consistent with the conceptual framework being developed by the accounting profession, in that it has clear links both to the nature and objectives of financial reporting (Ball, 1988, p.viii).

DoF/State and Territory Treasuries/Auditors-General/ANAO

The ED 42C proposals in regard to definition (and recognition) of assets provide a useful starting point for the identification of all types of physical non-current assets in the public sector (NSWT, 1989, p.3).

A considerable amount of work has been done by the Public Sector Accounting Standards Board of the Australian Accounting Research Foundation in defining the objectives of financial reporting by public sector entities and the qualitative characteristics of financial information. This work is reflected in Statement of Accounting Concepts (SAC 1) Objectives of Financial Reporting by Public Sector Entities, and the Proposed Statements of Accounting Concepts Objectives of Financial Reporting (ED 42A) and Qualitative Characteristics of Financial Information (ED 42B). The disclosure requirements of these Guidelines should be read against the background of these Statements ... (DoF, 1990, p.3).

In addition to offering support for the implementation of accrual accounting systems in the public sector generally, the CF also provided a means by which the profession's main standard-setting body, the AARF, could demonstrate the legitimacy of existing standard setting structures and processes. It will be recalled from earlier chapters that during the 1970s and early 1980s, the accounting profession was broadly criticised for the absence of an explicit theoretical framework to support its standards and practices. As a consequence, pursuant to the findings of a range of official inquiries into the APS, accrual accounting was widely mooted for the APS but the role of the organised profession in developing and enforcing accounting standards which implement this form of accounting was not prescribed nor made clear. Hence, by widely publicising the development of a theoretical framework that seemed to provide timely theoretical foundations for existing standard-setting structures and processes, the AARF was able to address, at least in part, the criticisms raised. The extracts below are illustrative of the asserted benefits of the CF for existing standards and processes:
A conceptual framework is a set of interrelated concepts that define the nature, purpose and broad content of general purpose financial reports. It is an explicit rendition of the thinking of the standard setting body as it sets down its requirements for general purpose financial reporting (McGregor, 1990a, p.68; see also AARF 1987a, paras.1-14, 1988a, paras.1-14, 1990a, paras.1-17).

The existence of an agreed-on CF should expedite the production and review of standards, structure public debate by providing a clearer common focus for analysing issues, improve the chance of standards being accepted by the business community and provide a bulwark against any groups which seek to corrupt the accounting measurement system for short-term sectional advantage (Miller, 1985, p.54; see also McGregor, 1990a, pp.71-2, 1990b, pp.48-51; Miller and Islam, 1988, pp.1-5; Shand, 1985, p.7; Sutcliffe, 1985, p.5).

The CF continues to be aggressively promoted, both to provide ongoing support for existing standards and processes (see, for example, Carpenter, 1991a, 1991b; Howieson, 1993; McGregor, 1995; Miller, 1985, 1996; Miller and Loftus, 1993), and also to justify the profession’s role in regulatory space for the APS. The extract below is a relatively recent example of the latter. It appeared in an article that was written with the express purpose of justifying the nature and direction of detailed accounting pronouncements developed for the public sector:

Accounting concepts will continue to play an important role in the reform of public sector financial reporting practices in Australia. The PSASB has to date consistently applied the concepts in the development of new and revised accounting standards. Its current work plans indicate a preparedness to continue this approach in the future .... The board believes that this approach to the development of financial reporting requirements will result in the establishment of a logically inter-related set of rules which when applied will produce comparable high quality financial reporting by public sector reporting entities (McGregor, 1999, p.8, see also Barrett, 1993b, p.67; McKenna, 1993, p.14).

As discussed in chapter four, the first three formal components of the revised CF, SACs 1 to 3, were released in August, 1990, while the fourth component, SAC 4, was released in 1992. In addition, a series of detailed accounting pronouncements were developed during the early to mid 1990s specifically directed at financial reporting by local government entities (AAS 27), government departments (DP 16, DP 17, ED 55, AAS 29) and the whole of government (DP 21, ED 62, AAS...
31). The next section explains the promotion of accrual accounting during the period 1991 to 2001. The section outlines how the components of the CF were applied in the promotion of accrual accounting generally and, more specifically, in promoting the content of the detailed accounting pronouncements released during the period examined.

PROMOTING ACCRUAL ACCOUNTING IN THE APS (1991 to 2001)

It was demonstrated in chapters four and five that the technical problem-solving capability of much of the content of the CF is, at best, problematic. Notwithstanding, the concepts of financial reporting outlined in the CF were applied in the promotion of accrual accounting in two ways. First, these concepts were applied by members of the organised accounting profession and by others in influential positions to assert the superiority of accrual systems of accounting when compared to the existing cash-based systems of accounting in the public sector. Second, the concepts contained in the CF have also been applied in the promotion of the content of detailed accounting standards developed for the public sector, namely AAS 27, 29 and 31. The contents of the CF have been used to promote the requirements outlined in these standards generally and, more specifically, to promote the monetary valuation and recognition as assets of infrastructure and diverse heritage resources.

Table 6.1 (see Appendix 2) shows how the content of the CF has been used to promote the on-going implementation of accrual accounting reforms already underway in the APS. This table shows how those involved have constantly promoted the application of these reforms based on the asserted enhancements in
the accountability and the performance of the organisations involved and enhanced decision-making by financial statement users. It is evident from the array of conference presentations, public lectures, discussion papers, official reports and other references cited in Table 6.1 that the primary basis of support for these promotional activities was linked to the objective of general purpose financial reporting contained in SAC 2. Table 6.1 also shows how accrual accounting was widely promoted as technically superior to the then cash-based accounting systems in the public sector. Table 6.1 provides further detailed insight into how these promotional activities have occurred.

The second way in which the concepts of financial reporting outlined in the CF have been applied in promoting accrual accounting in the public sector encompasses the direct promotion of the content of detailed accounting pronouncements AAS 27, 29 and 31. Specifically, Table 6.2 (see Appendix 3) shows how the broad objective of general purpose financial reporting outlined in SAC 2 was frequently applied to support and justify the content of the detailed standards developed. Table 6.2 also shows how the non-discriminatory asset definition and recognition criteria contained in SAC 4 were also applied in the promotion of specific disclosure requirements within these standards, particularly by advocates asserting the need for the monetary valuation and recognition as assets of diverse infrastructure and heritage resources. Accordingly, Table 6.2 provides further evidence to illustrate how these concepts of financial reporting contained in the CF were used to promote the content of these pronouncements generally, as well as the specific disclosures required under these standards.
As portrayed in Tables 6.1 and 6.2, with the advent of detailed accounting pronouncements directed at different levels of government that appeared to be supported by a seemingly logical and coherent theoretical framework, the organised accounting profession had produced detailed solutions to problems that were portrayed to exist. Notwithstanding, the benefits claimed for the reforms had yet to be supported by rigorous research conducted in Australia, empirical or otherwise. Some commentators such as McHugh (1993) and Murray (1996), were claiming a bright future for public sector financial management in Australia. For example, according to Murray (1996, p.5), the “requirements for both State and Local Government financial disclosures and accrual accounting are equal to anywhere in the developed world”, while McHugh (1993, p.170) claimed that as a result of the reforms underway:

Local government in Australia has an opportunity to develop “world best practice” when it comes to accountability in the public sector. The pathway for this opportunity is through a gutsy approach to AAS 27 (McHugh, 1993, p.170).

DISCUSSION

The application of the objective of general purpose financial reporting across time and space to justify accrual-based reform appears, at a glance, to be difficult to acceptably argue against. After all, the alternative to adopting such systems of accounting is to report in a manner that is, seemingly by definition, “inferior” for the purposes of accountability and performance measurement, and “inadequate” for informing the decisions made by interested parties. However, the uncritical promotion of accrual accounting in the manner outlined in this chapter has three major shortcomings that warranted little attention by its advocates throughout the promotion period. First, to evaluate organisational “success” based on narrow
measures of periodic financial performance is inconsistent with the very reason for the existence of many, if not most, of the organisations concerned and could thus result in a greater emphasis on essentially irrelevant aspects of performance. For example, the preparation of general purpose financial reports encourages reliance on quantifiable performance measures such as cost control and profit generation for specific public sector organisations at the expense of qualitative, social concerns. Consequently, a trade-off might emerge between narrow, technical efficiency and broader notions of effectiveness in terms of service delivery (Aiken and McCrae, 1996, p.211; Ma and Mathews, 1993, p.83; Parker and Guthrie, 1993, pp.64-5). This, in turn, may have significant consequences, whether intended or unintended, for organisational and social functioning.

Specifically, the recognition of infrastructure resources and diverse heritage resources as assets may have adverse implications for the distribution of equity both within the current generation and between the current and future generations (Aiken and Capitanio, 1995, pp.566-73; Aiken and McCrae, 1992, pp.17-8, 1996, p.207; Lewis, 1995, p.21; Ma and Mathews, 1992, p.5; 1993, p.83; McCrae and Aiken, 1994, pp.67-8). This inter-generational equity issue is particularly likely to arise where diverse resources located in the public domain are assigned a "current" financial magnitude and depreciation is charged on that magnitude for the purpose of accumulating funds for the replacement of assets in the future. Future generations invariably make their own arrangements for asset replacement, given demographic changes and technological growth (McCrae and Aiken, 1994, p.67). According to Ma and Mathews (1993, p.82), in such instances:
Presumably, the depreciation charges will be recouped in some way; otherwise they will result in mounting deficits. If budgets are to be balanced, either taxes will need to be increased, or other expenditures (and services) will need to be reduced. Either way the present generation will be meeting the capital costs of non-revenue-producing assets twice. There is thus a serious inter-generation issue about who should pay for public investment and when.

There is a further consideration. Even under the present balanced budget objective, there is an inherent bias against capital spending; it is no accident that recent years have seen a drastic and deplorable deterioration in the public sector capital stock. The bias will be accentuated if assets have to be depreciated as well, so that taxpayers have to meet the cost of public investment twice. Even less investment may be expected to take place, leading to a further impoverishment of the nation's infrastructure and quality of life.

In addition, pursuant to the reforms, the management of specific public sector organisations, such as not-for-profit public museums, may be held financially responsible for changes in the financial valuation of their stock of "assets" when they are not entrusted with the capacity to enter into transactions to facilitate enhancements in the financial wealth of their organisations. Government imposed capital charges or levies could then be introduced which could force these organisations into de-accessioning strategies previously not contemplated or imagined (Carnegie and Wolnizer, 1996, p.85; 1999, p.19). These two likely consequences associated with recognising such resources as financial assets in accounting reports were, on occasions, publicly acknowledged by those promoting the reforms (see, for example, Barrett, 1993a, p.11, 1994b, p.15; Carpenter, 1986, p.10, 1987, p.11; Robson, 1987, p.10). In most instances, however, these consequences were essentially overlooked. Where the acknowledgement of such consequences was made, proponents focussed only on these issues in narrow terms. According to those involved, the prospect of a capital charge or levy on the financial value of "assets" would naturally encourage entities to divest themselves of "unwanted" or "excess" assets and thereby, as argued, enhance the efficiency of resource management generally. The suggestion
that the recognition and reporting of these social resources might also have adverse consequences for organisational and social functioning appeared to warrant little, if any, attention. The extracts below serve to illustrate how these issues were depicted by some of those promoting such reforms:

It is argued that the absence of a capital charge on the use of fixed assets can mean that there is incentive towards overcapitalization and the retention of surplus assets (Carpenter, 1987, p.11; see also Barrett, 1993a, p.11; 1994b, p.15; Robson, 1987a, p.10).

An important issue is whether the current generation of taxpayers are (sic) making an appropriate contribution for goods and services currently being provided by Government. Is the current generation leaving too high a level of debt for future generations of taxpayers? ... Without information about public sector assets, there will always remain doubts associated with assets and debt levels and with intergenerational issues (Carpenter, 1987, p.7; see also 1986, p.10).

However, the assertion that a capital charge or levy applied to diverse public sector resources will necessarily enhance asset management practices by relevant organisations is flawed, particularly in the context of specific public sector resources, such as the collections held by not-for-profit public museums. According to Carnegie and Wolnizer (1999, p.19), "reserve" collections held by those repositories are neither "unwanted" nor "excess", but instead constitute:

... an integral part of the collection. The primary function of the repositories of collections is "to be" and "to hold" (Jaenicke and Glazer, 1991, p.77) whether or not all items are on display, either permanently or temporarily. Collections items can only be considered "excessive" if they are regarded as "stock". Since they are not stock in the ordinary course of operations, they cannot be "excess".

The likely consequences of capital charges or levies for engendering previously unforeseen de-accessioning strategies by repositories of such public resources is dealt with further in chapter seven. Where such strategies occur, the nature and significance of the collections of resources involved may be irretrievably impaired, which has implications for organisational and social functioning. These
implications were seemingly not considered probable or were largely overlooked by those promoting the reforms.

The second major shortcoming of promoting accrual accounting in the manner outlined is that the asserted benefits of this form of accounting appear to have been oversold. Curiously, during the promotion period there was little discussion of the practical implementation problems associated with these reforms, notwithstanding that broadly similar, current-cost based reforms, had been released for the first time in the private sector in Australia in the 1970s and 1980s. These reforms were subsequently challenged and ultimately rejected (Walker, 1992; Walker et al., 1999, 2000a, 2000b). Further, throughout the vigorous promotion of the reforms, little reference was made of the typically broad and permissive nature of commercial systems of accounting or that “accrual accounting” has several forms, contains many arbitrary allocations, and may lead to significantly different financial results depending on the manner in which preparers of the reports exercise the discretion available to them (Gaffikin, 1996, p.55; Ma and Mathews, 1992, p.5; McCrae and Aiken, 1994, p.66; Walker, 1988, p.22; 1989, p.22-4; Walker et al., 1999, 2000a, 2000b)5.

Third, seemingly as a result of the vigour with which the reforms were pursued (Christensen, 2002, p.111; Funnell and Cooper, 1998, p.204), a range of significant implementation issues, particularly the cost of producing the required information, appear to have received little attention and were not considered to be an important consideration by those involved (Christensen, 2002, pp.109-11; Harris, 1996, p.24; Mellor, 1996b, p.13)6. Instead, whenever the cost of
implementing accrual accounting in the public sector was raised, it was generally dismissed as an issue without the significance necessary to impede the nature and direction of the reforms. The responses below are typical of how this occurred.

**AARF/ CPA Australia/ICAA**

There will be transitional costs and a major educational process needs to be put in place, but I am sure that the long term benefits will far outweigh the costs (Mackintosh, 1992, p.42; see also ASCPA, 1993).

**DoF/State and Territory Treasuries/Auditors-General/ANAO/JCPA**

The people who run those institutions, especially the museums, are reasonably adamant about not valuing [collections]. Why are they adamant about not valuing them? It could be because of cost or it could be because they see there is no particular use for the valuation. Well, we have seen, ... that cost cannot sensibly be held as the answer (Harris, 1996, p.24; see also 1995, p.12; Mellor, 1996b).

Clearly, the total benefits to all users that are expected to arise from providing information should exceed the costs of providing it (Carter, 1994, p.16; see also Barrett, 1993b, p.14; 1994a, p.15; McPhee, 1994c, p.4).

There will be costs in implementing and enhancing these [accrual accounting] systems and there will be a need to educate both management and other users, but I am sure there will be a favourable cost-benefit (Robson, 1988, p.7).

The Committee acknowledges that the costs of moving from cash to accrual-based accounting systems can be significant .... However, it is important that concerns about implementation costs be balanced by consideration of the benefits of such systems. To a large degree the costs are short term ... whereas the benefits are long term ... (JCPA 1995a, p.48; 1995c, p.15).

Curiously, assertions made regarding the costs and benefits of implementing accrual accounting in the public sector were not based on rigorous research, since at the time of writing, no clear and comprehensive indication of the cost of the implementation of accrual accounting had been released (Christensen, 2002, pp.110). Indeed, only on certain occasions, and mostly several years after the development of detailed accounting pronouncements, have some of those involved in the reform process conceded to a lack of information regarding the costs and benefits associated with the implementation of these reforms:
I am afraid I have done no sums at all on the increment cost of it (Robson, 1988, p.65).

The benefits ... [of implementing accrual accounting] ... are very hard to define in terms of putting a dollar value on them ... The cost is difficult to define too ... (McPhee, 1995, p.58; see also Sutcliffe, 1995, p.59).

No [I could not estimate the cost of switching from cash accounting to accrual accounting]. I could not even measure the cost of not doing it either, and that could be quite considerable ... (Stevenson, 1995, p.210).

... the true cost of the exercise [the adoption of accrual accounting in NSW] will never be known (NSW PAC, 1996a, p.111).

When estimates of the costs of specific items associated with the adoption of accrual accounting such as education, training and system implementation were subsequently prepared, they also varied widely. Thus, an inability to identify and accurately assess the costs and benefits of implementing accrual accounting seriously weakens any claim that these reforms favourably satisfied any cost/benefit assessment (Funnell and Cooper, 1998, p.204). This is indeed a curious state of affairs for a profession which promoted such reforms, at least in part, on the basis of their perceived potential to enhance accountability.

The three apparent shortcomings identified above raise doubts about the benefits of applying accrual accounting to diverse public sector organisations. Despite this, during the period when the reforms were promoted, little attention was given by those involved to the prospect that the preparation of such reports may be inappropriate, or that the asserted benefits of the disclosures contained therein may be insignificant or not readily known. Rather, as a consequence of problematising the then existing public sector accounting system in the manner outlined, and by promoting general purpose financial reports as the available solution to the perceived problems, the implementation of detailed accrual
accounting reforms were portrayed as inevitable (see, for example, Barrett, 1993a, 1993b, 1995; Carpenter, 1986; Harris, 1995; Humphry, 1986; Jacobs, 1993; JCPA, 1995a, 1995b, 1995c; McPhee, 1994a, 1994b, 1994c; Micallef, 1995; Robson, 1987a, 1987b; Shand, 1985). In this way, the chapter has highlighted the political role that the CF has served admirably in enabling these promotional activities to occur.

CONCLUSION

Earlier chapters in this study discussed research directed at understanding how small groups of technical experts, *epistemic communities*, can be influential in shaping the development and diffusion of specific accounting reforms (Laughlin and Pallot, 1998; Ryan, 1995, 1998). This research revealed how such communities may be small in size, but when characterised by an identifiable epistemic strength, their influence may be disproportionate to their size (Adler and Haas, 1992; Carnegie and Napier, 2002, p.6; Christensen, 2002, p.106).

Since 1985 in Australia, a relatively small community consisting of technical experts in influential positions in accounting and related fields has, in the form of the CF, had a potent political tool to impose accrual accounting practices upon diverse public sector organisations. The justification for these reforms was framed in structured and understandable terms and enabled accrual accounting practices to be promoted in ways that made their implementation seem to be consistent with broader changes to public sector financial management that were already underway in the APS (Christensen, 2002, p.107). Specifically, in the years 1985 to 1990, this community aggressively problematised the existing public sector
accounting system which was cash-based and proposed general purpose financial reports for widespread adoption as a key solution to the problems that were portrayed to exist. In the period spanning the years 1991 to 2001, with the release of the revised CF component statements SACs 1 to 4, this community had specific concepts of financial reporting which could be used to promote the application of accrual accounting in the APS generally, as well as promoting the content of detailed accounting standards AAS 27, AAS 29 and AAS 31. During the promotion of the reforms, only certain issues were considered which, in turn, gave rise to at least three major shortcomings that, at the time, drew little attention from those involved. Rather, as a consequence of the manner in which the reforms were portrayed, and without clear supporting evidence, several proponents of the reforms claimed a bright future for accountability and performance measurement and financial management in the APS. Thus, it is contended in this chapter that the promotion of accrual accounting during the period examined was largely guided and constrained by institutional thinking.

Within months of the release of the detailed accounting regulations for the APS, the promotion of the asserted benefits of adopting commercial accounting systems for public sector entities was widespread, even though such benefits were not supported by rigorous research conducted in Australia, empirical or otherwise (Walker *et al.*, 2000a, 2000b). The next chapter explains how research subsequently conducted on various aspects of the reforms has cast doubt over the appropriateness of preparing general purpose financial reports for many public sector entities. Chapter seven explains how the results were either ignored or explained away by accounting regulators and the assumed benefits of preparing
such information were effectively portrayed as impregnable (Carnegie and Wolnizer, 1995a, 1997, 1999; Jones and Puglisi, 1997; Rowles et al., 1998; Walker et al., 2000a, 2000b). Chapter seven elucidates the research conducted and the response, if any, offered by those associated with developing and promoting the regulations.
NOTES

1. It is to be noted that AAS 27 was initially released in December 1990 but was required to be applied in financial reporting periods ending on or after 30 June 1993.

2. These and other extracts reproduced in this chapter are presented to reflect the context in which the relevant report, lecture, commentary or article was prepared and delivered. For example, at the time of making his address, Graham Carpenter held the position of Comptroller General, Department of Management and Budget, Victoria. The address was given as the Annual Research Lecture in Government Accounting (1986), sponsored by the Australian Society of Accountants (now CPA Australia), which explains the classification of this extract in the manner shown.

3. Graham Carpenter, Richard Humphry and David Shand have each, at various times, held positions on the PSASB, the board with a primary role in the development of the CF in Australia.

4. There are many other examples of the application of the CF content as a means of demonstrating the legitimacy of existing standard setting structures and processes during this period. For example, in May 1988, with the first six CF-related exposure drafts released, senior staff at the AARF delivered a series of seminars in all mainland capital cities. The topics covered in these seminars included the nature and design of the CF, as well as discussion of its content and the asserted benefits of its application for improving accounting standards and practice (AARF, 1988d, p.4; see also Burrows, 1996, p.168).

5. For example, Carnegie (2000) addressed how the monetary valuation of the Museum of Victoria collection was asserted to range from $217.8 million as ascertained for financial reporting purposes, to “several billion dollars” according to press reports for whatever other purposes. Carnegie also compared these valuations to that ascertained for the Australian Museum collection ($3.047 million), noting also that these collections are widely considered to be of a similar composition and size, thus drawing attention to the lack of reliability of the valuations.

6. Several of those involved in the promotion of the reforms have since conceded as such. For example, among the findings of an inquiry into the implementation of accrual accounting, the NSW PAC (1996a) found a lack of adequate planning existed prior to the implementation of accrual accounting. According to the NSW PAC (1996a, pp.30 and 66), the implementation of accrual accounting has been less effective and more costly than originally thought. The key reason advanced for this state of affairs was poor planning. As a consequence, the Commonwealth Government claims to have adopted a more incremental or circumspect approach to accounting reform (ICPA 1995a, pp.20-33; see also NSW PAC 1996a, p.63).

7. Fumall and Cooper (1998, p.204) provide further discussion on this point, citing examples of widely varying estimates of the costs of education, training and systems requirements in the State of New South Wales alone.
CHAPTER 7
DEFENDING ACCRUAL ACCOUNTING REFORMS FOR THE APS

INTRODUCTION

Chapter six provided an explanation of how accrual accounting reforms were promoted for application within the APS during the period 1985-2001. It was argued in chapter six that a relatively small community of technical experts located in influential positions in accounting and related fields were active in promoting this form of accounting for the public sector. This community broadly criticised the then predominant cash-based form of accounting in the public sector, and promoted general purpose financial reporting as a key solution to the problems that were portrayed to exist. The vague and abstract concepts of financial reporting contained in the CF were also used to provide theoretical support and justification for the content of detailed accounting standards mandating this form of reporting in diverse public sector settings. Accordingly, a key conclusion of chapter six is that the CF can be understood as a potent political tool which enables accounting to be transformed in particular settings. In addition, it was argued in chapter six that promoting accrual accounting reforms in this manner has at least three major shortcomings which, during the reform period, warranted little attention from the regulatory officials and other advocates involved. Instead, only certain questions were asked and certain issues considered. Thus, the second key conclusion of chapter six is that the promotion of accrual accounting reforms for application within the APS was largely guided and constrained by institutional thinking.
This chapter is the last of four chapters which, taken together, seek to address the two primary research questions identified for the study. The purpose of this chapter is to explain, primarily through the case of not-for-profit public museums, how accrual accounting reforms were defended when called into question. In doing so, the chapter seeks to address the relevant component of the second primary research question that was identified for this study and outlined in chapter one.

It will be recalled from previous chapters that the development and the promotion of accrual accounting reforms for application within the APS have been largely justified on the basis of purported enhancements in the accountability of organisational management and asserted improvements in the decision-making to be made by financial report users. However, when such claims are examined in the context of specific organisations in the public sector, such as not-for-profit public museums, these benefits have not been argued or demonstrated on the basis of rigorous research, conducted in Australia (Carnegie and Wolnizer, 1995a; Walker et al., 2000a, 2000b). This chapter shows that when such research has been undertaken combined with critical analysis, much doubt is cast over the asserted benefits of preparing general purpose financial reports in non-commercial contexts. Further, the findings of this research have either been overlooked or, on occasions, dismissed by accounting regulators and other advocates. This has primarily occurred because those involved have rigorously advocated the same concepts of financial reporting that underpinned the development and the promotion of the accounting standards that require such information to be provided. In each instance, the theoretical justification for preparing general
purpose financial reports, outlined in the CF, has remained beyond question from those involved (Barton, 1999a, 1999b, 1999c, 2000, 2002; Carnegie and Wolnizer, 1995a, 1995b, 1996, 1997, 1999, 2002; Jones and Puglisi, 1997; McGregor, 1993a, 1993b; Micallef, 1998; Micallef and Peirson, 1997; Rowles et al., 1998, 1999; Walker et al., 2000a, 2000b). Thus, it is argued in this chapter that the defence of accrual accounting reforms has been guided and constrained by institutional thinking.

According to Douglas (1986, pp.92, 112), a key to understanding how the cognitive processes of individuals can be shaped by institutions is to acknowledge the restrictive or restraining potential that those institutions may have in selected instances. When understood in this way, institutions can be seen to create shadowed places in which nothing can be seen and no questions can be asked which, in turn, restricts or limits the capacity of individuals for independent, critical thought. As a consequence, when individuals are confronted by difficult decisions or challenges, institutions enable those individuals to standardise or limit the ways in which the decisions or challenges may be conceptualised (Douglas, 1986, p.94). This, in turn, allows or directs those individuals to assign the problem or issue to a particular institutional category or class. Once this occurs, the available, institutionally supported solutions assume prominence and quickly gain support. Using institutions in this way, the individuals involved may find it difficult or unnecessary to look past the institutional solutions provided. Accordingly, those individuals may also be unable to evaluate critically the appropriateness or the consequences of applying the solutions in specific settings. In such instances, those individuals may ignore, dismiss, or be otherwise
prevented from acknowledging the merits of alternative non-institutional solutions offered by others, particularly those which are incompatible with their institutions (Douglas, 1986, p.3; see also Young, 1996, p.489). An appreciation of these restrictive or limiting capabilities of institutions assists an understanding of the defence of public sector accrual accounting reforms by accounting regulators and other advocates.

The remainder of the chapter considers how accrual accounting reforms for specific public sector organisations were defended by examining challenges raised in respect of two aspects of the reforms, namely:

(i) whether the commercial accounting disclosures required under detailed pronouncements such as AAS 27, AAS 29 and AAS 31 are relevant to the information needs of public sector managers and general purpose financial report users;

(ii) whether diverse cultural, heritage and scientific collections can properly be measured in financial terms and disclosed as assets in general purpose financial reports and how, if at all, such disclosures may assist in evaluating and enhancing the accountability of organisational management and the performance of the repositories of those collections.

The next section considers both theoretical argument and empirical research evidence which challenges the general relevance of mandating the preparation of commercial accounting information for the decisions routinely made by public sector managers and general purpose financial report users. This research finds little support for the notion that commercial accounting disclosures would be useful to those involved, however, these findings were not rigorously addressed by those associated with the regulations. Included in this discussion of general concerns about accrual accounting in the public sector is a consideration of research which specifically examines the appropriateness of recognising
infrastructure resources, particularly land under roads, as assets for financial reporting purposes. This research has broadly challenged such disclosures. However, these challenges have either been overlooked or, on occasions, dismissed by a small group of accounting regulators and other advocates who were also involved in the initial development and the promotion of the accounting standards which mandate the reporting of such information.

Thereafter follows the key section of this chapter. It contains an examination of a debate regarding the monetary valuation of cultural, heritage and scientific collections\(^1\) for financial reporting purposes. This section outlines how the requirement to disclose such resources as assets was challenged by Carnegie and Wolnizer (CW) (1995a) on several grounds. The study by CW (1995a) culminated in the identification of four key questions to be satisfactorily answered in order for such disclosures to be warranted. The criticisms raised by CW (1995a) brought a response from Micallef and Peirson (1997), both of whom were connected with the initial development of AAS 27, AAS 29 and AAS 31\(^2\). While the challenges raised by CW focussed on several issues and were based on well-argued interpretations of the content of the CF, the vague and abstract concepts of financial reporting contained in the CF provided the primary basis for criticism. Micallef and Peirson (1997) responded to these earlier challenges by using the concepts of financial reporting outlined in the CF to defend the disclosures in question. By responding in this fashion, none of the key questions posed by CW (1995a, 1999) were specifically addressed and the theoretical justification for the disclosure of these resources was re-asserted. As a consequence, CW prepared a further rejoinder, which was published in 1999, and which identified a further two
key questions to be addressed. Further discussion and debate ensued that has since occupied aspects of the academic and general press and which, at the time of writing, is unresolved (see, for example, Barton, 2000; Byrne, 2002; Carnegie and Wolnizer, 1995a, 1995b, 1996, 1997, 1999, 2002; Griffin, 1995; Harris, 1995; Hone, 1997; Micallef, 1998; Micallef and Peirson, 1997; Newberry, 2002; Tyzack, 1998; Walker, 1995b). The final section of the chapter contains concluding comments.

DEFENDING ACCRUAL ACCOUNTING REFORMS IN THE APS

This section contains a literature-based analysis of how accrual accounting reforms for application within the APS have been defended by examining research conducted into two aspects of the reforms. First, research is examined which challenges the general relevance of systems of commercial accounting for application within diverse public sector organisations. This discussion encompasses the consideration of the monetary valuation and disclosure of land under roads as assets for financial reporting purposes. Such a discussion is undertaken in order to further elucidate the general concerns expressed about the provision of such information for the relevant organisations. Discussion then follows which examines the major debate that has arisen regarding the appropriateness of recognising cultural, heritage and scientific collections as assets for financial reporting purposes.
DEFENDING THE RELEVANCE OF COMMERCIAL ACCOUNTING DISCLOSURES FOR DIVERSE PUBLIC SECTOR ORGANISATIONS

This section considers research undertaken by Ma and Mathews (MM) (1992, 1993) and by Jones and Puglisi (1997) which challenged the relevance of commercial accounting disclosures within various organisational settings in the public sector. Discussion then follows of research undertaken by Barton (1999a, 1999b, 1999c, 2000, 2002), Walker et al. (1999, 2000a, 2000b) and by Falk and Neilson (1993) which relates to the recognition of land under roads as assets for financial reporting purposes. Taken together, these authors challenged, on several grounds, the general rationales for implementing commercial systems of accounting across all levels of government. More specifically, these authors question whether such systems, in effect, enhance the assessment of the accountability and the performance of the government organisations involved. Such research has, however, been largely overlooked by accounting regulators and other advocates of reform.

In 1993, upon the release of ED 55 Financial Reporting by Government Departments, MM (1993) questioned, on theoretical grounds, the basis for preparing general purpose financial reports for diverse government departments. According to MM (1993, pp.68-74), the broad and complex accountability of government department managers cannot aptly be portrayed and discharged through the preparation and use of general purpose financial reports. To support their view, MM (1993) emphasise the narrow, financial notions of accountability and performance that are endorsed throughout the CF and in SAC 2 in particular. According to these authors, such notions have their genesis in the private sector, in the context of profit-seeking organisations. As such they argue, "the private
sector case for general purpose financial reports does not apply to government departments or to the budget sector generally” (MM, 1993, p.74).

Furthermore, MM (1993) assert that the benefits of accrual accounting for application in the public sector have been broadly exaggerated in pronouncements advocating this type of reform in the context of government departments. These authors emphasise the fundamentally “flawed” nature of accrual accounting by highlighting its association with a range of “intractable problems of revenue recognition, matching, depreciation, and industry-specific problems” (MM, 1993, p.76). According to MM (1993), accrual accounting reforms required under ED 55 depend on the application of the asset definition and recognition criteria, as well as measurement approaches which are more suited for application within profit-seeking organisations in the private sector. Thus, according to MM (1993), the widely asserted benefits of the reforms are questionable in the context of government departments and they conclude their study in the following way:

To implement ED 55 would involve a waste of resources on a scale rarely equalled or surpassed in the budget sector, at a time when all the emphasis is on increasing efficiency, eliminating waste and improving effectiveness in service delivery. The exercise of developing a new accounting and reporting system based on the proposed standards, and of maintaining it, will be extremely costly in both financial and real resource terms. The proposed system will not only provide information that is useless and irrelevant, but will add to the already existing mass of indigestible data that preclude effective accountability, managerial control, policy making and economic management (MM, 1993, p.86).

Shortly after the article by MM was published, McGregor (1993a), the Executive Director of the AARF at the time, responded to such arguments in an address to the National Accountants in Government convention held in Hobart. Extracts of McGregor’s address were also re-printed in Accounting Forum (McGregor, 1993b). However, rather than address the several grounds upon which MM
criticised the requirements in ED 55, McGregor's (1993a) response was reliant upon, and made use of, the language of the CF. Accordingly, in this response, McGregor (1993a) did little more than re-assert the institutional justifications for providing the disclosures required under ED 55. As a consequence, many of the substantive criticisms raised by MM (1993) were not addressed. Instead, the broad objective of financial reporting articulated in the CF was interpreted and applied by McGregor (1993a, 1993b) in a way that seemed to render unequivocal support for the reforms articulated in ED 55. According to McGregor (1993a, p.7) the contents of ED 55 can be justified since:

[the financial reporting requirements developed by the boards flow from the concepts statements. The concepts statements reflect the view that there is a common body of financial information which will be useful to users of financial reports of any type of entity ... . As such, from the boards' perspective, 'commercial accounting' does not exist: the boards are applying [a] single conceptual framework to all reporting entities in the public and private sectors and develop financial reporting requirements for particular "industries" according to the usefulness of particular information to the users of financial reports.

By responding in this unequivocal way, McGregor (1993a) was destined not to address specifically many of the substantive issues raised by MM (1993a). Throughout McGregor's response, there was little sense of the diverse and contested nature of the public sector nor was there clear acknowledgement of the complexities surrounding the presentation and the assessment of the accountability and the performance of many organisations within that sector. In addition, McGregor (1993a, 1993b) made little effort to demonstrate how the preparation of general purpose financial reports would specifically enhance the accountability and the performance of the departments involved, nor did he clearly establish how such information could assist the decisions made by general purpose financial report users. Instead, financial notions of accountability and
performance were re-asserted for departments and, as a consequence, the institutional justification for providing the disclosures required in ED 55 remained beyond question.

Further research into the relevance of commercial accounting information for specific public sector organisations has been provided by Jones and Puglisi (1997). These authors focussed on the notion which underlies the reforms and which can be empirically tested, namely, that certain disclosures contained in general purpose financial reports are relevant to the information needs of public sector managers and other general purpose financial report users. Jones and Puglisi (1997) empirically tested the usefulness of commercial accounting information required under AAS 29 by surveying 243 external users and senior internal decision-makers of Australian Government Departments. The respondents surveyed by Jones and Puglisi (1997) were drawn from two distinct groups. Specifically, senior representatives of government departments, such as directors, managers and other senior government officers comprised, in total, 71.5 per cent of those surveyed, while external users such as accountants, financial controllers, analysts and others comprised 28.5 per cent of the survey group. The survey developed by Jones and Puglisi (1997, p.117) contained 241 questions, which sought responses in relation to:

... the relevance of accrual accounting to the internal decision making of government departments; the perceptions of senior government department officials about the relevance of accrual accounting to a range of external user groups; and the potential obstacles that could confront the successful implementation of AAS 29.

Based on the results of their research, Jones and Puglisi (1997, p.121) concluded that some external users might benefit from the preparation of general purpose
financial reports for government departments. However, according to Jones and Puglisi (1997, p.121), the results "fall far short of the claims that general purpose financial reports could satisfy a potentially wide range of users". In addition, the authors concluded that "the overall impression of the respondent ratings is that accrual accounting has only a fairly modest relevance to the internal decision-making of government departments" (Jones and Puglisi, 1997, p.124). Instead, according to Jones and Puglisi (1997, p.126), survey respondents "potentially consider non-financial sources of information as having equal, if not greater relevance than accrual accounting measures in the evaluation of the government department's activities and performance". The authors aptly identify this to be "an interesting question for future research" (Jones and Puglisi, 1997, p.126).

The findings of the study by Jones and Puglisi (1997) directly contradicted the institutionally supported objective of general purpose financial reports contained in the CF. This objective asserts that these reports enable enhanced assessments of the accountability and the performance of public sector organisations of all types and are useful for informing the decisions made by general purpose financial report users. However, at the time of writing, Jones and Puglisi (1997) have drawn no direct response from accounting regulators or other advocates of the requirements outlined in AAS 29. Furthermore, no rigorous research has been conducted to establish unequivocally the efficacy of the disclosures to be made under AAS 29 for the decision-making of the users of general purpose financial reports.
Research challenging the appropriateness of recognising land under roads as an asset in general purpose financial reports is discussed in the next section. This research is examined in order to provide a further exemplar of the broad concerns expressed regarding the relevance of commercial accounting disclosures for public sector organisations. Accordingly, the next section further highlights the restricted and constrained manner in which accrual accounting reforms have been defended.

RECOGNITION OF LAND UNDER ROADS AS ASSETS

The challenge to the recognition of land under roads as an asset for financial reporting purposes has been made most notably by Barton (1999a, 1999b, 1999c, 2000, 2002) and Walker et al. (1999, 2000a, 2000b) and was dealt with earlier by Carnegie and West (1997) and also by Falk and Neilson (1993). Collectively, these authors have broadly questioned the monetary valuation and disclosure of this resource on several grounds. At the time of writing, however, only Falk and Neilson (1993) had drawn a direct response from those involved with advocating and implementing these reforms. Otherwise, the challenges made have simply been overlooked, while the institutional justification for preparing general purpose financial reports containing the disclosure of these resources as assets has remained. The remainder of this section briefly explores the challenges raised as well as the response received.

Barton (1999a, 1999b, 2000, 2002) criticised the requirement to recognise land under roads as an asset for financial reporting purposes on two discernible grounds. First, according to Barton (1999a), the recognition of land under roads as
an asset is based on the mistaken premise that the private and public sectors are fundamentally similar in terms of the information needs of financial statement users and in terms of their operating environments (see also Burritt et al., 1996, pp.24-6). Barton (1999a, p.31) presented a range of arguments to challenge this premise, and thus called for the requirement for such disclosures to be reconsidered since:

[the basic rationale of each sector is different and accounting standards must be adopted to their environments if accounting is to be a useful financial system. If they are not, the information produced cannot satisfy the qualitative characteristics of useful information; particularly those of relevance, reliability and understandability.

The second basis on which Barton challenged this practice was to argue that such resources are not properly described as an asset and should not be disclosed as such for financial reporting purposes. According to Barton (1999b, p.10), land under roads is a "public good" whereby the:

... use of a public road by one person does not deny the use of the road to other persons. It is a facility available for use by all the public and the consumption benefits made available by the road are shared by all users. The benefits are not confined to the local residents and businesses primarily serviced by the roads.

As a consequence of their "public goods" nature, according to Barton (1999b, p.11) accrual accounting principles should not be applied to these resources "without substantial modification" (see also Barton, 1999c, 2002, pp.2-5). To do so, would contribute to the preparation of a statement of financial position which is "misleading as an indication of the financial condition of a council" (Barton, 1999b, p.10). Second, Barton (1999b) challenged the recognition of land under roads as an asset by applying the relevant components of the SAC 4 asset definition and recognition criteria. According to Barton (1999b, p.12), the
existence of future economic benefits is questionable, since any benefits from these resources are social and therefore non-financial, and instead flow to "local residents and businesses, and the public and businesses at large" and are "linked to the rest of the road network". Furthermore, according to Barton (1999b, p.12), the control of these resources is contested since "councils cannot direct the benefits to themselves and deny the public use of the roads" nor are local governments able to "close off roads and dispose of the land under them as is the case for private goods, except in the restricted cases permitted by legislation". Thus, according to Barton (1999b), neither the asset definition nor the recognition criteria in SAC 4 are met in the case of land under roads (see also 1999c, 2000).

The conclusion reached by Barton (1999b, p.15) is reflected in the passage below:

... no attempt should be made to place financial valuations on land under roads used for public purposes and to include land under roads as assets in the financial reports of local government authorities. Land under roads is not an asset of the municipalities and it cannot form part of their financial condition. The land is Crown land which belongs to the public at large, and is better treated as a trust asset of the nation under the management of the government. Further, land under roads cannot be valued except on arbitrary bases, because of its public goods nature. Finally, it does not need to be valued except on arbitrary bases because of its public goods nature.

Walker et al. (1999, 2000a, 2000b) examined broadly similar issues, presenting both theoretical argument and empirical research evidence to question the recognition of land under roads as an asset for financial reporting purposes in light of the information needs of both external stakeholders and those internally responsible for infrastructure management in local government. According to Walker et al. (1999, p.447), when assessing the effectiveness of the management of infrastructure by local government, financial statement users are more concerned with the periodic reporting of the physical condition of infrastructure than with accounting-based information. Thus, Walker et al. (2000a, p.29)
concluded that the widely asserted usefulness of such disclosures “for external reporting and performance evaluation purposes is dubious”. In two subsequent articles, these authors propose alternative accountability and performance measurement systems “having regard to the information needs of users of public sector accounting reports and with specific reference to concerns about inter-generational equity” (Walker et al., 2000b, p.123). The proposed systems advocate the reporting of a composite package of financial and non-financial information that extends beyond the disclosures presently required under accounting pronouncements. The asserted systems “incorporate a combination of descriptive information and condition ratings for assets of differing economic lives, and statements of assumptions about future use” (Walker et al., 2000b, p.123).

Taken together, Barton (1999a, 1999b, 1999c, 2000, 2002) and Walker et al. (1999, 2000a, 2000b) directly challenged the institutional arguments relating to the usefulness of disclosing land under roads as an asset for financial reporting purposes. These authors specifically question how such disclosures could ever assist in assessing the broad accountability of local governments with respect to those resources. In doing so, these authors challenge the institutional justification that has been widely advocated for these disclosures as contained in the CF. At the time of writing, however, these challenges had drawn no direct response from accounting regulators or from other advocates of reform.

A further challenge to the monetary valuation of land under roads and other infrastructure items was made by Falk and Neilson (1993). Similar to Walker et
al. (2000a, 2000b), Falk and Neilson (1993) proposed an alternative framework for local government accounting that did not require the capitalisation of infrastructure resources, such as land under roads, for financial reporting purposes. Falk and Neilson (1993) drew an immediate response from Rowles (1993a) who was employed as a member of staff at the AARF at the time. Even though the concepts of financial reporting outlined in the CF had been applied in shaping the content of AAS 27, these same concepts also provided a convenient basis to model a response. According to Rowles (1993a, pp.62-4), by not requiring the recognition of land under roads as an asset in general purpose financial reports, the framework proposed by Falk and Neilson would not yield the asserted benefits of general purpose financial reporting as outlined in SAC 2. The basis upon which Rowles concluded that such resources should be recognised as an asset for financial reporting purposes is illustrated in the extract below:

[It follows from the SAC 2 objective that, if general-purpose financial reports are to provide information from which the efficiency, effectiveness and economy in the use of scarce resources can be assessed, it is necessary that financial statements contain information about the stock and consumption of service potential of all assets, including infrastructure and heritage assets such as roads, bridges, drainage works, parks and gardens, of local government. In particular, land under, or occupied by, such assets must be recognised as an asset where it meets the definition and recognition criteria of an asset (Rowles, 1993a, p.62).]

Thus, Rowles (1993a) concluded, in much the same way as occurred in DP 17, that unless local governments provided financial information for their stock of “assets”, the asserted enhancements in the accountability and the performance of local governments would not be forthcoming.

Finally, in 1998, Rowles et al., surveyed local government financial managers from municipalities around Australia to ascertain the usefulness of placing
monetary values on land under roads as required under AAS 27. The study by Rowles et al. (1998) was discussed in chapter five to elucidate the development of AAS 27. It is also appropriate to discuss this research briefly in this section in order to further highlight the restricting or limiting affects of institutions.

Consistent with the studies by Barton (1999a, 1999b, 2000, 2002), and Walker et al. (1999, 2000a, 2000b), the results of the empirical study by Rowles et al. (1998) challenged the appropriateness of recognising land under roads as an asset for financial reporting purposes. According to Rowles et al. (1998, p.47), "Financial managers registered overwhelming dissatisfaction with the fact that the asset recognition requirements of AAS 27 extend to land under roads". More specifically, the findings of the survey conducted by Rowles et al. (1998, p.47) indicated that a significant number of financial managers believed that the recognition of land under roads as an asset for financial reporting purposes was a "costly exercise, serving no useful purpose for either decision making or performance measurement". This finding supported the results of the earlier study by Carnegie and West (1997), who analysed the views of respondents to ED 50 regarding the recognition of infrastructure generally and, more specifically, the recognition of land under roads. The findings of the study by Carnegie and West were addressed in detail in chapter five.

The results of the survey by Rowles et al. (1998) directly contradicted the functional justification upon which AAS 27 was based. Notwithstanding, the authors effectively dismissed their own findings. Instead, they curiously resorted to the theoretical arguments for the usefulness of such disclosures as found in the
CF. According to Rowles et al. (1998) the results they reported do not cast doubt upon the usefulness of the information but instead can be attributed to the shortcomings of respondents, namely a “misunderstanding” of the purpose of preparing financial reports and the potential usefulness of the information (Rowles et al., 1998, p.49). These researchers consequently concluded that the major task of accounting regulators in relation to this issue was educational in nature rather than technical (p.49). In this way, even though local government financial managers regarded the monetary valuations for land under roads to be essentially irrelevant for their decision-making purposes, a further opportunity to re-evaluate a specific application of the content of the CF was lost.

FINANCIAL MEASUREMENT AND DISCLOSURE OF COLLECTIONS AS ASSETS IN GENERAL PURPOSE FINANCIAL REPORTS

In August 1994, CW completed an extensive report for the Department of Arts, Sport and Tourism, Victoria, entitled “Valuation of Cultural and Heritage Collections for Financial Reporting Purposes”. Based on the findings of this report, CW wrote an article entitled “The Financial Value of Cultural, Heritage and Scientific Collections: An Accounting Fiction”, which appeared in the Australian Accounting Review in June, 1995. The study by CW (1995a), which was set in the context of not-for-profit arts organisations, particularly focussed attention on the five major arts organisations in Victoria4, Australia and sought to demonstrate, among other things, that:

... collections cannot properly be described as financial assets. Indeed those collections do not even satisfy all of the criteria for recognition as an asset as specified by Australian accounting standard setters (CW, 1995a, p.31).
In their article CW (1995a) challenged the institutional justification for the recognition of cultural, heritage and scientific collections as assets for financial reporting purposes. CW (1995a) concluded their article by posing four salient questions which they believed needed to be adequately addressed before the recognition of such collections as assets for financial reporting purposes could properly occur. These questions are outlined in a later section of this chapter.

The challenge presented by CW drew a response from MP (1997), both of whom were connected with the development of the accounting standards which require such disclosures to be made. However, in their response to the challenges presented, MP did not re-evaluate the appropriateness of disclosing these resources as assets, nor did they reconsider the relevance of such disclosures for presenting and assessing the accountability and performance of the repositories involved. Rather, in defending such disclosures, MP did little more than reinforce the asserted usefulness of such information outlined in the CF even though such claims are not based on the support of rigorous research evidence, empirical or otherwise, conducted in Australia. Accordingly, the "challenge" for MP seemed to reside in addressing the issues raised by CW within the existing, institutional rationales for the preparation of general purpose financial reports contained in the CF generally, as well as within the "so complex, so open-ended, so all-inclusive and so vague" (Scheutze, 1993, p.68) asset definition provided in SAC 4. In doing so, MP demonstrate an inability or an unwillingness to look beyond "financial" notions of accountability and performance for the not-for-profit entities involved. Thus, MP re-assert the assumption that assessments of these complex and contested aspects of organisational activity require little more than the preparation
of general purpose financial reports containing the disclosure of social resources, such as cultural, heritage and scientific collections, as assets. The response by MP prompted a further rejoinder from CW (1999) in which an additional two questions were posed. The debate that has ensued pursuant to the challenges raised by CW (1995a) has lasted several years and, at the time of writing, is unresolved. Nevertheless, yet the debate has raised issues and questions which at least challenge, in essence, an understanding of the fundamentals of accounting.

In their 1995 article, CW challenged the recognition of such collections as assets on several grounds. There are at least five discernible grounds on which the authors sought to demonstrate that collections are not properly described as assets and thus should not be disclosed as such in general purpose financial reports. These grounds are summarised as follows:

1. Overseas and Australian Accounting Standards;
2. Surveys of Accounting Practice;
3. Costs and Benefits of Disclosure;
4. Asset Definition; and
5. Asset Recognition.

These grounds are utilised in the remainder of this section to outline and discuss the arguments raised by CW (1995a) and the specific response, if any, provided by MP (1997).

1. Overseas and Australian Accounting Pronouncements

1.1 CW Challenges

CW commenced their 1995 study by reviewing accounting pronouncements relating to collections in USA, Canada, European Union, including the UK, New
Zealand and Australia, as well as any relevant accounting pronouncements of the International Accounting Standards Committee. Based on their review, CW (1995a, p.32) concluded that "[w]ith the exception of New Zealand, the capitalisation of collections as assets is not required in any of the overseas jurisdictions identified, or by the International Accounting Standards Committee".

In reaching this conclusion, CW examined the content of the US-based Statement of Financial Accounting Standard No.116 (SFAS 116) entitled *Accounting for Contributions Received and Contributions Made*. Their review of SFAS 116 also encompassed a discussion of the forerunner exposure draft entitled *Accounting for Contributions Received and Contributions Made and Capitalization of Works of Art, Historical Treasures and Similar Assets*. The exposure draft, released in October 1990, had proposed that newly acquired collection items be capitalised as assets at cost or fair value, while items acquired in prior periods be retrospectively capitalised at an approximation of their current value. However, after much criticism relating to the anticipated cost of implementing the proposals and in the absence of any significant user demand for the information, the requirement to recognise such items was removed from SFAS 116. Upon its release in 1993, SFAS 116 did not require that these resources be capitalised as assets, although the standard, as issued, encouraged entities that had previously capitalised their collections to continue to do so (para.136; see also CW, 1995a, p.32). In the US, Government Accounting Standards Board (GASB) pronouncements are also relevant. CW (1995a, p.32) point out that the GASB standards did not require collections to be recognised as assets in general purpose financial reports as they
were not, importantly, considered to be resources available to meet financial obligations (see also Rowles, 1992, p.21).

CW (1995a) identified the regulatory situation with respect to collections in Canada to be similar to that applicable in the US. In 1989, a research study sponsored and published by the Canadian Institute of Chartered Accountants had proposed that collections should be valued in financial terms and disclosed as assets in general purpose financial reports. In asserting this conclusion, however, the study neither explained how reliable monetary valuations could be derived for collections nor provided any evidence to demonstrate any significant user demand for the financial valuation of collection items (CW, 1995a, p.32). When accounting regulators in Canada subsequently released an exposure draft entitled *Not for Profit Organisations* (1993) which addressed the recognition of collections, the document contained two concessions which are illustrated in the following extract:

The cost of capitalizing collections often would exceed the incremental benefit of the information gained, especially for organizations that have been in existence for several decades. The Accounting Standards Board is unaware of any significant demand among external users of general purpose financial statements for dollar-value information about collections (para.405; see also CW, 1995a, p.33).

Accordingly, CW concluded that, similar to the situation in the US, at the time of their writing, the capitalisation of collections was permitted under Canadian accounting pronouncements, but was not required.

Contrary to the broadly similar situations in the US and in Canada, CW (1995a, p.33) found no specific accounting standards in the European Union, or in the UK, or any IASC pronouncement requiring the capitalisation of collections, nor were
there any proposals to do so being considered in such jurisdictions at the time of their writing. In concluding their examination of these accounting pronouncements, CW (1995a, p.33) noted that accounting guidelines had been put in place for local governments in the UK. Since 1994, these guidelines had required local governments to account for newly acquired "community assets", which typically included cultural, heritage and scientific collections that may be held by these authorities. While such guidelines did not require depreciation to be calculated for the collection items, nor did they mandate retrospective capitalisation, these guidelines were noted as likely to lead to the capitalisation of newly purchased collection items as assets for financial reporting purposes (CW, 1995a, p.33).

CW also identified that the capitalisation of collections in general purpose financial reports was, at the time, a specific requirement in both New Zealand and was also advocated in Australia. The relevant New Zealand pronouncement at the time was SSAP 28 *Accounting for Fixed Assets*, which at the time required capitalisation to occur, despite an absence of generally accepted valuation methodologies for such items. In the Australian context, CW identified SAC 4 as an important pronouncement for justifying such disclosures, even though the mandatory status of this concepts statement was, as explained earlier, withdrawn shortly after its release. Notwithstanding, as demonstrated, the content of SAC 4 was highly influential in the development and promotion of AAS 27, AAS 29 and AAS 31.
1.2 MP Defence

In their response, MP (1997) did not specifically refute the finding that, beyond New Zealand, the capitalisation of collections was not required in any other overseas jurisdiction, nor did they address the significance of this finding. However, in defending such disclosures, MP (1997) cited the US-based concepts statement SFAC 6 (paras.28, 30) to support the view that the recognition of collections as assets for financial reporting purposes should occur. MP (1997, p.32) also cited the following extract from the US-based SFAS 116 (para.130), to support their view:

[c]ollection items, although generally held for long periods of time and seldom sold, are assets that continue to provide economic benefits or service potential through their use. In a not-for-profit organization, that service potential or future economic benefit is used to provide desired or needed goods or services to beneficiaries. Those items also provide cash flows from admissions, rentals, and royalties, and often are the reason for contributions in support of the entity’s mission. The Board concluded that collection items have the common characteristics possessed by all assets – the scarce capacity to provide services or benefits to the entity that uses those items.

1.3 Discussion

In utilising the above extract from SFAS 116 to support their view, MP failed to also acknowledge other relevant parts of SFAS 116 which appear to weaken the support provided for their arguments. According to SFAS 116 (para.130), collections are, indeed, considered to fall within the asset definition in SFAC 6 which has been labelled as “abstract”, “open-ended”, “all-inclusive” and “vague” (see, for example, Scheutze, 1993, p.68, 2001; see also Samuelson, 1996). However, perhaps due to the likely high costs of capitalisation, or the difficulty of arriving at a verifiable approximate for current value, and in the probable absence of significant user demand for the resulting information, these disclosures are permitted, even encouraged, but are, importantly, not required under SFAS 116
(see, for example, SFAS 116, para.136). This was, however, not acknowledged by MP, even though CW had previously drawn attention to the position taken in SFAS 116.

2. Surveys of Accounting Practice

2.1 CW Challenges

CW (1995a) also questioned the monetary valuation and disclosure of collections as assets in light of extensive evidence indicating that such practices are not generally adopted by repositories of collections either in Australia or around the world. To reach this conclusion, CW (1995a) relied on two key sources of evidence. First, they cited the results of research performed by Jaenicke and Glazer (1991) who surveyed the preparers and users of museum financial statements in the US. According to Jaenicke and Glazer (1991, p.4), their survey results indicated:

"... no evidence of the usefulness of dollar-value information about collections. To the contrary, the interviews revealed a fear on the part knowledgeable users, such as corporate donors and rating agencies, that some financial statement readers might misinterpret and be misled by information about dollar values assigned to collections."

CW (1995a) also conducted their own surveys of overseas arts institutions including not-for-profit public museums in the US, UK, New Zealand, France and Spain, as well as similar institutions in Australia to ascertain the manner in which they dealt with their collections. CW also surveyed the eight major Anglo-American professional accounting bodies to ascertain the practices used for recording their library collections. While the survey of 32 overseas such organisations indicated some diversity in practice, however, few of the organisations surveyed placed monetary valuations on their collections for
financial reporting purposes. The practices adopted by the overseas institutions for recording their collections were captured by CW (1995a, p.35) in their Table 1, which is reproduced below:

**Accounting Policies for Collections**

Responses  
(US 21, UK 7, NZ 2, France 1, Spain 1) 32

Not capitalised  
(US 18, UK 5, France 1, Spain 1) 25
Capitalised at cost (not depreciated)  
(US 2, UK 2) 4
Capitalised at cost/donations recorded at fair value (US 1) 1
Valuation recorded in the balance sheet  
(NZ 2) 2 32

Valuation (unaudited) disclosed in the notes  
(US 1) 1

The overseas organisations which did not apply monetary valuations to their collections were requested by CW to indicate the reasons for not doing so. The most common reasons provided by respondents related to the difficulty of obtaining a reliable monetary valuation for collection items and the high cost of collecting this information as well as the irrelevance of the resulting magnitudes for the decisions routinely made by organisational management. Table 2 from CW (1995a, p.35), summarises the reasons given for not measuring and disclosing the collections and is reproduced below:

**Major Reasons for Not Valuing Collections**

- Item does not represent resources available to meet financial obligations 8
- Value is incalculable/inestimable 8
- Not cost beneficial 7
- Impractical/not required 4
- Policy in accordance with GAAP 3
- Objectivity/accuracy problems 2
- No identifiable demand 1
- Value would not directly enhance the Archives 1

* Some institutions advised more than one reason
CW also surveyed 26 major arts organisations in Australia as well as eight major Anglo-American professional accounting bodies to ascertain the practices used for recording their respective collections. The results indicated that only four of the Australian arts organisations surveyed placed monetary valuations on their collections for financial reporting purposes. In addition, only one of the professional accounting bodies surveyed – the New Zealand Society of Accountants – capitalised its library collection as an asset for financial reporting purposes. CW (1995a, p.35) highlighted the anomalous nature of this latter finding, suggesting that “in view of the arguments posed in the Concepts Statements, it is quaint, indeed anomalous, that the Australian professional bodies do not value their library collections”.

2.2 MP Defence

MP (1997) sought to deflect the suggestion that the recognition of collections is not generally practiced by relevant arts organisations around the world or by professional accounting bodies in three main ways. First, MP cited the results of four other studies, which they assert to be “more comprehensive” than the surveys conducted by CW. These surveys were undertaken by the American Association of Museums (1989), the FASB (1989), Donnelly and Miller (1989) and by Larkin (1989). The surveys cited by MP (1997) were concerned with identifying the extent to which collections were capitalised for financial reporting purposes by arts organisations around the world. According to MP (1997, p.36) these studies “reported the following levels of capitalisation: an FASB survey (18 per cent); Larkin (40 per cent); American Association of Museums (between 10 per cent and 71 per cent); and Donnelly and Miller (1989) (40 per cent)”. Based on the figures,
MP (1997, p.36) confidently concluded that the surveys showed “significantly higher proportions of arts institutions recognise their collections than the Carnegie and Wolnizer survey”.

Second, MP sought to dismiss the results cited by CW which indicated that only one of the eight major Anglo-American professional accounting bodies measured and disclosed their library collections in general purpose financial reports. According to MP (1997, p.35), this seemingly anomalous finding could be rationalised in a way that leaves the institutionally recognised usefulness of such disclosures contained in the CF beyond question:

... the results do not reveal the reasons why the professional accounting bodies did not recognise their library collections. It is possible that the library collections of those bodies are relatively small in value and were therefore considered to be immaterial for financial reporting purposes.

Finally, MP (1997) concluded their response to the challenge on this issue with a seemingly broad statement on the desirability of recognising collections by reference to the qualitative characteristics of financial information outlined in SAC 3. Specifically, according to MP, the non-recognition of collections by relevant arts organisations and by professional accounting bodies does not reflect the potential usefulness of the information since:

... acceptance of the argument that CHSCCs should not be recognised because this is not generally accepted practice would seem to condemn accountants to always accepting the status quo. As pointed out in SAC 3 Qualitative Characteristics of Financial Information (AARF/AASB, 1990b, para.34) it is unacceptable for entities to remain tied to existing practices, when more relevant or reliable alternatives exist. In a similar vein, the PAEC stated in its report that “current practice” should not necessarily influence “best practice” for the future (MP, 1997, p.35, emphasis in original).
2.3 Discussion

By addressing the survey results by CW in the manner outlined, MP appear to leave three key issues unresolved. First, recall that MP cited four other studies of practices adopted by the relevant organisations which they claim indicated that the capitalisation of collections for financial reporting purposes was more widespread than suggested by CW. However, further elaboration of the results of the survey by the American Association of Museums (AAM) provides insight into the results of this survey which MP (1997) cited to be “between 10 per cent and 71 per cent”. This elaboration is provided in the following discussion of the AAM results by Jaenicke and Glazer (1991, pp.40-1):

Twenty-one percent of the respondents indicated that current-period acquisitions were capitalized as assets ... . The extent of capitalization of prior-period acquisitions is quite similar: 15 percent of the organizations capitalize all prior-period acquisitions as assets, and an additional 16 percent capitalize some prior-period acquisitions. Once again, science and children’s museums capitalize prior-period acquisitions much more frequently than other types of institutions, (70% and 65% respectively), capitalize at least part of their prior-period acquisitions.

Thus, the results of the AAM survey revealed that only a relatively small number of total respondents capitalised their collections for financial reporting purposes. This suggests a somewhat different picture to that portrayed by MP (1997) who cited the results of this study in a way which inferred that the capitalisation of collections occurred on a more frequent basis. Jaenicke and Glazer (1991, p.41) concluded from a review of the findings of these studies, that the practices adopted for recording collections “differs significantly from one museum to another”. Notwithstanding, each of the results examined by Jaenicke and Glazer (1991) indicated that on an overall basis the recognition of collections as assets for financial reporting purposes was performed by a minority of the institutions surveyed. Accordingly, any claim which suggests that these studies revealed the
recognition of collections as assets in general purpose financial reports to be generally accepted and widely performed is inaccurate.

Secondly, recall that MP dismissed the anomalous nature of the finding by CW which indicated that only one Anglo-American professional accounting body capitalised its collection for financial reporting purposes based on the possible immateriality of the resulting magnitudes. It is, indeed, possible that library collections held by some professional accounting bodies may be relatively small and immaterial for financial reporting purposes. Alternatively, it might also be possible that non-recognition is due to the bodies believing this task to be a costly exercise for which there is an absence of any significant user demand, including senior management and Council members, for the information produced. Notwithstanding, the possibility that these results might be anomalous in light of the content of recent accounting pronouncements in Australia was ignored and the asserted usefulness of such disclosures remained, once again, beyond question from MP.

Finally, MP attempted to re-assert the usefulness of recognising collections as assets for financial reporting purposes based on an uncritical appeal to the generally desirable, yet difficult to operationalise, qualitative characteristics in SAC 3 and to vague notions of "best practice" which, in accounting, is problematic. However, nowhere in their response do MP explore the potential usefulness of non-financial disclosures in respect of collections. Furthermore, MP provide no evidence to establish the grounds upon which these disclosures could properly be considered to be more "relevant" than the more widely practised non-
recognition of such items. Similarly, the basis upon which such disclosures could be claimed to represent “best practice” was not explained by MP.

3. Costs and Benefits of Disclosure

3.1 CW Challenges

CW also challenged the monetary valuation of collections for financial reporting purposes on the grounds that the collection of such information is “not regarded as cost beneficial” (CW, 1995a, p.36). CW (1995a) made this claim both in light of the absence of any significant user demand for the information and because SAC 3 (para.44) requires information to be collected and included in financial reports only if the benefits of doing so exceed the costs involved. According to CW (1995a, p.36), independent monetary valuation by recourse to current market prices is generally the preferred, but the most costly, approach for valuing assets for financial reporting purposes. Such valuations are potentially independently verifiable and the resulting magnitudes generally have greater contemporary relevance when compared to magnitudes derived by means of other valuation approaches (CW, 1995a, p.36). According to CW (1995a), however, the out-of-pocket expenditures likely to be required in any attempt to obtain reliable valuations for specific artefacts and to audit such representations would be prohibitive, particularly given the impossibility of obtaining reliable valuations in generally thin or non-existent markets.

3.2 MP Defence

MP defended the costs of valuing collections for financial reporting purposes in two ways. First, even though the estimated costs of valuing collections cited by
CW (1995a) were those provided by the specific institutions themselves, MP argued that these estimates were excessive, suggesting instead that the probable cost would, once undertaken, be much lower in amount. To support their claim, MP cited an estimate from the Australian Valuation Office of the costs of the first time valuation of the collections held by the State Library of Victoria and the National Gallery of Victoria to be “closer to $450,000” (PAEC, 1995, p.116). This estimate was a total of $22.9 million lower than the estimated cost obtained from the organisations involved. Second, MP (1997) dismissed this issue by recourse to the perceived benefits to be gained from placing monetary values on such resources for financial reporting purposes. The manner in which this occurred is illustrated in the extract below:

However, in contrast to Carnegie and Wolnizer, we suggest that the benefits of recognising and measuring collections generally outweigh the costs of the exercise. This is because of the magnitude of the resources devoted to CHSCCs, and because of the increasing demand for information which allows the public and its representatives to evaluate the decisions about the allocation of limited resources in the public sector. In addition to the benefits flowing to the users of the general purpose financial reports of museums, art galleries and libraries, the benefits flowing to the entities’ managers as a result of improved information systems will also need to be factored into any cost/benefit analysis (MP, 1997, p.35).

3.3 Discussion

In arguing that the recognition of collections as assets for financial reporting purposes is cost beneficial, MP appear to leave two key issues unaddressed. First, there was considerable variation in the estimated costs of obtaining reliable monetary valuations for the collections involved. However, the significance of this discrepancy is not evident in the conclusion drawn by MP. Second, while a reliable indication of such costs may be “unlikely ever to be reached” (NSW PAC, 1996b, p.59), MP admit to an even greater difficulty in identifying and measuring any benefits that might flow from this task. According to (MP, 1997, p.35), “it is
difficult (if not impossible) to quantify the financial and other effects of any changes in decisions resulting from the availability of improved information". Accordingly, despite the substantial discrepancy in the estimated costs of valuing the collections concerned and even though the asserted benefits have yet to be clearly identified, let alone evaluated, MP confidently asserted that the benefits of disclosure would exceed the costs of collection. In doing so, a further challenge to the recognition of collections for financial reporting purposes was dismissed, without evidence, and the asserted usefulness of such disclosures again remained beyond doubt or question.

4. Asset Definition

The fourth, and perhaps most significant basis on which CW (1995a) challenged the recognition of collections as assets concerned the application of the conventional definition of assets for financial reporting purposes. As is highlighted in the remainder of this section, by challenging the recognition of collections for financial reporting purposes and by applying the definition of assets as outlined in SAC 4 to do so, CW demonstrate the different, conflicting interpretations that may be made of the concepts of financial reporting contained in the CF.

CW (1995a) established their argument relating to the asset definition in three main ways. First, CW discussed the objectives and functions of repositories of cultural, heritage and scientific collections, such as not-for-profit public museums, and more specifically, they considered the nature of the collections held by these organisations. Second, CW challenged the appropriateness of recognising diverse
collections as assets by exploring conventional notions of value namely, value in use and value in exchange. Third, CW applied the asset definition in SAC 4 and concluded that collections do not exhibit or possess the essential characteristics required in order to meet the definition outlined. Each of these arguments and the response, if any, offered by MP, is identified and discussed in the remainder of this section.

4.1 Objectives and Functions of Public Arts Institutions

4.1.1 CW Challenges

According to CW (1995a, p.37), the repositories of cultural, heritage and scientific collections have primarily "scientific, cultural and community functions" and their mission statements generally exclude any reference to the goals of income generation, wealth creation, profitability and surplus distribution. These organisations are:

... not commercial enterprises; they are not in the business of adapting to changing market conditions – of commercial trading, of buying and selling. Their business is "to be" and "to hold", not "to do business" (CW, 1995a, p.38; see also Jaenicke and Glazer, 1991, p.77).

As such, the diverse collections of these repositories are "held in the public interest; for the enjoyment, education and enrichment of members of the community" (CW, 1995a, p.37). CW (1995a) then present a range of arguments to highlight the social and thereby non-financial nature of collections. For example, they argue that collections are provided to the "community at large ... without the prospect of generating net positive cash inflows" (p.38). Furthermore they emphasise that such items are frequently irreplaceable, are held in perpetuity and are rarely, if ever, readily saleable since there is either no established market or
because the management is prevented, in the community interest, from selling them (CW, 1995a, p.38). Instead, according to CW (1995a), collection items are non-financial resources which have a diverse range of social, cultural and scientific values, and useful lives which “cannot be determined with reasonable accuracy” (CW, 1995a, p.38). According to CW (1995a, pp.38-9), the diverse social, cultural and scientific values inherent in collection items cannot properly be captured and adequately represented in dollar terms by accountants in general purpose financial reports.

4.1.2 MP Defence

MP (1997) addressed the usefulness of valuing collections by re-asserting the financial notions of accountability and performance, outlined in the CF, the genesis of which is in the private sector, in the context of profit-seeking organisations. According to MP (1997, p.34):

[n]otwithstanding the nature of public sector museums, art galleries and libraries, the public has a beneficial interest in the assets that these entities control because it is the public that provides the funds required by those entities to acquire assets and to fund operations.

These authors maintained that such information is also useful in informing decisions about the allocation of scarce public funds, for which they offer the following justification:

For example, such information would be important to allow parliament, government and taxpayers to assess whether the resources devoted to particular activities warrant ongoing financial support or whether resources should be diverted to other public activities. It is also part of the information necessary to assess whether the value of the assets controlled by an entity has been eroded, improved, or retained, and for assessments of previous decisions to acquire CHSCCs (MP, 1997, p.34).
Furthermore, MP (1997, p.34) argued that the monetary valuation of collections and their disclosure as assets for financial reporting purposes also enables "the managers of museums, art galleries and libraries to discharge their accountability by providing some of the information necessary to enable assessments of their performance". Finally, according to MP (1997), such disclosures can also enhance the effectiveness of the management of collections by indicating instances where de-accessioning strategies are required. The justifications provided for this view are given in the extract below:

Information about the CHSCCs controlled by museums, art galleries and libraries is also important given the fact that, because of space restrictions, a large part of the collections controlled by many of these is in storage rather than on public display. Informed decisions about matters such as whether the level of items in storage is excessive and should be reduced cannot be made without about both the quantity and the financial value of those items. Without information about the financial value of items in storage, there can be no informed assessment of the opportunity cost of holding those items (MP, 1997, p.34).

4.1.3 Discussion

There are three points worthy of mention in relation to the asserted usefulness of disclosing diverse collections as assets for financial reporting purposes. First, MP (1997) provided no evidence to establish the grounds on which such disclosures might benefit the "public", nor do they identify a single decision made by members of the "public" that might be enhanced by having monetary valuations for collections at their disposal. Second, there is little indication within the defence presented by MP that the accountability or the performance assessment of the relevant organisations requires rather more elucidation than the preparation of general purpose financial reports containing disclosures for financial statement elements. However, the accountability of the management of the repositories of these collections extends across an array of financial and non-financial
responsibilities associated with, *inter alia*, the acquisition, physical condition and presentation of the collections for public enjoyment, education and enrichment (Burritt *et al.*, 1996, p.27; Carnegie and West, 2002, p.17; CW, 1996, p.84; Commonwealth of Australia, 1994; DASET, 1992; Rentschler and Potter, 1996). Any attempt to value collections and hold managers directly responsible for periodic changes in such valuations invites a misunderstanding of the purpose and significance of collections. Such practices do not fully reflect, and can impede and distract, the accountability of the managements of the repositories in relation to those collections (Carman *et al.*, 1999, pp.144-5; Carnegie and West, 2002, pp.14-6; CW, 1996, p.85; Griffin, 1995, p.12)⁹. Accordingly, unless the mission statements or objectives of such organisations were amended to incorporate commercial notions of profit and wealth maximisation, any link between the financial disclosure of collection items and the primary objectives of the repositories as articulated in the missions cannot be meaningfully justified (Barton, 2000, p.221; CW, 1996, p.88; 1997, p.44; Pallot, 1990, pp.82-3).

Finally, MP refer to the role of financial disclosures for collections in facilitating the identification of “excessive” items which “should be reduced”. However, in doing so, they demonstrate little understanding of how “excessive” items are conventionally identified by repositories. Nowhere in this part of their response do MP reveal how the identification of excessive items could properly be assisted by financial disclosures for these resources. Furthermore, MP (1997) do not acknowledge that individual collection items, even when not on direct public display at any one time are not excessive at all, but instead remain an integral part of the collection (Carman *et al.*, 1999, p.145; CW, 1999, p.19; Jaenicke and
Glazer, 1991, p.77). Assigning monetary values to such collections can normalise the notion of these treasures as economic resources which, in turn, invites comparison and ranking with other, possibly more highly prized, economic resources (Carman et al., 1999, p.145). If such disclosures lead to previously unforeseen de-accessioning strategies, the nature and significance of the collections involved and on display in the public domain would inevitably and irretrievably be impaired (CW, 1999, p.19). Nowhere in the MP response were the impacts of such reforms upon organisational and social functioning acknowledged, let alone evaluated. Such probable consequences may well be what Walker (1995a, p.11) had in mind when he lamented that such valuations are “an absurd idea which may only have survived this far because it promises to create work for accountants”.

4.2 Value in Use and Value in Exchange

4.2.1 CW Challenges
The second way in which CW (1995a) challenged the recognition of collections as assets based on the definition of assets was by considering conventional notions of value, namely value in exchange and value in use/service potential. According to CW (1995a, p.38), “every asset has, in principle, a value in exchange (a market value) and a value in use (a value to the user or owner)”. CW (1995a, p.39) maintained that in the case of repositories of collections, such as not-for-profit public museums, “neither of these notions has any relevance in determining the financial value of collections for financial reporting purposes”.

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According to CW (1995a, p.39), value in exchange, as measured by current selling price, is irrelevant for collections since they are:

... dedicated to the public use by the statutes that govern the conduct of their activities. Consequently, until such time that the appropriate government minister declares a collection to be "undedicated", and therefore "on the market", the value in exchange of the collection is of no consequence – it is a moot question.

CW also highlighted the anticipatory and subjective nature of "value in use" and the irrelevance of any attempts to calculate financial approximations of this value for collections for inclusion in general purpose financial reports. According to these authors, such a value is "entirely subjective" and "personal", which is "specific to each owner and use" (CW, 1995a, p.39). As such, according to CW (1995a, p.39) value in use "cannot be verified independently by others". In addition, CW (1995a, p.40) dismissed the use of service potential as an appropriate basis for financial valuation, asserting this to be a vague notion for which there is no generally accepted or rigorous definition or, in many cases, any commercial underpinnings.

4.2.2 MP Defence

MP (1997) did not directly discuss the notions of value in use or value in exchange. These authors did, however, present several arguments concerning how collections might be assigned a monetary valuation. These arguments are outlined and discussed further in the later section of this chapter headed Asset Recognition.

4.2.3 Discussion

The notions of value in use and value in exchange have long been entrenched in the accounting literature and are generally associated with the notion of assets by
accounting regulators and accounting scholars (see, for example, Barton, 1982; Canning, 1929; Chambers, 1966, 1967; FASB, 1980b; MacNeal, 1939; Paton and Littleton, 1940; Rowles, 1992; Vatter, 1947). These notions, however, are afforded little discussion in the component statements comprising the CF. Value in exchange is briefly discussed in SAC 4 (AARF/AASB, 1994, para.35), although it is noted that “exchangeability is not an essential asset characteristic”. Value in use is not discussed at all in detail in SAC 4. Hence, since the CF does not extend to a detailed consideration of these notions of value, it was perhaps not surprising that such notions, which are firmly embedded in the accounting literature in relation to assets, were not considered by MP (1997).

4.3 SAC 4 Asset Definition

Finally, CW (1995a) applied the asset definition in SAC 4 to demonstrate that collections do not possess the characteristics necessary in order to meet the definition as outlined. Using the content of SAC 4 to justify the non-recognition of collections highlights the malleability of the criteria since the same definition has been interpreted and applied by accounting regulators and other advocates such as MP to justify the inclusion of a range of diverse public resources including collections into the category of assets (see, for example, Carpenter, 1991a, 1991b; DoF, 1992b; Mackintosh, 1992; McGovern, 1993; McGregor, 1993a, 1993b; McPhee, 1994a, 1994b; Micallef, 1996; Micallef et al., 1994; Rowles, 1992; Spencer, 1996; Sutcliffe et al., 1991; Wallace, 1994). However, by doing so, CW provide clear evidence of how particular concepts outlined in the CF can be interpreted in different, yet equally thoughtful and well-argued, ways such that “opposing positions on accounting issues may be supported by the same
framework” (Miller, 1985, p.54). Thus, CW and MP provide a salient example of the problematic nature of the CF’s soundness as a conceptual device for solving particular technical problems and, in the process, demonstrate its lack of discriminatory potential and, therefore, its inadequacies as a technical tool.

At the time of their writing, there were three principal aspects to the conventional definition of assets captured in SAC 4, namely, probable service potential\(^{10}\) or future economic benefits; control by the entity in possession of the asset, and, the occurrence of past transactions and events. The remainder of this section outlines and discusses the arguments raised by CW (1995a) and the response of MP in respect of each of these principal aspects.

4.3A Probable Service Potential and Future Economic Benefits

4.3A.1 CW Challenges

In order to examine whether cultural, heritage and scientific collections held by not-for-profit public museums could properly be described as future economic benefits, CW (1995a) explored the possible ways in which collections might conceivably be used to generate cash inflows for repositories. According to CW (1995a, p.41), collections do not routinely generate cash flows “either through regular activities of the repositories in which they are held, or by commercial exchanges”. Such resources are dedicated for public use and as a result are “off the market” and “exempt from market forces” (CW, 1995a, p.41). In addition, there are definite statutory, political and moral restrictions on the ability of repositories to dispose of collection items (CW, 1995a, p.41). In light of this, CW (1995a) concluded that there is little likelihood of these collections generating net
cash inflows for the repositories within specific organisational contexts. Accordingly, they argue, the future economic benefits test is not met.

4.3A.2 MP Defence

MP addressed this challenge by re-asserting the mandated interpretation of future economic benefits contained in SAC 4 and the US-based SFAC 6, as well as the objective of financial reporting outlined in SAC 2. Central to the arguments raised by MP (1997, p.32) regarding this issue are the following extracts from SFAC 6 and SAC 4 respectively:

The common characteristic possessed by all assets (economic resources) is “service potential” or “future economic benefit”, the scarce capacity to provide services or benefits to the entities that use them .... In a not-for-profit organization, that service potential or future economic benefit is used to provide desired or needed goods or services to beneficiaries or other constituents, which may or may not directly result in net cash flows to the organization .... The relationship between service potential or future economic benefit of its assets and net cash flows to an entity is often indirect in both business enterprises and not-for-profit organizations (FASB, 1985, paras.28, 30).

The fact that not-for-profit entities do not charge, or do not charge fully, their beneficiaries or customers for the goods and services they provide does not deprive those outputs of utility or value; nor does it preclude the entities from benefiting from the assets used to provide the goods and services. For example, assets such as monuments, museums, cathedrals and historical treasures provide needed or desired services to beneficiaries, typically at little or no direct cost to the beneficiaries. These assets benefit the entities by enabling them to meet their objectives of providing needed services to beneficiaries (AARF/AASB, 1994, para.21).

Thus, according to MP, even though such collections are not readily exchangeable and may not generally give rise to cash flows, the non-financial nature of collections in no way compromises the existence of future economic benefits. Based on these references to SAC 4 and SFAC 6, MP concluded that collections should still be recognised as assets because they assist the entities in the pursuit of
their objectives (AARF/AASB, 1994, para.21). MP (1997, p.32) consummated their response to this challenge in the following way:

It is apparent, therefore, that the FASB in the US and the AASB and PSASB in Australia agree that the ability to generate net cash inflows is not critical in determining whether an item embodies future economic benefits. That is, the ability of CHSCCs to generate net cash inflows is not a necessary condition for those items to qualify as assets. Indeed, linking "future economic benefits" with net cash inflows, as Carnegie and Wolnizer do, would mean that most items held by not-for-profit entities would not qualify as assets. Rather, CHSCCs held by not-for-profit entities are assets because the use of those items assists the entities in the pursuit of their objectives.

4.3A.3 Discussion

By re-asserting the contrived interpretation of future economic benefits as non-financial resources contained in both SFAC 6 and SAC 4, as a primary means of defending the existence of such purported benefits in relation to collections, MP appear to leave two key issues unaddressed. First, MP overlook the nondiscriminatory nature of the interpretations provided in these concepts statements which can, as a result, be applied to justify conflicting accounting policies for the same item under consideration. The possibility that the content of the CF could be used in this way casts doubt over the CF’s capabilities as a technical tool in unequivocally supporting the mandated disclosures required under detailed accounting pronouncements. However, nowhere in the MP response was any acknowledgement of the questionable technical capabilities of the CF made evident. Rather, the response by MP on this issue was based solely around an uncritical appeal to the framework’s “authority”. Such an appeal was made even though neither the framework nor its content are directly binding on the accounting and reporting practices of government departments or agencies and the professionally mandated status of the concepts statements had been withdrawn approximately two years prior to the publication of the response by MP11.
Notwithstanding, MP (1997) made little effort to re-evaluate the appropriateness of applying the Framework in the case examined.

Second, according to MP (1997), the future economic benefits which are asserted to be manifest in collections are social rather than financial benefits as they are not intended or required to represent future net cash inflows. However, in such instances, it is not clear how these non-financial benefits, best known as cultural, heritage, scientific and educational values, are to be quantified reliably for financial reporting purposes in any meaningful sense (Barton, 2000, p.227). This issue was also not specifically addressed by MP (1997).

4.3B Control by the Entity in Possession of the Asset

4.3B.1 CW Challenges

CW (1995a, p.42) also challenged the existence of “control” for collections since the repositories cannot readily dispose of their holdings and are not freely able to “exact a price” for the services they provide. Further, according to CW (1995a, p.42) “it is doubtful whether public repositories of collections may deny members of the community the right to use the services they provide”\(^{12}\). As such, CW (1995a, p.42) concluded on this aspect of the asset definition in the following way:

That repositories of collections are not freely able to dispose of their holdings, and are not able to deny or regulate access of others to enjoying the services they provide, leads us to conclude that the second essential characteristic of an “asset” as specified in SAC 4 is not met in the case of collections.
4.3B.2 MP Defence

In defending the existence of control for collections, MP re-asserted the interpretation of control provided in SAC 4. According to SAC 4, the existence of control depends on the “capacity of the entity to benefit from the asset in pursuit of its objectives and to deny or regulate the access of others to that benefit” (AARF/AASB, 1994, para.24). MP (1997) applied this “institutionally recognised” interpretation of “control” to address the bases on which the existence of control was challenged by CW. The manner in which this occurred is illustrated below:

... the presence of restrictions on the use of the CHSCCs, and in some cases the ability to sell or otherwise dispose of the items in the collection, does not preclude the entity from benefiting from the assets in pursuing its objectives. Restrictions on the use of the asset only compromise control where the restrictions fundamentally affect the ability of the asset to assist the entity in achieving its objectives (MP, 1997, p.32).

The ability to deny or regulate the access of others to the benefits of the asset is not compromised by the fact that the public cannot be denied access to view the collections (even though in many cases the public is, in fact, denied access to a large part of the collections of these types of entities). This part of the control test focuses on the entity’s capacity to use the assets and its ability to deny the use of those assets by other entities (MP, 1997, p.32).

Since the objectives of such entities do not encompass full cost recovery, any restrictions on the entities’ ability to impose a charge for the public’s use of the assets does not compromise the ability of the assets to assist the entities in achieving their objectives (MP, 1997, pp.32-3).

4.3B.3 Discussion

The interpretation of control provided in SAC 4 and utilised by MP suggests that collections should be disclosed as assets in general purpose financial reports even though collections are social or non-financial resources within their specific organisational contexts. However, it is not clear how such an interpretation can unequivocally exclude from the category of assets any historical artefact or other treasure, or any monument or other community resource in the possession,
temporary or otherwise, of the relevant repository. Further, in light of the applicable restrictions regarding the usage and sale of collection items, it is difficult to see how the "control" of collections, as interpreted under the CF and applied by MP, could ever routinely translate into economic or financial benefits in any commercial sense, leading effectively to over-emphasised claims of the importance of control over non-financial resources (CW, 1999, p.18). Notwithstanding, by re-asserting this broad interpretation of control outlined in the CF, MP (1997) dismissed a further challenge raised by CW (1995a).

4.3C Occurrence of Past Transactions and Events

According to CW (1995a, p.42), while some collections items may never have been purchased, this SAC 4 requirement is broad enough to encompass items which have been acquired by "donation, grant, appropriations, contributions, accretion and discovery". Accordingly, while re-iterating that this in no way leads to the existence of control over financial resources for representation in statements of financial position, CW did not directly challenge this third aspect of the conventional asset definition as articulated in SAC 413.

5. Asset Recognition

5.1 CW Challenges

Apart from challenging the notion that collections met the definition of assets set out in SAC 4, CW also challenged the monetary valuation of collections for financial reporting purposes on the basis that collections would not meet the recognition criteria specified for assets in SAC 4. According to SAC 4, assets should be recognised for financial reporting purposes when and only when:
(a) it is probable that the future economic benefits embodied in the asset will eventuate; and
(b) the asset possesses a cost or other value which can be measured reliably (AARP/AASB, 1994, para.38).

According to CW (1995a, p.43), "quantifications of probable economic benefits, being based on personal values and expectations, are not independently verifiable". Furthermore, these authors maintained that the reliability of any monetary valuation of collections is questionable since few collections items have been recently acquired at cost and are, instead, discovered, donated or accumulated over centuries. As a consequence, according to CW (1995a, p.43):

[w]ith the exception of items purchased for cash and for which there are bona fide documents, or items traded on markets for which there are market appraisals by independent expert valuers, there is no reliable evidence of the dated financial significance of collection items.

In addition, according to CW (1995a, p.43), any independent monetary valuation would be difficult since:

[w]hile there may be thin markets for items like antique and rare artefacts and books and works of art, there are generally no markets for many collection items. Markets are thin because of the unique, one-of-a-kind nature of many of the items. Consequently, reliable prices for "similar" items are not readily available, and it is difficult to achieve consensus among appraisers. It seems that while recourse may be had to catalogues of recent sales of items of like style, condition and age of those items held, the uniqueness, rarity and irreplaceability of many collection items, and market thinness in general, make it virtually impossible to determine their market value.

Accordingly, in light of the general difficulties of "quantifying events, things and outcomes that have not yet eventuated" (CW, 1995a, p.43) and due to the specific problems associated with obtaining a reliable monetary valuation for collection items, CW (1995a) conclude that the recognition criteria for assets specified in SAC 4 is not met in the case of collections.
5.2 MP Defence

In arguing that collections were assets as defined in SAC 4, MP (1997) attempted
to refute the argument that collections would generally fail the recognition criteria
for assets as specified in SAC 4. MP did not address the difficulty of quantifying
probable economic benefits as suggested by CW (1995a). Rather, the response by
MP (1997) regarding the recognition criteria for assets related solely to the
reliable measurement of the resulting magnitudes. According to MP (1997, p.33),
the recognition criteria for assets specified in SAC 4 is satisfied in the case of
collections since “the historical (acquisition) cost of many items will be able to be
measured reliably”. Further, according to MP (1997, p.33):

In any event, while information about CHSCCs measured using the historical cost
basis may not be as relevant for decision making and accountability purposes as
current value-based information, it would certainly be better than no information
about those assets. This is because not recognising the assets at all means that users
are not provided with any indication of the value of resources controlled by an
entity (MP, 1997, p.33).

5.3 Discussion

In addressing the recognition of assets in the manner outlined above, MP appear
to have overlooked three issues concerning the nature and means of acquisition of
collection items. First, MP do not clearly explain how “probable future economic
benefits” may be quantified in the case of collections, nor do they acknowledge
generally the difficulty of quantifying “events, things and outcomes that have not
yet eventuated”. Second, many collection items have not been purchased in the
recent past but instead have been discovered or donated or accumulated over
decades or centuries. In such instances, cost-based information may simply not
exist. Third, MP seem to imply that the recognition of collections at almost any
value is preferable to the non-recognition of these resources. Furthermore, they
fail to demonstrate how such outdated and incomplete dollar assignments could assist any financial decisions that are likely to be made by interested parties (also, see, CW, 1999, p.18; Tyzack, 1998, p.72).

Concluding Arguments by CW

Based on the five themes discussed, CW (1995a) concluded that collections are non-financial resources and cannot properly be described as assets for financial reporting purposes, and nor do they meet the criteria for recognition as assets. In doing so, CW (1995a) challenged the fundamental assumption upon which the CF and the requirement to disclose such information is based; that is, general purpose financial reports containing such disclosures will enhance the accountability and performance of the relevant organisations and will assist the decisions made by interested parties (SAC 2, paras.28-40). In casting aside the institutional interpretation of the CF in the case of collections, CW (1995a, p.44) concluded their study by posing the following four questions to be addressed by advocates of the financial disclosure of such collections in general purpose financial reports:

- what is the commercial meaning of any such financial quantum?;
- by recourse to what reliable commercial evidence may an auditor authenticate that financial sum?;
- in what demonstrable way or ways is such a financial quantum useful for enhancing and judging the accountability of those who manage not-for-profit public arts institutions having non-commercial objectives?; and
- in what demonstrable way or ways is that financial quantum useful for gauging the financial efficiency with which a public (grant dependent) arts institution is managed?

Concluding Arguments by MP

MP (1997) concluded their defence in a similar way to which it began – from within the established and institutionally supported justifications for disclosing collection items outlined in the CF. In their conclusion, MP (1997) re-affirmed
their interpretation of the CF content, and allude to a lack of "modern thinking" on the part of CW in an apparent attempt to truncate further debate. The conclusion reached by MP (p.36) is indicated in the extract below:

We have suggested that Carnegie and Wolnizer's arguments against the recognition of CHSCCs are generally inconsistent with the conceptual framework for general purpose financial reporting which has been developed by the AASB and the PSASB. Their arguments are also at variance with modern thinking on the management of assets.

Furthermore, while MP (1997, p.36) acknowledge difficulty in measuring some collections items for financial reporting purposes, they do little to indicate that such difficulty could ever lead to the non-recognition of these resources:

While we believe that many CHSCCs can, and should, be recognised and measured by the entities that control them, we are not of the view that all of the problems of measuring CHSCCs have been resolved. At least the following two areas warrant further research:

- the specific needs of users of information about CHSCCs, such as public accounts committees, and the suitability of specific measurement models for meeting those needs; and
- thorough analysis of individual asset types, such as specific classes of archaeological and scientific collections, to identify the extent to which such assets can be measured reliably.

ANALYSIS

Efforts to enhance the accountability and the performance of not-for-profit public museums and to assist the decision-making to be made by interested parties through the disclosure of relevant information are to be encouraged. Yet when the information is financial in nature to be reported within general purpose financial reports, and when this information is required to be prepared by organisations whose missions and objectives are inherently non-commercial in nature, careful reflection is justified. The nature of this reflection was identified by Young (1996) in a study of institutional thinking which focussed on financial instruments in the
US. According to Young (1996, p.507), “we must step back and ask what is being made visible in these disclosure standards and by making these things visible, what other things are being made invisible”.

The requirement to prepare general purpose financial reports for repositories of collections, such as not-for-profit public museums, means that financial notions of accountability and performance that have traditionally existed in the private sector are also applied to many of these public sector organisations for the first time. These reports enable the accountability and the performance of the organisations to become visible in terms of cost control and organisational responsibility for expending public monies. In such instances, however, to what extent do other, non-financial aspects of the accountability and the performance of these organisations, such as the effective delivery of core services and programs, become invisible? What are the consequences of creating such visibilities for these social and cultural organisations and of ignoring other visibilities?

It is relatively clear that the recognition of cultural, heritage and scientific collections as assets in general purpose financial reports can be argued to be consistent with the objective of financial reporting outlined in SAC 2 and the asset definition contained in SAC 4. After all, such concepts were interpreted and applied in the development and promotion of the pronouncements which require such disclosures to be made. However, according to Gerboth (1987, p.5), what is being achieved in such instances is a “consistency of a trivial sort; consistency with an abstraction, not consistency with substantive ends”. Accordingly, to cease discussion at this point is to ignore the substance of the issues at stake, leaving
little opportunity for anything more than quibbles between experts over the
technicalities of recognition and measurement (Gorz, 1989, p.122).

A focus only on the institutionally supported interpretation and application of
general rationales for preparing general purpose financial reports obscures debate
on the application and consequences of requiring those reports to be prepared in a
variety of unique organisational settings, such as those examined in this study.
The result is to encourage the uncritical acceptance of conventional arguments for
new applications of existing accounting practices based on assertions of how
those practices might enhance accountability, performance and assist user
decision-making. Any opportunity to explore the enabling capabilities of the craft
and to probe the likely consequences of its application in specific settings for
organisational and social functioning may be lost (Hopwood, 1990a, p.406).
Instead, those substantive issues may become subordinate to lesser concerns such
as how to construct and justify measurement and disclosure rules that allow the
assignment of monetary values to cultural, heritage and scientific collections held
in the public domain. Any re-appraisal of the appropriateness of preparing such
reports containing monetary valuations for collections as assets may, in such
instances, remain unlikely.

While purporting to respond directly to CW and thus defend the recognition of
collections for financial reporting purposes, nowhere in the MP response were the
four questions initially raised by CW specifically answered in a rigorous way.
Furthermore, there was no recognition by MP (1997) that the relevance of general
purpose financial reports for assessing the accountability and performance of the
repositories of collections, including not-for-profit public museums, might be open to question. Rather, the assumed usefulness of the information contained in these reports was re-asserted by MP (1997), largely based on the re-iteration of the institutionally mandated interpretation of broad concepts of financial reporting outlined in the CF as well as reliance on vague notions of "best practice" and "modern thinking". At no stage did MP provide evidence to demonstrate clearly the grounds for these claims of "usefulness" or "best practice", nor did they substantiate the applicability of "modern thinking" for organisations concerned with meeting social objectives by means of social resources. Accordingly, despite a range of thoughtful and compelling arguments put forward by CW, the asserted benefits of preparing general purpose financial reports for the organisations involved remained beyond question. Furthermore, in their response MP (1997) did not acknowledge the system of accountability which CW (1996) had proposed the previous year and which was entitled "Enabling Accountability in Museums" (EAM). The proposed system involved the use of a set of "factual, reliable, and interpretable financial and non-financial indicators" (CW, 1996, p.85) through which the accountability and the performance of the relevant organisations could be presented and assessed. Accordingly, EAM extended beyond the preparation of general purpose financial reports, thus transcending the confines of the CF. Even though the study outlining the proposed system was published in 1996, MP (1997) sought not to acknowledge this alternative model in alluding to notions of "best practice" or "modern thinking" for the organisations involved.

The reluctance of MP (1997) to answer specifically the salient questions raised by CW (1995a) was not lost to Newberry (2002, p.48) who stated:
Conceptual consistency and coherence is unimportant. All that is required is an acceptable-sounding, but not necessarily valid, justification. Micalef and Peirson exemplified this justification process with their technical response to Carnegie and Wolnizer. They evaded the questions asked, and used the conceptual framework sham to argue that collections are assets and should be reported as such. ... it shows the invalidity of Micalef and Peirson's response to Carnegie and Wolnizer. That response should be rejected, as should any attempt to substitute vague accountability and efficiency arguments for the invalid technical arguments.

The MP (1997) response prompted a further rejoinder from CW (1999, pp.17-8) where two additional questions were posed:

- If collections are not things that necessarily have financial attributes, then on what demonstrable grounds – logical or empirical – can they be assigned a financial value in general purpose financial reports of public arts institutions?
- For what present financial decision concerning collections would an incomplete list or aggregation of outdated and differently dated acquisition prices be useful or relevant?

At the time of writing, all six questions posed by CW (1995a, 1999), which are neither improper nor irrelevant, remain unanswered. It is apposite to ask when these questions will be addressed in the future. The failure of the organised accounting profession to respond emphatically to these six questions is perplexing, particularly from a profession which claims to be concerned with issues of accountability and seeks to enhance the accountability of others in organisational contexts in both the private and public sectors.

When accounting regulators and other advocates are guided and constrained by institutional thinking, such as in the case examined, the influence of institutions such as the CF may strengthen, although the processes through which this strengthening can occur may remain largely unnoticed. This likelihood was foreshadowed at a general level by Douglas (1986, p.98) when she argued that “the high triumph of institutional thinking is to make the institutions completely invisible”. Young (1996) provided a general salutary warning to be heeded in
circumstances wherein accounting regulators and others become guided and constrained by institutional thinking and unthinkingly advocate accrual accounting reforms based on an unquestioning acceptance of the broad institutional justification provided by the CF. According to Young (1996, p.509), "for us, the hope of intellectual independence is to resist, and the necessary first step is to discover how the institutional grip is laid upon our mind". It is intended that the case examined in this study assists, at least in part, the type of discovery called for by Douglas within the specific setting of financial reporting for not-for-profit public museums.

Furthermore, applying the concepts of financial reporting contained in the CF in defending the recognition of cultural, heritage and scientific collections as assets for financial reporting purposes, as MP have done, unequivocally attributes the CF with an apparently sound functional or technical role. Consequently, those involved assert the CF to be capable of providing clear guidance on the choice between alternative accounting policies as well as facilitating the enhanced accountability and performance and the more efficient allocation of resources (see, for example, McGregor, 1993a, 1993b, 1999; Pallot, 1997; Rowles, 1991, 1992, 1993a, 1993b, 2002a, 2002b). However, in the case examined, the framework was also used by CW to argue thoughtfully and soundly against the non-recognition of these collections as assets for financial reporting purposes. Thus, this case provides evidence of the "functional failure" of the framework in this specific instance and casts doubt on the discriminatory capabilities of the institution, with implications for its robustness as a technical tool and also its acceptability as a political tool.
It will be recalled from chapters one to four that several authors have addressed the functional failure of such frameworks on a number of grounds. These grounds have included allegations of “incompleteness”, “internal inconsistency”, “ambiguity”, “circular reasoning”, and “unsubstantiated assertions” (see, for example, Agrawal, 1987; Chambers, 1995; Dopuch and Sunder, 1980; Gerboth, 1987; Hines, 1989a, 1991a; Howieson, 1993; Miller and Redding, 1986; Pacter, 1983; Peasnell, 1982; Samuelson, 1996; Schutze, 1993, 2001; Soh, 1993; Solomons, 1986). As a consequence, several of these authors have expressed caution when theorising how such frameworks may be used in the future. For example, according to Miller (1985, p.54), the asserted benefits of such frameworks:

... will be limited by the impossibility of obtaining agreement on a tight conceptual structure. This will often mean that opposing positions on accounting issues may be supported by the same framework.

In accepting the contents of the CF without question and applying its contents as a means of truncating further debate, MP (1997) appear to have overlooked what Gerboth (1987, pp.1-2) described as the “fundamental error” of such frameworks, namely, “the mistaken notion that it is possible to avoid, minimize, or control debate on basic issues by prior agreement on abstract principles”.

Importantly, this case-study serves as an exemplar in portraying the inability of the framework to solve accounting problems. However, despite being increasingly portrayed as functional failures, CFs continue to be pursued and applied in many countries, including Australia. Accordingly, the work of a relatively small group of researchers was introduced in chapter two which has explored the non-
technical, political roles that might be attributed to these frameworks in particular instances. For example, according to Hines (1989a, 1991a), such frameworks can represent an important part of a considered response by the organised accounting profession that is faced with threats to its legitimacy when the knowledge base underpinning accounting standards and practices is called into question. Hines (1989b, p.85) maintained that in such instances, CFs can represent “strategic manoeuvres”, enabling existing accounting standards and practices to be seen to be developed from the theoretical concepts outlined in the CF and thus appear as though they are based on a coherent body of knowledge (see also Dopuch and Sunder, 1980, p.19; Hines, 1991a, pp.315-7; Hopwood, 1990d, p.83). Concerned with similar political roles, Peasnell (1982, p.255) asserted the ability of such frameworks to “raise the moral tone” of the profession and its standards, while Power (1994b, p.6) argued that such frameworks can be important for the presiding accounting profession to generate the support of a “critical mass of practitioners” for existing accounting standards and practices. Chapter four demonstrated such processes in the context of the Australian CF, wherein the construction of the CF has served identifiable political roles for the organised accounting profession in Australia. Chapters five and six have demonstrated further political capabilities of the CF in enabling detailed accounting standards to be developed and promoted for application throughout the APS.

It is intended that the specific case examined in this chapter provides further evidence of the deficiencies of the CF as a functional or technical tool and it also assists in enhancing an understanding of the framework’s potent political capabilities in enabling accrual accounting reforms to be not only developed and
promoted, but also defended when called into question. In the case examined, a range of salient issues regarding the appropriateness of the reforms and the consequences of their application for organisational and social functioning appear to have been overlooked. Yet while accounting regulators and other advocates of reform remain guided and constrained by institutional thinking, such issues may never be properly considered. Gerboth (1987, p.3) warned of the dangers for the future of the accounting profession when salient issues such as those considered in this chapter are not afforded due attention in stating:

To foreclose debate on them, by previously agreed-upon definitions or otherwise, would be to foreclose debate on precisely those questions that matter most. The moment that happens – the moment these questions cease to be debated – will be the moment that accounting ceases to make a difference and can be hauled off to the knackery.

It is to be noted that Gerboth preferred the “knackery” rather than a not-for-profit public museum!

CONCLUSION

This chapter has attempted to demonstrate the manner in which accrual accounting reforms were defended when challenged, by focussing on two issues in particular, namely:

(i) whether the commercial accounting disclosures required under detailed pronouncements such as AAS 27, AAS 29 and AAS 31 are relevant to the information needs of public sector managers and general purpose financial report users;

(ii) whether diverse cultural, heritage and scientific collections can properly be measured in financial terms and disclosed as assets in accounting reports and how, if at all, such disclosures may assist in evaluating and enhancing the accountability of organisational management and the performance of the repositories of those collections.
Accordingly, this chapter has addressed the remaining component of the second primary research question for this study which was outlined in chapter one.

The chapter presents evidence to demonstrate that when challenges were raised in respect of each of the two issues examined, the challenges were either overlooked or dismissed, while in other instances, the CF provided a ready-made basis for accounting regulators and other advocates to defend the mandated disclosures. It was maintained in this chapter that by defending the reforms in this way, many salient issues were ignored and only certain issues addressed. In addition, the consequences of the specific disclosures for organisational and social functioning were not considered by those involved. Throughout this period, the vague and abstract concepts of financial reporting contained in the CF have continually been used by these advocates as a means of seeking to address the challenges raised. Thus, one of the two key findings of the chapter is that the defence of accrual accounting reforms for application within the public sector has been guided and constrained by *institutional thinking*.

In addition, the chapter provides evidence to show how the concepts of financial reporting contained in the CF may be used to permit thoughtful and equally well-argued, but conflicting, accounting policies to be adopted and justified for the same items. This was particularly illustrated in the context of recognising diverse cultural, heritage and scientific collections as assets for financial reporting purposes. Thus, it is argued that in the case examined, the CF has not been clearly able to resolve this issue and, therefore, its relevance as a technical tool is at least questionable. Accordingly, the second key finding of the chapter is that the CF is
best understood as a powerful political tool which in this case has enabled mandated accrual accounting reforms for application within diverse public sector organisations to be not only developed and promoted, but also to be defended, in a specific organisational context, when called into question.

The next chapter contains the summary and conclusions of the study. It draws together the components of the research approach adopted to summarise and present the key findings. The implications of the study’s findings for accounting policy makers and for future researchers are considered, while the study’s limitations are re-addressed.
NOTES

1. For the remainder of this chapter, the terms "cultural, heritage scientific and community collections", "cultural, heritage and scientific collections" and the acronym "CHSCCs" will be used interchangeably.

2. At the time of responding to Carnegie and Wohlnizer, Frank Micallef was a senior project Director, accounting, with the AARP and a co-author of DP 16 and DP 21, forerunner documents to AAS 29 and AAS 31. Micallef was also the author of several articles promoting accrual accounting for application within the APS during the 1990s (see, for example, Micallef, 1995, 1996, 1998). Professor Graham Peison was a full-time academic employed within the Department of Accounting and Finance, Monash University, and a member of the PSASB, the board with a primary role in the development of AAS 27, AAS 29 and AAS 31.

3. This finding is consistent with that of a similarly focused US survey conducted by Van Daniker and Kwiatkowski (1986) which related to infrastructure resources and in which respondents considered engineering-based information to be more useful than accounting-based information for matters pertaining to infrastructure management (see also Walker et al., 2000b, p.143).

4. The subject organisations of the CW (1995a) study were the Museum of Victoria, the National Gallery of Victoria, the Public Record Office, the State Film Centre of Victoria and the State Library of Victoria.

5. The CW survey involved a total of 67 overseas institutions for which responses from 32 were received. This constituted a response rate of 47.8 per cent (CW, 1995a,p.35).

6. The organisations that capitalised their collections for financial reporting purposes were the Art Gallery of New South Wales; Art Gallery of Western Australia; Northern Territory of Australia Museums and Galleries Board, and the South Australian Film Corporation (CW, 1995a,p.35).

7. Less costly valuations by curatorial staff are also possible, although such valuations are inevitably undertaken by means of a different approach to that of independent, expert valuers. Curatorial valuations are also generally not conducted at arm's-length and are more likely to reflect "artistic and scientific perspectives" rather than focussing on current market values (CW, 1995a, p.35). Thus, the resulting magnitudes may be more subjective and more difficult to authenticate independently (see also Tyzack, 1998, p.73; Walker, 1995a, p.13).

8. CW (1994) had earlier provided evidence of the likely magnitude of such costs when they sought direct indications from four Victorian institutions of the likely costs of obtaining independent monetary valuations for their collections. The institutions gave the following estimates which CW (1994, p.9) cited in their report: State Library of Victoria, $12.5 million; National Gallery of Victoria, $11 million; State Film Centre of Victoria, $3.744 million; Museum of Victoria (curatorial value) $1 million. There is an abundance of further evidence to support the notion that valuing diverse collections for financial reporting purposes would be difficult and costly and that the likely high costs were seemingly not considered by accounting regulators to be an important issue when accounting standards requiring such practices were developed (Christensen, 2002, p.111). For further discussion, refer to Christensen, 2002, pp.109-11; Jaenicke and Glazer, 1991, pp.78-84; Walker, 1995a, p.13.

9. For further consideration of this issue, refer to Barton, 2000; Carnegie and Wohlnizer, 1996; Guthrie, 1993; Parker, 1996; Rentschler and Potter, 1996; Zan, 2002.

10. The words "service potential" were eventually removed from the asset definition upon the reissue of SAC 4 during 1995.

11. This influence of the CF which extends far beyond its formal authority is typical of the institutional definition offered by Douglas, whereby institutions are primarily denoted by, and derive their influence from, their ability to shape the thinking of associated individuals. Throughout the response by MP the influence of the CF appeared to reside in its assumed, yet not demonstrated, ability to contribute to enhancing the accountability and the performance of public sector organisations.

12. Carnegie and West (2002, p.10) provide a current example of the impediment to control of such collections in the case of the National Library of New Zealand. The authors cite evidence to indicate that, in order to avoid, as a government department, the imposition of a centrally imposed capital charge on the value of their collection, the library transferred this resource, by means of a book entry, to the accounts of the Crown.
13. This aspect of the asset definition has, however, been challenged by others in the context of natural, resources in the public domain. For example, according to Burritt et al. (1996), the Great Barrier Reef in Queensland, Australia could, under relevant accounting pronouncements, conceivably be required to be disclosed in the accounting reports of the relevant authority. The question remains however, "what transaction led to its availability to the people of the world?" (Burritt et al., 1996, p.27).
CHAPTER 8 CONCLUSION

INTRODUCTION

Chapter seven contained an examination of how Australian public sector accrual accounting reforms have been defended when called into question with a focus on the case of not-for-profit public museums. In doing so, chapter seven addressed the final component of the second primary research question identified for this study. It was demonstrated in chapter seven that when various challenges were raised in respect of detailed public sector accounting standards developed, these challenges were either overlooked or dismissed by accounting regulators and other advocates of the reforms. On other occasions, the CF provided a convenient basis for those involved to defend the mandated disclosures. In each instance, many of the salient challenges raised in respect of the reforms have not been addressed. Thus, the first of two key conclusions in chapter seven is that the defence of the reforms has been largely guided and constrained by institutional thinking.

In addition, chapter seven provided evidence to show how the concepts of financial reporting contained in the CF may be used to permit equally well argued but conflicting accounting policies to be adopted and maintained for the same items. This was illustrated primarily in the context of recognising cultural, heritage and scientific collections as assets for financial reporting purposes. It was argued throughout chapter seven that in the case examined, the CF has not been able to resolve unequivocally this accounting issue and thus is of little effective use as a technical tool for problem-solving. Accordingly, the second key
conclusion of chapter seven is that the CF is best understood as a potent political
tool which has enabled public sector accrual accounting reforms to not only be
developed and promoted but also defended when challenged.

This final chapter begins with a short overview of the study, including a brief
discussion of the primary research questions addressed in the study and the
research approach adopted in addressing those questions. The findings of each
chapter are identified and summarised. The main conclusions that may be drawn
from the study and which relate to the primary research questions are then
outlined. Thereafter, the limitations of the study are re-visited, while in the final
sections of the chapter, the implications of the findings of the study are discussed
and several avenues for future research opportunities are identified.

OVERVIEW OF THE STUDY

During the past two decades in Australia, accounting reforms have been
developed that have resulted in the application of commercial systems of
accounting to diverse public sector organisations. These reforms have been
enabled through the development and application of three detailed public sector
accounting standards, namely AAS 27, AAS 29 and AAS 31. These standards,
which were developed and implemented over little more than four years,
encompass the three major levels of government in Australia, namely local, state
and federal government respectively. These pronouncements require the
preparation of general purpose financial reports, including the disclosure of non-
financial or social resources, such as cultural, heritage and scientific collections,
as assets for financial reporting purposes. As a consequence of such reforms,
financial notions of accountability and performance that have traditionally applied to profit-seeking entities in the private sector have been introduced and applied to an array of public sector organisations, including not-for-profit public museums, for the first time in their histories. These reforms have primarily been justified based on the assertion, outlined in the CF, that general purpose financial reports would result in enhancements in the accountability and the performance of the organisations involved and assist the decision-making about resource allocation by users of general purpose financial reports.

There are at least three aspects of the reforms which remain unexplained. First, the frequently asserted benefits of the reforms, outlined in the CF, are yet to be adequately quantified or otherwise supported by rigorous research evidence conducted in Australia. Notwithstanding this lack of support, such benefits have continually been re-asserted by accounting regulators and others throughout the development, promotion and defence of detailed accounting standards which implement such systems across each level of government in Australia. Second, general purpose financial reports have been advocated and implemented in the absence of a thorough analysis or evaluation of the usefulness of accrual accounting in specific public sector contexts. Moreover, such reforms have occurred without direct acknowledgement and identification of the broader consequences associated with applying such practices for the organisations concerned and for society as a whole. Third, the broad concepts of financial reporting outlined in the CF have been highly influential in determining the nature of the reforms undertaken. However, the manner in which the contents of the CF have been applied in justifying the nature of the reforms undertaken
unequivocally attributes the framework with a functional or technical role and, in effect, an ability to clearly resolve specific instances of accounting choice. However, such frameworks have been criticised, particularly in recent years, for an apparent inability to provide technical guidance in specific instances (see, for example, Agrawal, 1987; Chambers, 1995; Dopuch and Sunder, 1980; Gerboth, 1987; Hines, 1989a, 1991a; Howieson, 1993; Miller and Redding, 1986; Pacter, 1983; Peasnell, 1982; Samuelson, 1996; Scheutze, 1993, 2001; Soh, 1993; Solomons, 1986). Furthermore, neither the CF nor its contents are directly binding on the financial reporting practices of government departments or agencies, nor were they mandatory for the members of the organised accounting profession when AAS 27, AAS 29 or AAS 31 were developed and issued.

This study, which is set primarily in the context of not-for-profit public museums, seeks to assist an understanding of how these events have occurred. The main research objective, as outlined in chapter one, is reproduced below:

To investigate the development, promotion and defence of accrual-based accounting standards for the APS, specifically in the case of not-for-profit public museums, and particularly, to examine the roles and uses of the CF for financial reporting, using *institutional thinking* as a key theoretical perspective along with the supplementary perspectives of *problematisation* and *epistemic communities* to inform the investigation.

In undertaking the study, two primary research questions were addressed, as outlined in chapter one, and are re-stated as follows:

**How were financial notions of accountability and performance of Australian public sector organisations constructed during the period 1976-2001 and articulated in the CF, once its development began, within this reform period?**

**How were these notions and other concepts of financial reporting outlined in the CF interpreted and applied in the (i) development; (ii) promotion; and (iii) defence
of detailed accounting standards for not-for-profit public museums in Australia during the period under investigation?

The research approach adopted in the study is a critical and interpretive case-study which is primarily informed through the application of the theoretical perspective known as *institutional thinking*. To assist the application of the primary theoretical perspective, two additional perspectives are adopted and applied, namely *problematisation* and *epistemic communities*. The research approach adopted in this study embraces an examination of the reforms within the broader perspectives that depict accounting as a *social and institutional practice* rather than a mere technical practice. Furthermore, adopting the research approach outlined also enables the reforms to be examined within the context in which they occurred.

**SUMMARY OF THE KEY FINDINGS**

Consistent with the structure of the study outlined in chapter one, the key findings of the study arise principally from the analysis contained in chapters four to seven. Chapter four addressed the first of the two primary research questions identified for the study. Specifically, chapter four examined the construction of the CF for financial reporting and, therefore, the development of the institution from which were derived the financial notions of accountability and performance to be applied through the implementation of “full” accrual accounting by a range of diverse public sector organisations. In doing so, chapter four contained a discussion of three key opportunities and two important challenges that faced the organised accounting profession in Australia during the 1970s and early 1980s. The opportunities discussed were: (i) the findings of several formal inquiries into the set-up and operation of government; (ii) the advocacy and implementation of
accrual accounting reforms by several parliamentary committees and by central rule-making agencies throughout Australia; (iii) the perceived deficient state of accounting expertise within the public sector at the time. Chapter four also contained a discussion of two key challenges that faced the profession during this time, namely: (i) the broad criticism levelled at the performance of the organised accounting profession and its technical arm, the AARF; and (ii) the initial conjecture among senior members of the accounting profession regarding the nature of the role, if any, the profession may pursue in regulatory space within the public sector.

It was demonstrated in chapter four that during the 1970s and early 1980s the then recent audit performance of several large professional accounting firms in Australia was widely criticised (see, for example, ASA, 1966; Chua and Sinclair, 1994, pp.679-81; Gibson, 1979, pp.28-31; Gibson and Arnold, 1981, pp.59-60; Zeff, 1973, p.54). As a consequence, the ability of the organised accounting profession in Australia to regulate itself was under serious threat from government intervention (Chua and Sinclair, 1994, pp.680-1; Gibson, 1979, pp.28-31; Gibson and Arnold, 1981, pp.59-60). Accordingly, while there appeared to be a general perception that accrual accounting reforms were almost inevitable within parts or all of the APS, the role of the organised accounting profession in developing and enforcing specific accounting standards implementing this type of accounting reform was not clear.

It was maintained in chapter four that a key response of the organised accounting profession in Australia to the challenges and opportunities was to develop a CF
for financial reporting. The chapter outlined how the framework constructed what appeared to be a logical and immutable connection between the preparation of general purpose financial reports and asserted enhancements in the accountability and the performance of diverse public sector organisations. Such a connection was established through a process of deductive reasoning, and was primarily justified on the basis of the asserted capacity of commercial systems of accounting to capture the total costs of government services and programs. However, cost control is not the sole purpose of preparing financial reports for public sector organisations, especially within those organisations pursuing social objectives. Moreover, the information contained in general purpose financial reports does not encompass the broad and complex aspects of accountability that typically face the management of many public sector organisations, such as not-for-profit public museums that are responsible for conserving and preserving collections. Notwithstanding these issues, according to the CF (AARF/AASB, 1990b; Rowles, 1992, p.49), the preparation of those reports results in enhancements in the accountability and the performance of public sector organisations of all kinds. This justification for the preparation of such reports was continually asserted throughout the reform period, even though it was demonstrated in chapter four that much of the content of the CF is broad and abstract. Accordingly, chapter four outlined the construction of an institution which served two identifiable political roles. First, the CF appeared to enable the accounting profession in Australia to enhance the legitimacy of existing accounting standards and practices applicable within the private sector which had been widely criticised. Second, by effectively constructing the accountability and the performance of diverse public sector organisations in financial terms, the CF provided the basis from which the
accounting profession could justify an expanded role in *regulatory space* within the APS.

Chapter five addressed the first component (that is, development) of the second research question identified for the study. Chapter five examined the application of the contents of the CF in the development of detailed accounting standards relating to specific levels of government in Australia. This chapter discussed how the concepts of financial reporting outlined in the CF were applied in particular ways over a relatively short period of time to develop three detailed public sector accounting standards, namely AAS 27, AAS 29 and AAS 31. The content of these standards was largely determined based on an uncritical appeal to the broad and abstract concepts of financial reporting contained in the CF. Specifically, the standards were broadly justified based on the assertion that the preparation of general purpose financial reports would lead to enhancements in the accountability and the performance of organisations involved. This justification was continually re-asserted, even though the primary objectives of many of the organisations involved are inherently social, rather than financial, in orientation. Throughout chapter five it is maintained that the pronouncements were developed with little investigation of the effects of their application for organisational management and for the wider community nor without reference to the specific problems and issues that may arise when implementing the requirements contained therein.

Chapter six dealt with the second component (that is, promotion) of the second research question identified for the study. Chapter six contained an explanation of
how the contents of the CF were interpreted and applied in promoting accrual accounting reforms for implementation within the APS. The chapter demonstrated how a relatively small but influential community of technical experts from an array of bodies actively problematised the then existing cash-based accounting system in the APS. The bodies included the DoF, State and Territory Treasuries, Auditors-General, the Australian National Audit Office, the JCPA, the AARF, the ICAA and CPA Australia. It was demonstrated in chapter six that those involved also advocated the preparation of general purpose financial reports as the ready-made solution to the problems that were portrayed to exist. During the period examined, the contents of the CF were actively applied to support and promote accrual accounting systems for application within the APS generally, and more specifically, to justify the content of detailed accounting pronouncements relating to different levels of government. The justification for preparing general purpose financial reports was generally framed in structured and understandable terms. As a consequence, accrual accounting reforms were broadly portrayed in ways that made their implementation seem to be consistent with broader changes to public sector financial management philosophies that were already underway in the APS (see, for example, Pusey, 1991). It was maintained throughout chapter six that by promoting the reforms in the manner outlined, at least three key issues were not adequately addressed. These issues related to the likely consequences of the reforms for the setup and operation of the organisations involved and the potential adverse consequences for society as a whole, as well as the costs of implementing the reforms within specific contexts.
Chapter seven addressed the third and final component (that is, defence) of the second research question identified for the study by examining how accrual accounting reforms have been defended when called into question. The chapter examined research relating to two aspects of the reforms. First, research was examined which explored the relevance of accrual accounting information generally for presenting and assessing the accountability and the performance of public sector organisations including those holding infrastructure assets. Second, chapter seven also examined research concerned with the appropriateness of recognising the cultural, heritage and scientific collections of not-for-profit public museums as assets for financial reporting purposes. The chapter showed how the findings of the research directly challenged the justifications that have conventionally been advanced to support the implementation of the reforms. Notwithstanding, the findings of this research have either been overlooked or dismissed by accounting regulators and other advocates. Such oversights have occurred since those involved have continuously re-applied the same concepts of financial reporting outlined in the CF to not only develop and promote the standards that require such information to be prepared, but also to defend these standards as illustrated. It was maintained in chapter seven that this was able to occur since the concepts of financial reporting contained within the CF lack sufficient discriminatory capabilities to unequivocally resolve specific instances of difference, based on varying and well-argued interpretations, in determining accounting policy choice. Notwithstanding the apparent deficiencies of the CF as a technical tool, the theoretical justification for preparing general purpose financial reports, as outlined in the CF, has remained beyond question from the accounting regulators and the other advocates involved.
MAIN CONCLUSIONS OF THE STUDY RELATING TO THE PRIMARY RESEARCH QUESTIONS

There are four main conclusions of this study which relate to the primary research questions. The first of these conclusions relates to the first primary research question outlined in chapter one. Specifically, the first main conclusion of the study is that through a process of deductive reasoning, the CF established a seemingly logical and immutable connection between the preparation of general purpose financial reports and desirable enhancements in the accountability and the performance of diverse public sector organisations. This connection was established largely by portraying such reports as the most appropriate means of recording and reporting the total costs of government services and programs. As a consequence of their asserted capacity to capture this information, general purpose financial reports were portrayed as the means of enhancing the accountability and the performance of public sector organisations that previously had been subject to widespread criticism. Cash-based accounting reports were widely problematised and portrayed as technically inferior to general purpose financial reports which, by definition, were prepared on an accrual basis. The primary basis on which this problematisation occurred involved the assertion that since cash-based accounting systems did not reflect non-cash expenses such as depreciation, they were inadequate as a device for reporting on the accountability and the performance of the organisations involved (see, for example, Carpenter, 1986; Greenhall et al., 1988; MacMillan, 1985; Robson, 1987a, 1988).

As a consequence of the manner in which both the existing cash-based systems of accounting and the proposed accrual-based reforms were portrayed, any
alternative non-accrual accounting-based solutions have been made to appear to be other than in the best interests of the community. The influence of the CF in enabling these processes to occur largely derives from the framework's apparent ability to lead to enhancements in the accountability and the performance of the organisations involved. Thus, the study generally, and chapter four in particular, has highlighted the role of the CF as an institution, as well as the framework's ability to shape accounting reforms in the public sector to an extent far beyond the limits of its direct authority and notwithstanding its problematic capabilities as a technical tool.

The second key conclusion of the study relates to the second primary research question outlined in chapter one. Specifically, the second key conclusion of this study is that the development, promotion and defence of accrual accounting reforms for the APS have been largely guided and constrained by institutional thinking. The reforms have occurred even though the relevance of accrual accounting information for the accountability and the performance of specific public sector organisations has not been clearly or unquestioningly established. Furthermore, many problems and issues associated with the implementation of these reforms in specific settings have not been specifically considered by accounting regulators or other advocates. Instead, the asserted usefulness of the reforms outlined in the CF has remained largely beyond question, even though this asserted usefulness has not yet been supported by rigorous research evidence, empirical or otherwise, conducted in Australia.
The limiting and constraining effects of institutions such as CFs can explain, at least in part, why other non-accrual accounting-based accountability and performance measurement systems designed for specific public sector organisations have been largely overlooked by accounting regulators and other advocates of reform. These systems, designed for specific organisational contexts including not-for-profit public museums (see, for example, Carnegie and Wolnizer, 1996), require the collection of both financial and non-financial information and enable the accountability and performance of organisations to be presented and assessed against stated missions or key objectives. However, such systems will continue to be overlooked or dismissed while accounting regulators and others remain largely guided and constrained by institutional thinking through the lens of the CF. While such thinking persists, those involved seem destined to continue to narrowly conceive accountability and performance issues for diverse public sector organisations as primarily financial in nature and able to be addressed through the application of existing accounting standards and practices.

The third and fourth main conclusions of the study both also relate to the second primary research question outlined in chapter one. Specifically, the third main conclusion of this study is that the CF is largely deficient as a technical tool. As demonstrated in this study, many of the concepts outlined in the CF may be used to permit thoughtful and equally well-argued yet conflicting interpretations and resultant accounting policies to be adopted and supported for the same items in specific instances. Several concepts, including, for example, the objective of general purpose financial reporting (SAC 2), the qualitative characteristics of financial information (SAC 3) and the asset definition (SAC 4), are demonstrably
broad and abstract and possess limited or negligible discriminatory potential. Thus, the ability of these concepts, and the framework generally, to be applied to unequivocally resolve particular accounting controversies has been demonstrated to be questionable. This was particularly demonstrated in chapter seven, wherein the recent debate concerning the recognition of cultural, heritage and scientific collections for financial reporting purposes was examined. The two sets of primary protagonists of the debate, Carnegie and Wlonizer (1995a, 1996, 1997) and Micallef and Peirson (1997), both applied the contents of the CF to justify and maintain alternative, conflicting positions regarding the recognition of collections for financial reporting purposes. As a consequence, many of the salient issues raised by Carnegie and Wlonizer (1995a) concerning the role of the CF in resolving such debates generally, and more specifically, the recognition of public collections, have not been specifically addressed or adequately dismissed. However, despite the framework’s deficiencies as a non-discriminatory technical tool, this study has importantly demonstrated how the framework has been particularly influential in the development, promotion and defence of accrual accounting reforms for the APS. This leads to the fourth and final main conclusion of the study; that the framework is most effective and best understood as an effective political tool in enabling these key reforms to occur.

REVISITING THE LIMITATIONS OF THE STUDY

The study aimed to enhance an understanding of several key aspects of recent accounting reforms that have been introduced for application within the APS. However, like any other research, there are limitations associated with this study which means that conclusions drawn from the study should be interpreted and
applied with appropriate care or caution. These limitations were introduced in chapter one, discussed in chapter three and are re-visited in this section in order to reflect appropriately the study’s potential contribution to the existing body of literature.

The three limitations that have been identified for the study relate to the explanatory potential of critical and interpretive, historical case-based research, the “facts” or “objectivity” in such studies, and the generalisability of the findings of case-based research. The first limitation of the study derives from the broad approach that is necessarily adopted in most critical and interpretive case-based research (Carr, 1970; Hagg and Hedlund, 1979), and this study is no exception. Such a broad approach is adopted herein in order to explain how the contents of the CF have influenced the thinking of accounting regulators and other advocates and how those concepts have shaped the development, the promotion and also the defence of accrual accounting reforms for application within the APS.

There is, however, unlikely to be a single or unequivocal factor or event which can readily explain the development, promotion and defence of the public sector reforms examined in this study. In this study, an understanding of the reforms is provided by recourse to the perspectives of institutional thinking and also problematisation and epistemic communities. The possibility exists that future researchers may examine the same or similar evidence as examined in this study and compile alternative, and even conflicting interpretations of the same processes and events. Such diversity of interpretations is, however, not to be feared, but should be celebrated (Fleischman et al., 1996; Miller et al., 1991; Oldroyd, 1999;
Parker, 1997). A potential consequence of this diversity is the development of a rich historical literature and a comprehensive understanding of the factors affecting the content of the recent reforms undertaken in the APS and the continued application of, or modification to, such accounting practices.

The second acknowledged limitation of the approach adopted in this study relates to the search for historical "facts" or "objectivity" in critical and interpretive, historical research. The limitation arises since historical research is invariably infused with the interpretation of a range of evidential material by individuals who possess different backgrounds, experiences and perspectives. In such instances, the concept of objectivity itself is subject to multiple interpretations and historical objectivity may be asserted to be enhanced when the necessarily subjective interpretations of a number of historians about particular historical subjects are found to be in general accord (Parker, 1997). Thus, to enhance the prospect for such an accordance to emerge through the findings of future research of this genre, the research approach adopted in this study has been comprehensively outlined.

The third limitation relevant to this study involves a concern for the external generalisability of the results of individual case-studies to a wider population. It is recognised that there is greater external validity where several cases or observations are utilised. However, the findings of this in-depth study, which is set primarily in the case of not-for-profit public museums, constitute key evidence in their own right. Moreover, as recognised by Yin (1985), there is a trade-off between the richness provided by an in-depth case analysis and less detailed
analyses of numerous subjects such as provided in survey research. Specifically, a
detailed examination of the reforms undertaken in Australia in the manner
outlined offers opportunity to explore these reforms within a broader perspective
that depicts accounting as a social and institutional practice. In doing so, the
study offers opportunity to highlight the differences between the general
rationales advanced to support accrual accounting in the APS and their applied
impact on managerial philosophies and practices in the organisations involved and
within society as a whole. By adopting such an approach, the study can illuminate
the complex economic, social, political and other pressures which impact upon the
reform processes, and enables the identification and evaluation of the non-
technical, political roles of the CF in specific instances. The accounting reforms
may be examined for their actual impacts, both intended and unintended, on
organisational and social functioning, instead of a conventional focus on
accounting as a technique which nobly assists the decision-making of financial
report users. Thus, it is maintained that this study offers potential to assist
accounting regulators to understand the broader organisational and social
implications of developing detailed accounting standards for application within
specific public sector organisational contexts.

IMPLICATIONS OF THE FINDINGS OF THE STUDY

There are three main implications of the findings of the study. First, the study
contributes to an understanding of a specific instance of accounting change by
elucidating the influence of the CF in shaping the content of three detailed
accounting standards developed for application within the APS. It adopts a unique
theoretical framework to assist an understanding of how and by whom, accounting
“problems” are identified and solved. The framework has also been used to explain how such “problems” may be defined in particular ways that enable existing accounting standards and practices to appear as the logical and ready-made solution to the perceived problem. Thus, it is maintained that the framework developed in this study can assist an understanding of the complex process through which accounting change may occur, specifically when accounting is perceived as a social and institutional practice.

The second key implication of the study concerns the role of the CF in supporting and justifying the contents of both existing accounting standards and practices as well as the contents of potential accounting reforms. The study has demonstrated that the technical problem-solving capabilities of the CF are problematic and, at best, questionable. This finding effectively weakens the level of support or justification that the framework can provide for existing accounting standards and practices as well as for future accounting standards developed for the public and private sectors. By illuminating the limited and questionable technical roles of the CF, the findings of the study have potential to extend an understanding of the role of the CF in specific instances of accounting change. In doing so, the study builds on aspects of the existing literature in relation to CFs which, at the time of writing, has largely portrayed such frameworks as technical tools with an ability to resolve specific instances of accounting policy choice (see, for example, McGregor, 1990a, 1990b, 1993a, 1993b, 1999; Pallot, 1997; PAEC, 2002; Rowles, 1991, 1992, 1993a, 1993b, 2002a, 2002b; for exceptions, see Agrawal, 1987; Chambers, 1995; Dopuch and Sunder, 1980; Gerboth, 1987; Hines, 1989a,

Third, the identification of the potent political roles of CFs has implications for assisting an understanding of the complex process through which the existing body of accounting practices may be mobilised and applied to new areas in specific instances. In doing so, CFs can be implicated in explanations of how the domain of accounting has expanded to unprecedented proportions in recent years, especially within the public sector in the past two decades (Hines, 1989b; Hopwood, 1990a, 1992; Miller, 1994; Power, 1991, 1994a, 1994b, 1997a; Radcliffe et al., 1994; Young, 1994, 1995a). Adopting such perspectives, CFs may also be understood as important for enabling existing accounting definitions and approaches to appear to be superior to other, non-financial, approaches to accountability and performance measurement. Thus, the development and use of CFs have implications for placing professional accountants in positions of superiority compared to experts in other fields (Power, 1996a, 1997a).

At the same time, while CFs may enable the extension of the existing body of accounting practices to new areas, they may also inhibit or constrain the development of the domain of accounting in other ways. Specifically, such frameworks appear to continually guide and constrain the thinking of accounting regulators and other advocates of reform (see, for example, PAEC, 2002; Rowles, 2002b). Furthermore, CFs are typically applied throughout Australia in a non-critical fashion in the education of professional accountants and, particularly in textbooks written for use by intending future accountants, especially at tertiary
level (Carnegie and Wolnizer, 1999, p.20; see, for example, Bazley et al., 2001; Henderson and Peirson, 2000; Hoggett and Edwards, 2000; Horngren et al., 2001; Wise et al., 1998). While the CF continues to be used in such ways, the risk is that the conception of accounting "problems" may be restricted to those which can be dealt with through the preparation of general purpose financial reports. As a likely consequence, accounting regulators, along with present and future accountants, may remain narrowly focussed upon the preparation of such reports through the guiding and constraining influence of the CF.

Furthermore, such a focus can also divert attention away from other new and original ways of defining and addressing accounting problems as they arise, thus effectively suppressing original thoughts and ideas within specific organisational contexts. Consequently, any opportunity to view the accountability and the performance of diverse public sector organisations as non-financial issues that require more than the preparation of general purpose financial reports, such as the use of an array of non-financial and qualitative information, may be lost. While such influences remain, future accounting changes appear destined to remain "less innovative and more mundane" (Young, 1994, p.3), consisting of little more than the development of detailed accounting rules to justify the recognition of financial statement elements within the context of conventional financial reporting alone. Furthermore, such influences will also ensure that the CF continues to be portrayed generally as "something to be adhered to without questioning its aptness or usefulness, social implications or effectiveness" (Goldberg, 1993, p.3).
SUGGESTIONS FOR FUTURE RESEARCH

Several interesting avenues for further research arise from this study. First, at the time of writing this dissertation, Young (1996) is the only other known author to have applied the theoretical perspective of *institutional thinking* to enhance an understanding of recent reforms to accounting standards and practices. Furthermore, while the theoretical perspectives of *problematisation* and *epistemic communities* have previously been applied in research studies directed at public policy choice (see, for example, Adler and Haas, 1992; Haas, 1992; Rose and Miller, 1992), these perspectives have not, as far as can be ascertained, been previously combined with *institutional thinking* to assist our understanding of specific instances of accounting change. Accordingly, there exists much opportunity to apply these three theoretical perspectives to other specific instances of accounting change and an obvious opportunity for studies of this genre is to focus on accounting reforms in countries outside Australia. Such studies may, for example, utilise the explanatory potential of these perspectives to assist an enhanced understanding of public sector accounting reforms developed in overseas jurisdictions. Future studies which embrace such perspectives can also assist a broader understanding of why public sector accounting reforms develop in certain areas and in certain directions and not in other areas or directions. Further, such studies can elucidate the impacts of small groups of technical experts in shaping the contents of the reforms undertaken.

Second, there is opportunity for researchers to fully explore the political roles of CFs. Such research could usefully explore the broader roles of such frameworks in enabling accounting changes to occur in different national settings and in
different industries. Researchers may also consider the potential for such frameworks to restrict the nature of future changes to accounting regulations and practices. A potential avenue for such inquiry is to examine the application of CFs in educational programmes in accounting at secondary, tertiary and professional levels. Such research has the potential to elucidate the roles of the CF in the indoctrination of present and future accountants regarding the identification and resolution of accounting problems (Chambers, 1991).

Third, further research opportunities exist to fully explore the application and consequences of public sector accounting reforms in particular organisational and social settings. Interested researchers could explore the differences, if any, between the asserted and often unquantified benefits of the reforms against evidence of the specific impacts of the actual reforms on organisational and social functioning. Such research could encompass, for example, whether a narrow focus on cost control pursuant to the reforms has implications for changing the operations and service delivery, setup and management of the public sector organisations concerned. In doing so, researchers could come to better understand accounting “through its impacts”.

Fourth, there is also an opportunity to explore the accountability of accounting itself in respect of recent accounting reforms such as those advocated and implemented within the APS. The organised accounting profession in Australia has, for some time, publicly advanced the need to enhance the accountability and the performance of public sector organisations and governments in general. It is within this context that representatives of the accounting profession have broadly
advocated the presentation and assessment of the periodic achievements of those organisations and governments through the preparation of general purpose financial reports. However, in the context of recent reforms advocated and implemented within the APS, the broader impacts for organisational and social functioning appear to have been overlooked or effectively dismissed by accounting regulators and by the other advocates involved. Unless such impacts, intended or not, are openly identified and evaluated and until any key challenges made to accounting reforms developed for application within specific organisational contexts are adequately addressed, accounting regulators will continue to convey the impression that such issues are unimportant and/or insignificant. Accordingly, opportunity exists for interested researchers to probe the nature and limits of applying accounting practices in specific contexts, since “identifying and evaluating the impacts of such practices will assist in broadening the debate of proposed accounting reforms and contribute to making accounting more accountable” (Carnegie and West, 2002, p.27).

Finally, there is also merit in considering the implications of public sector accounting reforms for the jurisdiction of the Australian accounting profession. For example, in the much-cited work The System of the Professions: An Essay on the Division of Expert Labor, Abbott (1988) argued that the development of the formal attributes of a professional group is closely linked with the pursuit of jurisdiction and the “besting” of rival professions (p.30). While a profession’s ability to seize and defend jurisdiction is determined by many factors (Goode, 1960, pp.902-6; Boreham, 1983, pp.705-6; Dezalay, 1995, p.334; Sikka and
Willmott, 1995, pp.548-50), the strength of this ability largely determines the likelihood that the particular profession remains in existence.

The jurisdiction of the organised accounting profession in Australia has expanded as a result of recent public sector accounting reforms. Such reports have, however, been widely portrayed as the means by which the accountability and the performance of diverse public sector organisations may be presented and assessed. Accordingly, future researchers could usefully address how the reporting of information for accountability and performance assessment, particularly for organisations whose objectives and missions are non-financial in nature, has become a seemingly legitimate derivation of the expert knowledge traditionally associated with the organised accounting profession. Such research might also embrace a concern for understanding the basis for the claims of accountants to specialised knowledge in this area. In so doing, these future studies may elucidate whether the expanded jurisdiction which has resulted from recent reforms developed for the APS is defensible from interloping professional groups. The longevity of this expanded jurisdiction, particularly where other professional groups might identify new and different “problems” for public sector organisations and pose alternative “solutions”, especially beyond the scope of general purpose financial reports, is a complex and interesting issue for researchers to explore. Studies of this genre possess significant potential to enhance our understanding of professionalising activities in accounting and related disciplines.
Building Blocks of a Conceptual Framework for General Purpose Financial Reporting

Levels

1. Definition of financial reporting
2. Definition of the reporting entity (SAC 1)
3. Objective (SAC 2)
4. Qualitative characteristics (SAC 3)
5. Elements (SAC 4)
6. Basis of recognition (SAC 4)
7. Basis of measurement
8. Techniques of measurement
9. Financial position
   - Wealth
   - Change in financial structure
   - Capacity to adapt
   - Solvency/liquidity
   - Variability
10. Performance
    - Wealth/consumption of resources
11. Changes in financial position
    - Financing activities
    - Investing activities
12. Compliance
    - Meeting of requirement re 9, 10 and 11
13. Applicability (entities addressed)
14. Elevation - principle
15. Research methodology/versus detail
16. Requirement for audit due process
17. Policies re transition
18. Monitoring compliance
19. Prosecution for non-compliance

1 The diagram represents the components of the Framework included in ED 42 upon its formal release in 1987 which comprised 8 levels. The original diagram, adopted from the FASB model, was first put forward in 1982.
**TABLE 6.1**  Promoting and Justifying accrual accounting in the APS 1991-2001

<table>
<thead>
<tr>
<th>Author and affiliation at time of publication</th>
<th>Stated Purpose</th>
<th>Asserted System of accounting</th>
<th>Justification for asserted system</th>
</tr>
</thead>
<tbody>
<tr>
<td>AARF/ICPA Australia/Institute of Chartered Accountants in Australia [1]</td>
<td>- discuss the application of recent accrual accounting reforms in the public sector (p.1)</td>
<td>accrual accounting</td>
<td>- enhanced information for accountability and performance measurement and user decision making (p.12); - consistent with the objective of general purpose financial reporting (pp.11-12); - the definitions of reporting entities (pp.16-17) and financial statement elements (pp.37-43); - superior to cash accounting (p.11).</td>
</tr>
<tr>
<td>ASCPA (1993)</td>
<td></td>
<td>accrued accounting</td>
<td></td>
</tr>
<tr>
<td>WIPAA (1992) [2]</td>
<td>- consider a range of issues in relation to accrual accounting (p.1)</td>
<td>accrual accounting</td>
<td>- enhanced information for accountability and performance measurement and user decision making (pp.7-11); - consistent with the objective of general purpose financial reporting (p.11); - superior to cash accounting (pp.2-10).</td>
</tr>
<tr>
<td>DoF/State and Territory Treasurers/Auditors-General/ANAO [1]</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>JCPA (1991)</td>
<td>- prescribe accrual reporting guidelines for statutory authorities (p.6)</td>
<td>accrual accounting</td>
<td>- consistent with the objective of general purpose financial reporting contained in SAC 2 (pp.2-9).</td>
</tr>
<tr>
<td>Barnett (1994a) (DoF)</td>
<td>- discuss the role of the accountant in enhancing public sector accountability (p.1)</td>
<td>accrual accounting</td>
<td>- enhanced information for accountability and performance (pp.17-48); - consistent with the objective of general purpose financial reporting (p.21) and the asset definition in SAC 4 (p.28); - superior to cash accounting (pp.22-4).</td>
</tr>
<tr>
<td>JCPA (1995b)</td>
<td>- review the implementation of accrual accounting within agencies (p.xi)</td>
<td>accrual accounting</td>
<td>- enhanced information for accountability, performance measurement and management decision making (p.3); - consistent with the objective of general purpose financial reporting (p.22);</td>
</tr>
<tr>
<td>ANAO (1995)</td>
<td>- review implementation of accrual accounting reforms in the public sector (p.xi)</td>
<td>accrual accounting</td>
<td>- enhanced information for accountability, performance measurement and management decision making (pp.1-10); - consistent with the objective of general purpose financial reporting (pp.10-11).</td>
</tr>
</tbody>
</table>

**NOTES:**

[1] Similar justifications for accrual accounting reforms in the APS were also advanced on a number of other occasions during this period. For example, see: AARF, 1998; Allan, 1993; ANAO, 1994; Baragwanath, 1984; Barnett, 1993a, 1993b, 1994; Cawley, 1991, 1993, 1994; DoF, 199025, 19952, 1999b; Jacob, 1992; Mackillop, 1992; McGroo, 1998; McIvor, 1994a, 1994b; Meier, 1988a; NSW, 1991; Tarot, 1992; Warrell, 1995; VIT, 1997.

<table>
<thead>
<tr>
<th>Author and affiliation at time of publication</th>
<th>Stated Purpose</th>
<th>Specific Accounting Policies promoted</th>
<th>Basis for promoting the relevant policies</th>
</tr>
</thead>
<tbody>
<tr>
<td>NSWIT (1991) [1]</td>
<td>- outline accrual accounting requirements for Budget sector entities (p.1)</td>
<td>Recognition of public sector resources as assets</td>
<td>consistent with objective of general purpose financial reporting and asset definition contained in the CF (pp.38-9).</td>
</tr>
<tr>
<td>Rowles (1991) [2]</td>
<td>- explain the content of the forthcoming discussion paper DP 17 (p.48)</td>
<td>Recognition of infrastructure and heritage resources as assets</td>
<td>enhanced information for accountability and improved decisions (pp.48-9); consistent with objective of general purpose financial reporting and asset definition contained in the CF (pp.50).</td>
</tr>
<tr>
<td>McPhail (1992) [2] (DoF)</td>
<td>- to discuss developments and priorities in Commonwealth government accounting reform (p.1)</td>
<td>General content of AAS 29 and AAS 31</td>
<td>consistent with specific aspects of the CF including the objective of general purpose financial reporting (p.10); superior to cash accounting (pp.25-7).</td>
</tr>
<tr>
<td>McHugh (1993) [2] (ASCPA)</td>
<td>- to discuss the requirements and implications of accrual accounting for local government (p.186)</td>
<td>General content of AAS 27</td>
<td>consistent with the objective of general purpose financial reporting and the asset definition contained in the CF (pp.186-8).</td>
</tr>
<tr>
<td>Balding (1993b) [1] (ASCPA)</td>
<td>- discuss procedures for valuing and accounting for non-current physical assets by governments (p.1)</td>
<td>Recognition of infrastructure resources as assets</td>
<td>consistent with specific aspects of the CF including the objective of general purpose financial reporting (pp.4-6, 22-23); consistent with the asset definition contained in SAC 4 (14-6).</td>
</tr>
<tr>
<td>SCNPMSTE (1984) [2]</td>
<td>- develop guidelines for the recognition and valuation of assets (p.9)</td>
<td>Recognition of, inter alia, land and heritage resources as assets</td>
<td>enhanced information for accountability and improved decisions (pp.8-11); consistent with the asset definition contained in SAC 4 (pp.8-10).</td>
</tr>
<tr>
<td>JCPA (1994c) [2]</td>
<td>- examine the implementation of the whole of government reporting for the Commonwealth of Australia (p.61)</td>
<td>- inter alia, general requirements of AAS 27</td>
<td>enhanced information for accountability and performance measurement and user decision making and consistent with the objective of general purpose financial reporting (p.19).</td>
</tr>
<tr>
<td>McSweeney (1994) [1] (ASCPA)</td>
<td>- to examine conceptual issues and recording practices relevant to AAS 27 (p.1)</td>
<td>Recognition of parks and recreation resources as assets</td>
<td>consistent with various aspects of the CF including the objective of general purpose financial reporting (pp.10-11), and the asset definition (pp.12-4).</td>
</tr>
<tr>
<td>McGregor (1993) [2] (AARF)</td>
<td>- demonstrate the application of SACS in the development of public sector accounting standards (p.3)</td>
<td>General content of AAS 27, AAS 29 and/or AAS 31</td>
<td>consistent with specific contents of SAC 1-4 (pp.4-5); enhanced information for accountability and performance measurement and user decision making (pp.4-6).</td>
</tr>
</tbody>
</table>

NOTES:

[1] Similar justifications for the recognition of infrastructure and heritage resources as assets have also been promoted in a range of other instances. See, for example, Balding, 1993a; Higginbottom and Fidock, 1995; JCPA, 1991; Mackintosh, 1992; Micahel, 1994, 1995, 1989, PaLi, 1993; Rowles, 1992, 1983b, 1853b; Rowles et al., 1989, 1999.

[2] Similar justifications for the requirements contained in AAS 27, AAS 29 and AAS 31 have also been advanced in a range of instances. See, for example, Carpenter, 1991a, 1991b; DoF, 1992b; Mackintosh, 1992; McGregor, 1993; McGregor, 1995a, 1993; McPhail, 1994a, 1994b; Micahel, 1996; Micahel et al., 1994; Spencer, 1996; Sudcliffe et al., 1991; Wallace, 1994.
APPENDIX 4

Publication outcomes of this study to January 2003

Attached are reproductions of the following articles written by the author of this study.


Financial accounting reforms in the Australian public sector
An episode in institutional thinking

Brad Potter
Deakin University, Victoria, Australia

Keywords: Public sector accounting, Australia, Accounting, Institutionalism

Abstract: In recent years in Australia, accounting regulations have been developed that require the adoption of commercial accounting and reporting practices by public-sector organisations, including the recognition of cultural, heritage and scientific collections as assets by non-profit cultural organisations. The regulations inappropriately apply traditional accounting concepts of accountability and performance, notwithstanding that the primary objectives of many of the organisations affected are not financial. This study examines how this was able to occur within the ideas outlined in Douglas's (1986) How Institutions Think. The study provides evidence to demonstrate that the development, promotion, and defense of the detailed accounting regulations were each constrained by institutional thinking and, as a result, only certain questions were asked and many problems and issues associated with the regulations were not addressed. Thus, it seeks to further our understanding of the nature and limits of change in accounting and the role of institutions in promoting and defending changes to accounting practice.

Introduction
This study explores the forces at work in shaping recent accounting innovations in the Australian public sector (APS), and reforms requiring the preparation of commercial accounting information for non-profit cultural organisations[1] provide the setting for a case study to be undertaken[2]. Such reforms are significant in many respects and have potential consequences for the service delivery, set-up and management of the organisations concerned and for society. Curiously, however, these reforms were developed and adopted in a seemingly narrow fashion, with little investigation of the effects of their application for either the organisations involved or for the wider community and, generally, without reference to problems and issues that might occur. Instead, the reforms were developed based on the deductively-derived assumption that commercial accounting information is useful for presenting and assessing the accountability and performance of all public-sector organisations. This assumption, and other financial reporting concepts cultivated in the conceptual framework (CF) were also repeatedly applied in the promotion and defense of detailed accounting regulations for the APS. During this time, the appropriateness of providing commercial accounting information for the organisations concerned remained beyond question.

The author acknowledges Garry Carnegie, Graeme Dean, Stewart Jones, Brian West, participants at the Critical Perspectives on Accounting conference, New York, 1999, colleagues at Deakin University and La Trobe University research seminars, and three anonymous referees for their helpful comments on earlier drafts of this paper.
It is maintained here that the failure to evaluate more deeply the relevance of commercial accounting information for public-sector organisations can be understood by reference to institutional thinking, a theoretical perspective introduced by Douglas (1986). In doing so, this study seeks to build on the work of Young (1996), who is the only author at the time of writing to have applied institutional thinking to recent accounting reforms, focussing on financial instruments in the USA. In her study, Young maintained that "financial accounting" was the institution at work. According to Young, the last two decades have seen a "revolution" in financial markets, during which time a number of new financial instruments and transactions have developed (for example, interest rate swaps, interest rate futures and interest rate options). These events have direct implications for accounting, particularly in light of its asserted role to "represent faithfully" an organisation and its transactions. However, rather than develop accounting regulations that enabled accounting reports to capture the essence of these "new" financial instruments and transactions, the FASB developed an accounting standard that emphasised traditional and comfortable accounting tasks of disclosure, recognition and measurement. According to Young (1996, p. 487), during the standard-setting process only certain types of questions were asked and certain types of issues considered and many important issues were not addressed. Young maintained that institutional thinking could assist our understanding of how these events unfolded by elucidating the programmed and limited manner in which "accounting" problems are constructed and resolved and by highlighting the nature and limits of accounting change.

Throughout this study the CF developed in Australia is depicted as an institution. The CF has been influential in shaping the nature and content of recent accounting reforms in the APS(3), and exploring the CF as an institution can elucidate how this has occurred. The study demonstrates that, in recent years, the CF has reconstructed the accountability and performance of non-profit cultural organisations in financial terms. Through a process of carefully-constructed, deductive reasoning, the CF has established and justified a seemingly immutable and unquestionable connection between the preparation of commercial accounting reports and improvements in the accountability and performance of public-sector organisations. By doing so, the CF has created opportunities to resolve accountability and performance issues for specific public-sector organisations within established accounting rules of measurement and disclosure. Detailed accounting regulations have since been developed that require commercial accounting disclosures for many public-sector organisations for the first time. The development of these regulations, along with their subsequent promotion and defense, has been largely based on the assumption, outlined in the CF, that the required information is beneficial to interested statement users. Exploring the CF as an institution in this study affords opportunity to identify how these accounting disclosures have come to be required and continually justified for non-profit cultural organisations, even though the relevance of this information to the accountability and performance
of these organisations may be questioned (Walker et al., 2000b, p. 124), and despite a range of well documented problems and issues raised by several authors.

Thus, the following research questions in relation to the recent accounting reforms developed for non-profit cultural organisations in Australia are addressed:

RQ1. How did the CF establish and justify a connection between the preparation of commercial accounting reports and the accountability and performance of public-sector organisations in Australia?

RQ2. How were the concepts outlined in the CF applied in addressing the accountability and performance of non-profit cultural organisations in Australia?

The next section discusses institutional thinking and explains how the CF has established and justified a connection between commercial accounting information and the accountability and performance of diverse public-sector organisations. There follows a demonstration of how the concepts outlined in the CF have been applied in the development, promotion and defense of accounting regulations designed to resolve specific accountability and performance issues facing non-profit cultural organisations in Australia. These sections elucidate how the regulations developed have inappropriately applied traditional accounting concepts of accountability and performance to such organisations. It is maintained here that this was able to occur since the development; and subsequent promotion; and defense of the regulations were each constrained by institutional thinking which, in turn, has meant that many problems and issues associated with the regulations were not addressed during this time. Notwithstanding, these sections demonstrate that both the financial reporting concepts outlined in the CF and the detailed accounting reforms subsequently developed have remained untouched and beyond question. The final section provides a discussion of the findings, concluding comments and suggestions for future research.

**Institutional thinking**

Douglas's influential work, entitled *How Institutions Think* (1986), examines the impact of "the collective" on the members of small groups. According to Douglas (1986, p. 45), an individual's most elementary cognitive process depends on social institutions. The central thesis put forward by Douglas is that individuals do not make important decisions in isolation, but rather individuals within particular communities draw on shared classifications and moral standards when making decisions. Based on these classifications and standards, societies and cultures develop legitimised social groupings such as families, or legitimised social processes such as games or ceremonies (see also Young, 1995, p. 488). Throughout, Douglas refers to these legitimised groups or processes as "institutions"[4].

Financial accounting reforms
According to Douglas, an institution is denoted not by its formal structure or authority, but by its enabling role in shaping the cognitive processes of associated individuals. Douglas (1986, pp. 16, 53) argues that, in this way, the label of "institution" may be applied broadly to any level of group organisation and would necessarily exclude only purely instrumental or practical arrangements that are recognised as such. According to Douglas (1986, p. 46), in order to survive, every type of institution must be founded in nature and reason and when challenged, established institutions are able to rest their claims to legitimacy on their fit with the nature of the universe. To illustrate, Douglas (1985, p. 47) argues that a convention or concept has become institutionalised:

...when, in reply to the question "Why do you do it like this?", although the first answer may be framed in terms of mutual convenience, in response to further questioning the final answer refers to the way in which the planets are fixed in the sky or the way that plants or humans or animals naturally behave.

Institutions encode information and in doing so provide individuals with convenient, plausible and ready-made frames for organising thought. Through the frequent use of terms and phrases, institutions enable individuals to recognise and classify issues that arise, placing these issues within established institutional classifications. In this way, institutions can act as machines for thinking and decision making, with the effect of enhancing an individual's capacity for handling information, turning individual thought to "auto pilot" (p. 63). The result is that individuals are able to save time and energy on difficult decisions by letting the founding analogies of the relevant institution take over.

In elucidating the power of institutions on individual thought processes, Douglas also provides a message of caution, identifying a restrictive or limiting potential:

Institutions systematically direct individual memory and channel perception into forms compatible with the relations they authorise... Any problems we try to think about are automatically transformed into their own problems. The solution they proffer only comes from the limited range of their own experience (Douglas, 1989, p. 92; emphasis added; see also Young, 1996, p. 488).

Any institution then starts to control the memory of its members; it causes them to forget experiences incompatible with its righteous image, and it brings to their minds events which sustain the view of nature that is complimentary to itself. It provides the categories of their thought, sets the terms for self knowledge and fixes identities (Douglas, 1988, p. 112; emphasis added).

Thus, institutions create shadowed places in which nothing can be seen and no questions asked, restricting or limiting an individual's capacity for independent thought. While institutions might save us time and energy on difficult decisions, they also standardise or limit the ways in which we conceptualise particular problems or issues, allowing or directing us to assign particular problems or issues to a certain category or class. Such problems and issues can then be addressed by standard and comfortable means. For example, we can draw upon institutions to classify certain problems or issues as "financial" in
nature. Using institutions in this way, we might struggle to see past this "financial" classification provided for us, which in turn may inhibit our ability to evaluate the application and consequences of the classification in specific instances. Thus, our creativity in developing new and novel, perhaps even non-financial, classifications for the problem or issue diminishes, and our ability to develop non-standard, in this case non-financial, solutions becomes stifled or limited. In such instances, we may also be prevented from even acknowledging the merits of alternative classifications offered by others, particularly those which are inconsistent with the classifications provided for us by our institutions.

Many of the central characteristics of institutions described by Douglas appear to also be evident in the CF developed in Australia. To elaborate, by setting out the objective of financial reporting for public- and private-sector entities, the Australian CF establishes what can and cannot be captured in commercial accounting reports. According to SAC 2 (AARF/AASB, 1990b), the periodic preparation of such reports enables the accountability and performance of entities in both sectors to be presented and assessed in structured ways to assist interested users in the allocation of scarce resources. Under the CF the accountability and performance of entities in both sectors can be captured within traditional accounting reports containing the measurement and disclosure of assets, liabilities, equities, revenues and expenses. According to SAC 2, unless commercial accounting reports are prepared containing full disclosure of financial statement elements, accountability and performance would not be captured and benefits for resource allocation would not be forthcoming (see also Rowles, 1992, p. 49).

By requiring the preparation of accounting reports containing specific disclosures and asserting that various benefits for a range of users will follow, the CF effectively constructs financial notions of accountability and performance for both private- and public-sector entities and, in doing so, the restrictive or limiting potential of institutions described by Douglas becomes apparent. With the conceptual justification for preparing commercial accounting reports already established within the CF, resolution of specific accountability and performance issues for non-profit cultural organisations becomes a relatively simple task, requiring the implementation of these reports in specific instances and the measurement and disclosure of financial statement elements. Any possibility of resolving these issues by other, perhaps non-financial, means is effectively dismissed and in this way the CF offers an automatic starting point for addressing the accountability and performance of such organisations[5], notwithstanding that their primary objectives are not financial[6]. This effectively creates a type of financial visibility for these organisations which in turn has far-reaching consequences for organisational and social functioning that were seemingly not contemplated nor ever imagined by accounting regulators[7].

By March 1992, four formal elements of the CF had been developed that established and justified the role of commercial accounting information in
improving the accountability and performance of public-sector organisations, but three major issues were still to be addressed by accounting regulators. First, at no stage was it evident that the primarily non-financial nature of the performance and accountability of many public-sector organisations was ever acknowledged. Second, sustained critical research had not been conducted in Australia to establish how the preparation of commercial accounting reports would assist these entities more accurately to measure and assess their accountability and performance against their stated organisational missions or aims. In addition there is no indication that the potential adverse consequences of the requirements for the set-up and operation of the entities effected or for society as a whole were ever considered. When such concerns were subsequently raised, casting doubt over the financial constructions accountability and performance for the organisations concerned, the specific questions raised or challenges made were ignored or explained away in dismissive terms by accounting regulators. Those involved seemed reluctant to acknowledge that such disclosures might not deliver the asserted benefits outlined in the CF and the classification of the performance, and accountability of many public-sector organisations as primarily "financial" issues remained untouched and beyond question.

With the role of commercial accounting information established and justified for public sector entities, the development of detailed accounting regulations addressing the accountability and performance of specific public-sector organisations was set to begin.

Financial accounting reform in the APS

Phase 1. Developing detailed regulations

An early detailed accounting pronouncement for the APS that arrived in December 1990 was AAS 27 Financial Reporting by Local Government. Several other accounting standards were to follow quickly. The release of AAS 27 is of interest in this study since its development and subsequent defense appear to have also been constrained by institutional thinking. Specifically, this regulation was developed and justified on the assumption, outlined in the CF, that commercial accounting information is relevant to the accountability and performance of local governments. This assumption remained untouched and beyond question when several specific issues and problems arose regarding the implementation of AAS 27. Hence, brief discussion of AAS 27 is warranted here to provide further evidence of the explanatory potential of institutional thinking, and to highlight similarities between the way these events unfolded and the manner in which regulations for non-profit cultural organisations were developed and defended.

AAS 27 required the preparation of conventional financial statements, prescribing the form and content of financial reports for local governments. This approach was argued as necessary to ensure the accountability and performance of local governments could be presented and assessed. Under AAS 27 the statement of financial position prepared for local governments was
to include disclosures for assets, liabilities and equity and specifically, the disclosure of buildings, monuments, roads, bridges and underground pipes (AARF, 1991, para. 35).

The requirement to recognise land under roads as assets in financial statements of local governments gave rise to considerable controversy (for example, see Barton (1999)). Thus, upon its re-issue in 1996, AAS 27 allowed the non-recognition of this item until June 30, 2000. According to the re-issued standard (para. 3), the purpose of the transitional period is to "provide an adequate period within which interested parties can address whether and, if so, how concerns about reliable measurement of land under roads can be overcome"[9]. According to the re-issued standard, the transitional period is provided to enable regulators to determine how the recognition of land under roads might be affected rather than re-evaluating the appropriateness of providing such disclosures for local governments in the first place. By adopting this focus for the transitional period, the notion that commercial accounting reports may not capture the accountability and performance of local governments would never be considered. As a consequence, any opportunity to evaluate the appropriateness of alternative, non-financial systems for presenting and assessing the accountability and performance for local governments that did not require the preparation of accounting reports was, it seems, lost[9].

Shortly after the release of AAS 27, the AARF released Discussion Paper No. 17 (DP17), entitled Financial Reporting of Infrastructure and Heritage Assets by Public Sector Entities, written by AARF staff member Rowles. This discussion paper represented the first formal steps taken by accounting regulators in Australia toward developing detailed accounting regulations for non-profit cultural organisations in Australia. In DP17, Rowles sought to identify, address and resolve issues of controversy about the recognition and measurement of non-current physical assets of public-sector entities (p. 1)[10]. For Rowles, the CP was the automatic starting point from which these issues were addressed and resolved:

The objective sought for financial reporting will determine what is appropriate to report. For Australian purposes, the relevant objective is contained in SAC 2. This objective is the relevant one to resolving issues about accounting for infrastructure and heritage assets (Rowles, 1992, pp. 22-3).

Thus, implicit in DP17 was the notion, outlined in the CP, that commercial accounting reports with full disclosure of financial statement elements were appropriate for presenting and assessing the accountability and performance of all public organisations. This effectively stifled or limited the range of issues considered throughout DP17, particularly when the issue of disclosing specific items as assets was discussed:

To meet the SAC 2 objectives, disclosure of information about the stock of non-current physical assets, including infrastructure and heritage assets and consumption of their service potential, will be required (Rowles, 1992, p. 23).
Then, in the body of DP17, Rowles ostensibly sought to resolve whether infrastructure and heritage items possess the characteristics prescribed within the CP for recognition as an asset in commercial accounting reports.

Whether an item should be recognised as an asset for accounting purposes is ultimately decided by testing its characteristics against those contained in an accounting definition of an asset. ... Whether infrastructure and heritage assets should be recognised as assets is therefore resolvable by testing their character against an appropriate definition of an asset. In Australia, the relevant reference is to what should be recognised as an asset is contained in SAC 4 (Rowles, 1992, p. 44).

In essence, the analysis by Rowles amounted to little more than an effort to justify why the recognition of such items should occur, mostly in light of the claimed benefits of such disclosures for performance and accountability. Although the asset definition developed in SAC 4 (AARF/AASB, 1994) has been widely criticised for its broad and abstract nature[11], Rowles interpreted and applied it narrowly and in a manner that provided solid support for the preparation of commercial accounting information for public-sector organisations. Thus, not surprisingly, Rowles concluded that infrastructure and heritage items met the definition and recognition criteria for assets as outlined in SAC 4 and should be recognised in periodic financial statements.

In doing so, however, Rowles left several questions unanswered. Nowhere in DP 17 was the appropriateness of the asset definition for application in the public sector, especially for non-profit cultural organisations, critically examined. Also, it was not clearly explained how the disclosure of such items could lead to enhancements in the performance and accountability of specific public-sector organisations whose missions or aims are non-financial in nature. In addition, prior to DP 17 no research was conducted by accounting regulators in Australia to establish whether such information was or would be used by management with responsibility for infrastructure and heritage items. Rowles made little effort to acknowledge the potentially prohibitive time and cost involved with valuing infrastructure and heritage items, and the potential impact on the operation, service delivery, set-up and management of the organisations concerned by making such disclosures was never seriously evaluated. Finally, Rowles made several references to a US-based study on infrastructure accounting (van Daniker and Kwiatkowski, 1986) to support his view but failed to also acknowledge the findings of the same study that suggest, when faced with matters pertaining to infrastructure, users prefer engineering-based information above accounting-based information (see also Walker et al., 2000b). Rather than explore such complex and difficult issues and problems, a case for recognising such items was presented and justified by Rowles in a way that encouraged little critical reflection, and the assumed benefits of commercial accounting disclosures for accountability and performance of the organisations involved remained beyond question.

Around the same time, January 1992, the Exposure Draft 55 (ED 55) Financial Reporting by Government Departments was released[12]. With the
stated aim of prescribing the form and content of the financial reports of

government departments, and, consistent with DP 17, ED 55 recommended
the application of the requirements of all concepts statements in the CF (AARF,
1993b, para. 9). According to ED 55, the presentation and assessment of the
accountability and performance of government departments required the
preparation of commercial accounting reports containing financial disclosures
for assets, liabilities, equities, revenues, expenses and cash flows. Thus, ED 55
required the recognition of cultural, heritage and scientific collections as assets
in the financial statements of non-profit cultural organizations for the first time
in Australia (AARF, 1993b, paras. 46-52). The primary justification for such
disclosures was found in the asserted benefits for accountability and
performance, outlined in SAC 2.

Almost immediately following ED55 and DP17, AAS 29 was released (also
There were no significant amendments to AAS 29 from its antecedent
document, ED 55. The preparation of commercial accounting reports
containing financial disclosures for cultural, heritage and scientific collections
was now a formal requirement for the relevant public-sector organisations in
Australia. In just over one year, three documents pertaining to accounting
regulations in the APS had been released. Complex problems associated with
the presentation and assessment of the performance and accountability of these
terms were effectively "resolved" through the preparation of commercial
accounting reports[13]. During this time, little attention was given to the notion
that such disclosures may not in fact be "useful" to the users of the financial
reports, and alternative accountability and performance measurement systems
not requiring the preparation of commercial accounting reports were hardly
considered[14].

With detailed accounting regulations dealing with diverse organisations in
the public sector now in place, accounting regulators needed to create
conditions conducive for the smooth implementation of the regulations
developed. There began a concerted effort to promote the regulations to the
broader community by a range of organisations and their representatives
involved with the development of accounting regulation in Australia. Just as
many questions were left unanswered after the development of the regulations,
this was also to be the case when they came to be implemented. The next
section explores the manner in which the regulations were promoted, those
questions that were addressed, those that were not, and why.

Phase (2). Promoting the detailed regulations developed
Since the early 1990s myriad bodies — DoF, State and Territory Treasuries, the
Australian National Audit Office, the Joint Committee of Public Accounts,
AARF, the Institute of Chartered Accountants, Australia and the CPA
Australia[15] — have engaged in a consolidated effort to establish, justify and
defend the application of commercial accounting technology in the APS (DoF,
1992; see also Ryan, 1998, pp. 526-7; 1999, pp. 567-76). This has taken place
through various means, including official-type presentations, research papers published in quasi-academic as well as professional journals, and public lectures. Overwhelmingly, the widespread promotion of the reforms has been based on the continual re-assertion of the benefits of providing commercial accounting information for the accountability and performance of the organisations concerned. Specifically, much of the promotion of the regulations sought to reflect and reinforce the notion, constructed in the CF, that unless such reports were prepared with full disclosure of financial statement elements, the accountability and performance of the organisations concerned could not be measured and assessed. Many publications either stated or inferred that performance and accountability of public-sector organisations would naturally be enhanced since accounting reports would elucidate the efficiency and effectiveness of resource use, the "full cost" of operations and wealth creation. The extracts below indicate the benefits commonly associated with the reforms:

A more efficient and effective use of scarce resources (Conn, 1996, p. 83; see also Barrett, 1994b, p. 34).

The benefits ... include the real cost of program activities being reported (DoF, 1994, p. 13; Barrett, 1994b, p. 24)

... facilitates an analysis of performance and provides a consistent basis for assessing year on year performance (McPhee, 1994, p. 2).

Information about CHSCCs (cultural, heritage, scientific and community collections) controlled by public sector entities is necessary to make informed assessments about the allocation of (scarce) public funds ... including information about CHSCCs in general purpose financial reports enables managers of museums, art galleries and libraries to discharge their accountability by providing some of the information necessary to enable assessments of their performance (McRae and Pearson, 1990, p. 94).

The appeal of the benefits outlined above is clear and may, at a glance, seem to be difficult to argue against, since the alternatives are entities reporting inaccurate costs and revenues, which are inefficient, ineffective, inadequately accountable and so on. Yet at the same time, continually and unquestioningly reasserting conventional accounting notions of performance and accountability for a diverse range of public-sector entities has two major shortcomings that warranted little attention during the promotion period. First, to evaluate "success" based on narrow measures of financial performance is inconsistent with the very reason for the existence of the organisations concerned and could thus result in a greater emphasis on irrelevant aspects of performance. For example, reliance on quantifiable performance measures such as cost consciousness and profit generation for museums, art galleries and libraries may increase at the expense of qualitative, social concerns, and a trade-off might emerge between narrow technical efficiency and effectiveness of service delivery (Alkon and McRae, 1995, p. 211; Ma and Mathews, 1993, p. 83; Parker and Guthrie, 1993, p. 64-5). This in turn can have unanticipated consequences for the set-up and operation of the entities concerned and for society[16].
Second, the asserted benefits of the reforms may have been oversold. Interestingly, there was little discussion of the negative aspects of these reforms, notwithstanding that broadly similar reforms had been released for the first time in the private sector in the 1970s and 1980s and subsequently challenged and ultimately rejected (Walker et al., 1999, 2000a, b). Particularly, throughout the vigorous promotion of the reforms little mention was made of the broad and permissive nature of the commercial accounting; or that “accrual accounting” has several forms, contains many arbitrary allocations and may lead to significantly different results (Gaffkin, 1996, p. 55; Ma and Mathews, 1992, p. 5; McCrae and Aiken, 1994, p. 66; Walker, 1986, p. 22; 1998, pp. 23-4; Walker et al., 1999, 2000a, b). These two apparent shortcomings raised doubts about the benefits of producing commercial accounting reports containing such disclosures for presenting and assessing the performance and accountability of many public-sector entities. Despite this, during the promotion of the reforms, little attention was given by accounting regulators to the possibility that preparing such reports may be inappropriate, or that the asserted benefits of the disclosures contained therein may not be readily forthcoming.

Within months of the release of the detailed accounting regulations for the APS, promotion of the asserted benefits of commercial accounting disclosures for public-sector entities was widespread, even though such benefits were not supported by rigorous research conducted in Australia, empirical or otherwise (Walker et al., 2000a, b). When research was subsequently conducted that cast doubt over the appropriateness of preparing commercial accounting information for many public-sector entities, the results were either ignored or explained away by accounting regulators and the assumed benefits of preparing such information, outlined in the CF, stood firm (Carnegie and Wohlinzer, 1995, 1997, 1999; Jones and Puglisi, 1997; Rowles et al., 1998; Walker et al., 2000a, b).

The next section explores how the regulations developed for specific public-sector organisations were defended, by examining research conducted into two aspects of the reforms, namely:

1. Whether the information required to be disclosed under the regulations would be relevant for decisions made by internal and external users; and

2. Whether cultural, heritage, scientific and community collections are properly recognised as assets at financial valuation and how, if at all, could such disclosures assist in evaluating and enhancing the performance and accountability of the organisations concerned.

When the results of this research cast doubt over the appropriateness of preparing commercial accounting reports for the organisations involved, there was little impact on the thinking of those responsible for developing the regulations. The following section elucidates the research conducted and the response, if any, offered by those associated with developing and promoting the regulations.
Phase (3). Defending the reforms

The relevance of commercial accounting disclosures for users of financial reports. Underlying the asserted benefits of financial reporting outlined in the CF is the notion that the required disclosures will be relevant to the economic decisions of the entities concerned and their external users[18]. Thus, Jones and Puglisi (1997) empirically tested the usefulness of commercial accounting information required under AAS 29 by surveying key external users and senior internal decision makers of Australian Government departments. These authors concluded that the survey results did not support the claim that commercial accounting disclosures would satisfy a potentially wide range of external users and also indicate that such information is of only modest relevance to internal decision processes. According to Jones and Puglisi (1997), when assessing accountability and performance of public-sector organisations both external and internal decision makers place greater relevance on information other than that disclosed in commercial accounting reports[19]. These results contradicted the claimed benefits of the information as outlined in the CF, although at the time of writing Jones and Puglisi had drawn no direct response from accounting regulators, nor has research establishing the efficacy of the claimed relevance of the disclosures for user decisions been conducted.

In 1998, Rowles et al. surveyed local government financial managers from municipalities around Australia to ascertain the usefulness of financial disclosures for land under roads, as is required under AAS 27. The study by Rowles et al. (1998) is pertinent here for two reasons. First, recall that Rowles was the author of DP17 which advocated the recognition of such items in accounting reports in order for the asserted benefits for the accountability and performance for local governments to be forthcoming. In addition, the results of the Rowles et al. (1998) study indicate that respondents generally viewed the recognition of land under roads as a costly and pointless exercise. Notwithstanding, the results of the Rowles et al. study, similar to those from the earlier study by Jones and Puglisi (1997), appeared to carry little weight with accounting regulators.

According to the respondents surveyed by Rowles et al. (1998), land under roads should not be recognised as an asset in financial statements primarily because the resulting information is costly to produce and has no useful purpose (pp. 47-8), and this contradicted the functional justification upon which AAS 27 was based. Despite this, the authors effectively dismissed their own findings, instead attributing the results to the shortcomings of respondents, namely a "misunderstanding" about the purpose of preparing financial reports and the potential usefulness of the information, rather than any deficiency in the regulation or its application (p. 49). These researchers concluded, as a result, that the major task of accounting regulators in relation to this issue was educational rather than technical (p. 49) and, in this way, evidence indicating that the primary users of the information felt it to be irrelevant to their decision processes was explained away[20].
Recognising cultural, heritage, scientific and community collections. In 1995, Carnegie and Wolnizer questioned, on several grounds, the recognition of cultural, heritage and scientific collections as assets of non-profit cultural organisations in Australia. This effectively challenged the notion that traditional accounting reports containing such disclosures were relevant to the accountability and performance of the public-sector entities involved. The challenge presented by Carnegie and Wolnizer drew a response from Micallef and Peirson, both of whom were connected with the development of the accounting regulations in the first place [21]. However, rather than utilise this opportunity to re-evaluate the role of commercial accounting disclosures for presenting and assessing the accountability and performance of non-profit cultural organisations, the “challenge” for Micallef and Peirson seemed to lie in addressing the issues raised by Carnegie and Wolnizer within the comfortable and established arguments provided in the CF. In doing so, Micallef and Peirson demonstrate an inability to see beyond “financial” notions of accountability and performance for non-profit cultural organisations, and inevitably do not perceive that assessments of these notions require much more than the preparation of conventional accounting reports and the measurement and disclosure of financial statement elements. The ensuing debate lasted several years (Carnegie and Wolnizer, 1995, 1996, 1997, 1999; Carmen et al., 1996; Hone, 1997; Micallef, 1998; Micallef and Peirson, 1997; Newberry, 2001; Tyzack, 1998) during which time it became quickly apparent that the parties involved were never likely to agree. The remainder of this section discusses the issues raised by Carnegie and Wolnizer and the manner in which these were addressed by Micallef and Peirson.

Carnegie and Wolnizer commenced their 1995 study by questioning the usefulness of providing financial valuations for collection items, in light of relevant policies adopted in arts organisations in the USA, Canada, UK, New Zealand, France, Spain and Australia. Results indicated that only two of the 32 institutions that were surveyed recognised collection items as assets for financial reporting purposes. In explaining such low rates of disclosure, respondents cited usefulness, lack of objectivity and questionable veracity, as well as costs associated with its collection (see Carnegie and Wolnizer, 1995, p. 35). In the main part of their study, Carnegie and Wolnizer argued, on a number of grounds, that commercial accounting disclosures could not adequately capture the performance and accountability of non-profit cultural organisations. These authors questioned the preparation of accounting reports containing disclosures for collection items in the context of the stated objectives and functions of non-profit cultural organisations, the nature of collection items and commonly accepted concepts of value. In short, Carnegie and Wolnizer sought to re-cast, on theoretical grounds, the presentation and evaluation of the accountability and performance of non-profit cultural organisations in non-financial terms.
In concluding, Carnegie and Wolnizer (1995, p. 44) posed four questions to be addressed by advocates of the financial disclosure of cultural, heritage and scientific collections in commercial accounting reports:

1. What is the commercial meaning of any such financial quantum?
2. By recourse to what reliable commercial evidence may an auditor authenticate that financial sum?
3. In what demonstrable way or ways is such a financial quantum useful for enhancing and judging the accountability of those who manage not-for-profit public arts institutions having non-commercial objectives?
4. In what demonstrable way or ways is that financial quantum useful for gauging the financial efficiency with which a public (grant-dependent) arts institution is managed?

In 1997, Micallef and Peirson replied to Carnegie and Wolnizer and sought to justify both the preparation of commercial accounting reports and the recognition of cultural, heritage and scientific collections in financial statements. Characteristic of the Micallef and Peirson response was open and uncritical acceptance of the role of commercial accounting information in presenting and assessing the performance and accountability of non-profit cultural organisations. Re-application of the asserted benefits of commercial accounting disclosures for non-profit cultural organisations offered a comfortable base from which Micallef and Peirson could defend the reforms, and respond to Carnegie and Wolnizer. With the CF at the forefront of their reply, Micallef and Peirson were inevitably bound to (re)construct or (re)conceptualize the accountability and performance of non-profit cultural organisations as primarily financial issues that could be addressed within standard and comfortable accounting tasks of measurement and disclosure. According to Douglas, in such instances it is inevitable that those involved will find it difficult to embrace or even acknowledge the reasoned arguments of others – in this case Carnegie and Wolnizer.

Micallef and Peirson (1997) argued that the recognition of the items in question meets the requirements of the CF in many respects. The definition of assets in SAC4, they argue, is such that the unique characteristics of cultural, heritage and scientific items can be accommodated (see pp. 32-3). According to these authors, the recognition of such items as assets is consistent with the objective of financial reporting outlined in SAC 2 and non-recognition of such items would mean that the benefits for the accountability and performance of the entities involved would not eventuate (pp. 32-4). Micallef and Peirson conclude, as a result, that the non-recognition of these items is clearly inappropriate.

Micallef and Peirson also referred to Carnegie and Wolnizer’s claim that the recognition of collections as assets in financial reports was not widely performed throughout the world and suggest that according to SAC 3 this in no way reflects the potential usefulness of the information.
... acceptance of the argument that CHSCs should not be recognised because this is not generally accepted practice would seem to condemn accountants to always accepting the status quo. As pointed out in SAC 3 Qualitative Characteristics of Financial Information, it is unacceptable for entities to remain tied to existing practices, when more relevant or reliable alternatives exist (p. 32, emphasis in original).

In their conclusion, Micalef and Peirson re-affirm their interpretation of the CF as a means of truncating further debate:

We have suggested that Carnegie and Wohlizer's arguments against the recognition of CHSCs are generally inconsistent with the conceptual framework for general purpose financial reporting which has been developed by the AASB and the IFAC (p. 86).

It is relatively clear that many of the financial accounting reforms undertaken for the APS could be seen to be consistent with the contents of the CF, particularly the objective of general purpose financial reporting. After all, the concepts outlined therein were applied in developing the detailed accounting regulations in the first place. But to cease discussion at this point is surely to ignore the substance of the issue(s) at stake, leaving us with little opportunity for much more than quibbles between experts over technicalities (Gorz, 1989, p. 122) and many of the salient questions raised in relation to the reforms remain unanswered. A focus only on the interpretation of general rationales for accounting disclosures in the public sector obscures debate on the application and consequences of accounting in specific contexts. The result is that we are bound to accept conventional arguments asserting what accounting might be able to do, rather than explore the enabling capabilities of the craft and probing what it does do in specific instances (see also Hopwood, 1990a, p. 406).

Despite seeking to respond directly to Carnegie and Wohlizer, nowhere in the Micalef and Peirson response were the four questions raised by the former authors addressed in any direct fashion, nor was there any recognition that the role of commercial accounting information in assessing the accountability and performance of the organisations might be questionable. Rather, the assumed usefulness of the information was re-asserted, based on the CF, notwithstanding a lack of rigorous research, both empirical and otherwise, in support and despite a range of compelling arguments put forward by Carnegie and Wohlizer(22).

At the time of writing, the questions posed by Carnegie and Wohlizer, which are neither improper nor irrelevant, remain unanswered, and one might ponder when these questions will be addressed in the future. Is this an acceptable response from accounting rule-making agencies that claim to be concerned with issues of accountability?

Discussions and conclusions
It would be relatively simple to attribute the recent financial accounting reforms identified here to broad movements in public-sector management philosophies experienced in Australia and in many other regions throughout the world. Such movements, claimed to offer a "new" public management are influenced by "economic rationalism", "managerialism" and their associated
philosophies (Parker and Guthrie, 1986; Pusey, 1991; Yeatman, 1987; Zifcak, 1994). Closely associated with this “new” public management is a range of accounting techniques, which have been classified as “new public financial management” (Guthrie and Humphrey, 1996; Olson et al., 1998)[23].

This is not to deny that such global movements in management paradigms influence accounting reforms undertaken. While the accounting reforms recently developed in Australia should be understood within their broader context, they should not be reckoned simply as automatically resulting from the new public management movement. Rather, neither new public management nor new public financial management are claimed to represent a specific set of management techniques, even among those countries that might be labeled “active” in reform, nor can either movement be claimed to be global or cohesive. To attribute accounting reform in the APS to such global movements would tell us little about why such changes might be adopted in one country and not others, and how some countries are more fanatical than others in their respective approaches to reform (Pusey, 1991, p. 269)[24]. Particularly, such a perspective would ignore the complex web of forces and interrelationships impacting upon the form and content of public-sector accounting regulations and practice (Guthrie and Parker, 1998, p. 50) and the role of institutions of financial accounting such as CF projects in the reform process.

The study has attempted to demonstrate that the Australian CF has been influential in shaping the nature and content of recent accounting reforms in the APS and that Douglas’s institutional thinking can assist our understanding of how such influence has occurred. It has been argued that through a process of carefully constructed deductive reasoning, the CF established and justified a connection between the preparation of conventional accounting reports containing full disclosures for financial statement elements and improvements in the accountability and performance of diverse public-sector entities. These concepts outlined in the CF were used to develop detailed accounting rules to resolve specific accountability and performance issues facing non-profit cultural organisations. It is maintained here that the regulations developed have appropriately applied accounting concepts of accountability and performance to these organisations. Evidence provided in the study suggests that this was able to occur since the development and subsequent promotion and defense of the regulations were each constrained by institutional thinking, which meant that many questions were left unanswered. During this time, traditional accounting tasks of measurement and disclosure were continually emphasised, the rationale for commercial accounting disclosures for these organisations remained beyond question and alternative, non-financial accountability and performance measurement systems were never considered.

Several interesting avenues for further research arise from this study. First, as indicated at the outset, the theoretical perspective of institutional thinking
has not been extensively applied in relation to recent reforms to accounting regulation and practice. Hence, much opportunity exists to evaluate more fully the explanatory potential of this perspective by applying it to other, specific instances of accounting innovation. Such studies have the potential to advance our understanding of why accounting reforms develop in certain areas and in certain directions and not others.

Much work can also be undertaken to explore the application and consequences of public-sector financial accounting reforms (Guthrie and Humphrey, 1998). Interested researchers could explore the differences, if there are any, between the asserted benefits of the reforms and their practical impact (see also Guthrie, 1999). Such research could encompass the changing nature, if it exists, of the operations and service delivery, set-up and management of the public-sector organisations concerned pursuant to the reforms and, in doing so, researchers could come to know accounting “through its effects” (Hines, 1989, p. 55; Hopwood, 1990a, p. 460). Accounting can and does have effects, both for organisations concerned and for society in general, although often these effects are not identified, let alone evaluated in the initial development, promotion and defense of the particular reform (Hopwood, 1990a, b).

Opportunity also exists to examine further the reform process in Australia. For example, researchers might probe the role of members of the organised accounting profession in Australia in shaping the reforms developed. Fruitful avenues for inquiry include the role of broad policy documents such as CPs in facilitating the adoption of commercial accounting concepts and practices into the public sector where such concepts and practices were, until recently, absent. Such research could usefully address how reporting the performance and accountability of diverse public-sector entities has become a seemingly legitimate derivation of the expert knowledge traditionally associated with the accounting profession, probing the claims of accountants to specialised knowledge in this area.

There is also merit in considering the implications of public-sector accounting reforms for the jurisdiction of the Australian accounting profession. For example, in the much-cited work The System of the Professions: An Essay on the Division of Expert Labor, Abbott (1988) argued that the development of the formal attributes of a professional group is closely linked with the pursuit of jurisdiction and the “besting” of rival professions (p. 30). While a profession’s ability to seize and defend jurisdiction is determined by many factors (Goode, 1960, pp. 902-6; Boreham, 1983, pp. 705-6; Desalay, 1995, p. 334; Sikka and Willmott, 1995, pp. 548-50), such ability largely determines the likelihood that the particular profession remains in existence. The jurisdiction of the organised accounting profession in Australia has expanded as a result of recent public-sector accounting reforms. Whether this jurisdiction is defendable from interoperating professional groups identifying new and different “problems” for public-sector organisations and posing alternative “solutions” is a complex and interesting issue for researchers to explore and can enhance our understanding of professionalising activities in accounting.
The boundaries of accounting are constantly drawn and redrawn. It is an ongoing process rather than a fixed accomplishment, and is neither a generic process nor the preserve of any single individual or single group. Instead, the transition of accounting as a body of expertise takes place within and through a historically specific ensemble of relations formed between a complex web of actors and agencies, arguments and ideals (Miller, 1998, p. 189-90). For these reasons, the forces or pressures associated with the process of accounting innovation remain deserving of our most careful attention.

Notes
1. “Non-profit cultural organisations” is used here to encompass public repositories of cultural, heritage and scientific collections, and includes, for example, museums, art galleries, public libraries, public record offices and film centres.

2. While the scale of public-sector investment in many countries is significant, comparatively little is known about how accounting techniques for recording such activities emerge, or the complex forces that shape specific accounting innovations in the public sector (Broadhurst and Guthrie, 1992, pp. 23-5; for exceptions, see Guthrie and Parker, 1998; Ludger, 1992; Pollitt, 1990; Potter, 1990; Ryan, 1998, 1999; Walker et al., 1999, 2000a, b).

3. It is not contentious to suggest that the CF has been important in the development and implementation of recent accounting reforms in the public sector in Australia (e.g. McGregor, 1993, 1999; Rowles, 1992, 1993). However, although generally informative, such pieces provide little critical insight into how or why the CF is so important or how such reforms are developed, promoted and defended.

4. Many researchers have studied institutions and the institutionalisation process in the organisational context (e.g. see De Maggio and Powell, 1988; Hunt and Huyghe, 1993; Cournos, 1985; Cova and Dierkes, 1996; Scott, 1995; Beving et al., 1999). Within this literature, several authors offer different definitions of institutions and perspectives on the institutionalisation process. While the perspective on institutions offered by Douglas is broadly consistent with elements of this literature, as noted by Young (1999), Douglas does not explicitly draw upon the work of these authors in defining institutions or exploring their impact.

5. In doing so, the CF acquires a legitimacy that extends far beyond its formal structure or authority. Neither the CF nor the contents therein are directly binding on the accounting and reporting practices of government departments or agencies, nor were they mandatory when detailed accounting regulations were developed for the APS by the accounting profession. Despite this, financial reporting concepts outlined in the CF continue to pervade government accounting and reporting guidelines and accounting regulations developed by the organised profession. This influence of the CF far beyond its formal authority is typical of the institutional definition offered by Douglas, whereby institutions are primarily intimated by their role in shaping the thinking of associated individuals. In Australia, the influence of the CF in shaping recent reforms has primarily arisen from its assumed ability to lead to enhancements in the performance and accountability of the organisations concerned.

6. For example, Carnegie and Wolitzer (1995, pp. 37-8) concluded that the scientific, cultural and community functions of not-for-profit arts organisations are clearly stated and widely recognised. Also, Rentzeller and Potter (1996) examined the mission statements of these organisations in Victoria, Australia, and conducted interviews with key personnel. According to Rentzeller and Potter, no instances were found where reference was made in the overall mission to the need to excel according to commercial-type measures of
performance, such as return on investment, profitability or wealth creation" (p. 111), nor did any of the organisations under examination consider profit to be a central objective.

7. Recently, several studies have asserted that specific applications of accounting have significant consequences for both the activities of the organisations concerned as well as for society (e.g., see Hopwood, 1990a; Miller and O'Leary, 1990, p. 485; Parker and Guthrie, 1990, p. 118, 1993, p. 63; Miller, 1994; Porter, 1994; Young, 1995, p. 56). At no stage during the development of accounting regulations for non-profit cultural organisations was it evident that such issues were considered by accounting regulators.

8. The Public Sector Accounting Standards Board (PSASB) has subsequently extended, yet again, the final date for the recognition of land under roads until 31 December 2002. The latest extension is provided since accounting regulators doubt their ability to derive a method of reliably measuring land under roads before the end of the existing transitional period.

9. For example Falk and Nelson (1989) and Walker et al. (2000a) have each offered alternative frameworks for local government accounting that remove the emphasis on financial disclosures of items such as land under roads in financial statements. Falk and Nelson drew an immediate response from Rowles (1993), employed at AARF at the time. Even though AAS 27 was initially developed from the application of the content of the CF, this framework also provided a comfortable starting point from which Rowles responded, effectively discarding the framework suggested by the other authors. According to Rowles (1983, pp. 62-4), the framework put forward by Falk and Nelson was inconsistent with the objective of financial reporting as outlined in SAC 2 and, unless local governments provided financial disclosures for their stock of "assets", the accountability and performance of local governments would not be adequately captured and presented. At the time of writing, Walker et al. (2000b) had not occasioned a response from accounting regulators.

10. The release of DP 17 some time after the original issue of AAS 27 is significant. Carnegie and West (1997, p. 27) suggest that Rowles adopted a "defensive stance" in writing DP 17 in order to confront criticisms of ED 50 Financial Reporting by Local Governments – the precursor to AAS 27.


12. A "government department" as defined in ED 55 encompasses most non-profit cultural organisations in Australia.

13. Recall that central to institutional thinking is the notion that individuals can save time and energy on difficult decisions by letting the relevant institutions take over. Once the link between accounting reports and the accountability and performance of public-sector entities was established, the development of detailed accounting regulations for specific public-sector entities became a relatively simple procedure. Questions about the conceptual justification for financial reporting for these organisations had already seemingly been "resolved" in the CF, and accounting regulators could, instead, turn their attention to devising how specific items could be measured and reported.

14. Accounting regulators appear to have given some consideration to implementing a form of modified accrual reporting for such organisations. Although a part of the accounting regulations for similar organisations in many countries outside Australia, any modified system might not require the recognition of cultural, heritage and scientific collections as assets in financial statements and could appear inconsistent with the objective of financial reporting in SAC 2. As a consequence, modified accrual accounting was not pursued in Australia. Also, a range of alternative accountability and performance measurement systems designed for specific public-sector organisations have gone almost unnoticed (Carnege and Wolfran, 1986; Guthrie, 1990; Parker, 1996; Parker and Guthrie, 1993, pp. 685; Remschiller and Potter, 1996). The suggested systems typically assert broad notions of performance and

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accountability, and require the collection of qualitative and quantitative data. These systems involve the assessment of performance and accountability against mission statements and published objectives of the organisation concerned rather than conventional accounting-based measures traditionally associated with profit-seeking entities in the commercial domain.

15. Prior to April 2003, CPA Australia was known as the ASCPA.

16. For example, recognition of cultural, heritage and scientific collections as assets has implications for the distribution of equity both within the current generation and between the current and future generations where current valuations are applied in recognising and depreciating these items (Aiken and Capsania, 1995, pp. 65-73; Aiken and McCrate, 1992, pp. 17-8, 125-6; p. 203; Corbett, in press; Lewis, 1992, p. 211; Ma and Mathews, 1992, p. 5, 1993, p. 83). Also, pursuant to the reforms, the management of non-profit cultural organisations might be held responsible for changes in the financial valuation of their stock of ‘assets’. Government-imposed charges or levies could then be introduced, and such organisations might be forced into de-acquisition strategies previously not contemplated and never imagined (Carnegie and Weinzier, 1996, p. 85, 1999, p. 19).

17. For example, Carnegie (2000) cited two asserted valuations for the Museum of Victoria collection that ranged from $217.8 million to ‘several billion dollars’. Carnegie also compared these valuations to that for the Australia Museum collection ($3.667 million), noting also that those collections are widely considered to be of a similar composition and size.

18. While financial accounting reports are primarily directed at serving the information needs of external users, the regulations also state that commercial accounting disclosures can assist the internal decisions and assessments of the organisations concerned.

19. This conclusion was consistent with the results reported in an earlier US survey relating to infrastructure whose respondents considered engineering-based information to be more useful than accounting-based information for matters pertaining to infrastructure management (Van Dantzig and Kravitz, 1996, Walter et al., 2000, p. 143).

20. Those promoting and defending the reforms have often asserted the need for the "education" of financial statement users. When it became clear that the usefulness of the information might be questioned and implementation issues were likely, accounting regulators were generally quick to attribute the apparent "problems" to lack of knowledge, inertia or both on the part of management and users (e.g. for example, see MacIntosh, 1992, p. 26; Barrett, 1994, p. 8; McCombe, 1994).

21. At the time of responding to Carnegie and Weinzier, Frank McCalla was a senior project Director, accounting, with the AARP and (Professor) Graham Peirson was with the Department of Accounting and Finance, Monash University, and a member of the FSASB, the board jointly responsible, along with AARP, for developing AAS 27 and AAS 29.

22. The McCalla and Peirson response prompted a further rejoinder from Carnegie and Weinzier (1999) where two additional questions were posed. (i) If collections are not things that necessarily have financial attributes, then on what demonstrable grounds – logical or empirical – can they be assigned a financial value in general-purpose financial reports of public arts institutions? (ii) For what present financial decision concerning collections would an incomplete list or aggregation of outdated and differently dated acquisition prices be useful or relevant? (Carnegie and Weinzier, 1999, pp. 17-19).

23. These techniques include the development of commercially-minded, market-oriented management systems and structures, the promotion of accrual-based financial reporting systems in government and reliance on professional accounting standards (Guthrie, 1998; Guthrie and Humphrey, 1996, pp. 284-5; Olsen et al., 1998, p. 10).

24. For further discussion of a range of structural and process variables found to impact upon the form and content of public-sector accounting innovation in different countries
throughout the world refer, for example to Adler and Haas (1990), Haas (1990), Hood (1991, 1995), Laughiin and Palloit (1998), and Lader (1992, 1994).

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The power of words:
explaining recent accounting reforms in the Australian public sector

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Abstract
This study explores the power of words and their usage in the context of recent reforms to accounting regulation for the Australian public sector. The broad framework for analysis advanced by Mills (1989) is applied. Mills argued that the discipline of accounting is peculiarly dependent on a specialised vocabulary or terminology, both in determining the nature and content of accounting regulation and practice and also in shaping the accounting domain. According to Mills, given such a close relationship between accounting and its vocabulary, the analysis of the use of key words in accounting during particular periods in history can assist our understanding of important events in the development of accounting thought and practice. It is argued that the definition and interpretation of the terms "accrual accounting" and "asset" were integral to the presentation of a form of accounting conventionally applied to private sector firms as the "solution" to perceived financial management problems in the Australian public sector. This study seeks to augment existing literature by adding to our understanding of the role of altruistic discourse in promoting and justifying changes to accounting practice.

Keywords: words; accrual accounting; asset; public sector accounting; Australian public sector.
Acknowledgements: The author acknowledges Garry Carnegie, George Dean, Robert Gibson, Stephen Walker, Greetje Wierse, participants at the first Accounting History International Conference, Melbourne, 4-6 August 1999, and the anonymous referees for their helpful comments on earlier drafts of this paper.

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Words strain:
Crack, and sometimes break under the burden;
Under the tension, slip, slide, perish;
Decay with impotence, will not stay in place;
Will not stay still.


Introduction

The study of words has occupied philosophers and grammarians for decades and more recently sociologists of knowledge, students of linguistics, ethnographers and other anthropologists. Researchers in these areas have come to recognize the need to understand language as a social institution, as a part of culture as well as to develop sensitivity to linguistic conversations (Burke, 1987, p.1). This "discursive" approach is underpinned by the notion that words and other signs, rather than acting as simple referents, actually serve to construct images or configurations of reality (Whorf, 1972, p.252; Pfeffer, 1981; Mills, 1989, p.22).

According to Burke (1987, p.2), recognition of the social role of language is not new, although examination of the role of language in depicting communities and defining social relationships is often regarded as belonging to sociolinguistics. In examining language in this manner, the researcher deals with the interaction between two aspects of human behaviour - the use of language and the social organisation of behaviour (Belkaoui, 1989, p.287). Researchers in this area generally depict language as a powerful force in society that can be used by individuals to mystify and control, as well as to justify, legitimize and defend actions (Pfeffer, 1981; Burke, 1987, pp.2, 13). Handlin summed up the situation as follows:

Words are often weapons ... Language in its primitive uses, is a mode of action as well as, or rather than, an instrument of reflection; it also controls behavior, mobilizing men and women into deeds (Handlin, 1979, p.177).

The need to understand words within the context in which they are used is particularly relevant to historians. History is a discipline that "treats utterances widely separated in time, space and tongue" (Handlin, 1979, p.166), and historical research has much to gain from the discovery of new materials and the new reading of materials already available (see also Whorf, 1972, p.247; Handlin, 1979, p.166; Hughes, 1982, p.245). To neglect the careful study of words and the environment in which they are used may mean that historians are prone to take for granted the meanings that other men and women at other times and places meant to convey by the use of familiar terms (Handlin, 1979, p.167). The historian needs to be aware that words change in meaning over time and part of the historian's purpose is to understand the senses in which they are used (Mills, 1989, p.22). In suggesting this, the inference is not so much that individuals deliberately set out to change the meaning of words. Rather, the meaning of words may change over time for many
reasons, including ignorance and inventiveness, particularly when used to serve a polemic or partisan purpose (Handlin, 1979, p.177; Kramer, 1993, p.53).

This paper reflects an awareness of the social dimension of language and explores the role of words and their usage in defining an episode of change in public sector accounting in Australia. It is maintained here that an appreciation of the role of words and their usage is essential to understanding the manner in which reforms to public sector financial accounting thought and practice have developed in recent years. The study offers an opportunity to probe the rationales provided for the recent reforms. It is not constrained by the view that accounting evolution is cognate with progress (Carnegie & Napier, 1996, pp.11-3).

For over two decades, the reform of public sector financial management and administration has been a priority of central government in Australia (Parker & Guthrie, 1993). Associated with these reforms is an array of accounting techniques which have several economic, social and political consequences and the potential to influence the management philosophies of the diversity of organisations concerned (Miller, 1994, p.2; Guthrie, 1998, p.1). Yet surprisingly, few of the reforms have been subject to sustained critical evaluation, with the literature instead dominated by non-critical, official-style accounts concerned with promoting and justifying the reforms concerned (ASCPA, 1987, 1991a & b, 1993, 1996; PAC, 1988, 1994, 1996; AARF, 1991, 1993; McPhee, 1992, 1994a & b; Rowles, 1992, 1993; WPA, 1992; Barrett, 1993, 1994; DoF, 1995; JCPA, 1995).

It is maintained throughout this study that exploring the power of words and their usage can enhance our understanding of the apparent failure to interrogate more deeply the accounting reforms in the Australian public sector (APS). The definition and interpretation of the terms accrual accounting and asset are examined in detail. These terms have been critical in determining the nature and content of accounting regulations developed for the APS. Yet these same terms were developed and applied in a way that encouraged little critical reflection or a full appreciation of several practical difficulties associated with their implementation. The result was the rapid development and vigorous promotion and defense of accounting regulations for the APS, during which time only certain questions were raised and certain issues considered.

The next section introduces the framework used in this study to explore the power of words and their usage. In the context of the general reform environment confronting the APS, the paper then probes the definition and interpretation of the terms accrual accounting and asset in the formulation of accounting regulations for public sector organisations. The final section contains concluding thoughts and suggestions for further research.
Method

The discipline of accounting is peculiarly dependent on a specialised vocabulary or terminology, both in determining the nature and content of accounting regulation and practice and also in shaping the accounting domain. Mills (1989) asserted that because of the close relationship between accounting and its vocabulary, the analysis of the use of key words during particular periods in history is crucial in understanding important events in the development of accounting thought and practice. Such examinations, particularly in relation to the development of accounting regulation, can elucidate the role of institutions, individuals and ideas in shaping accounting to the present day (Previts et al., 1990a, p.3, 1990b, p.140; Parker, 1994, p.81).

Mills (1989, p.25) proposed some general guidelines that can be applied when examining an “important” word. Some of the guidelines are reproduced below:

- What are the specific circumstances of the writer and his/her intended audience?
- In what context is his/her work and its individual components to be understood?
- What is the general sense of the word?
- Are there repeated patterns in the use or definition of the subject word?
- Are there any alterations in a standard pattern previously detected?
- Are there identifiable phases in the history of the word and, if so, what are they?

Nouns are the most tractable and rewarding elements of speech for this type of inquiry and deserving of the historian’s most careful attention (Handlin, 1979, p.69). For this type of analysis, Mills (1989, p.24) advocated careful, contextual examination of written material in order to draw out “patterns of ideas and events ... prevailing concepts, attitudes and other significant representations”. The emphasis is not on the origin of the word, but rather the development and application of the words concerned over time. This type of examination seeks to discover more than just the broad meaning of the text and reveals characteristics of the document’s author, its subject matter and of society (Mills, 1989, p.24). In this way, researchers are able to draw together history and critical theory (LaCapra, 1985, pp.19-20).

While accounting is often perceived as a language or, more specifically, the language of business, research into the development, application and consequences of accounting language is a relatively recent phenomenon. Several earlier works in this area emphasized potential difficulties with the use of technical language in accounting reports (Couchman, 1924, p.3; Porter and Fiske, 1935, p.197; Fitzgerald, 1936, p.133), while Goldberg (1956) identified the role of accountants in creating a language of their own. More recently, Belkaoui (1978, 1980, 1989)
emphasised the lexical distinctions and grammatical rules used in the preparation of accounting reports. Thornton (1988) explored the use of "metaphor" in accounting. Walton (1993) probed the meaning and significance of "true and fair". While Parker (1991) contrasted the application of particular terms in accounting and economics. There is also an emerging awareness that the use of words in accounting can be powerful, particularly in promoting and justifying changes to accounting practice (Nahapet, 1988, p.334; Hopwood, 1990; Carnegie & West, 1997, p.36; Potter, 1999).

Exploring the linguistic relativity characteristics of accounting in this instance offers insight into the strategy employed to marshal support for the application of existing accounting technology, located largely in the domain of the commercial world, in the APS. At a time when the Australian "state" had been widely criticised for, inter alia, inefficiency and inadequate accountability, the organised Australian accounting profession was able to present an apparent solution. Through the definition and interpretation of concepts of financial reporting articulated in its Conceptual Framework (CF) project, the Australian accounting profession established a link between accrual-based financial reports and enhanced accountability and resource allocation. According to Walker (1988, p.22), this link constituted a risky oversimplification of the possible consequences of applying accrual accounting technology in the APS, both for the organisations themselves, and for the users of their financial statements. Nevertheless, accrual accounting technology came to be widely advocated for application in the APS in a range of official-type publications, despite a lack of empirical evidence in support of its asserted benefits, and without exploring the nature, limits and consequences of its application for the organisations concerned, the users of their financial statements, or for society in general. Thus, sufficient impetus was created for the development of detailed accounting regulations to import accrual accounting technology into the APS, a domain where it had previously been absent. The result is an expanded application for accrual accounting technology, and literature pertaining to accounting regulation, research and education in Australia is now replete with references to concepts of financial reporting as articulated in the CF, with these concepts being directly applied in developing and defending accounting regulations relevant to the APS.

Central to the adoption of accrual-based financial reporting is the definition and recognition of assets. The way in which the asset definition was developed and applied in Australia is examined in the later part of this study. There was initial doubt as to the most appropriate asset definition for use in the APS, with the notion of assets developed by the Financial Accounting Standards Board (FASB) in its CF considered to be inappropriate for use in the APS (Sutcliffe, 1985). This presented a potential hurdle for the successful implementation of "full" accrual accounting, a hurdle eventually overcome by developing an asset definition for application in
Australia that was consistent with that put forward by the FASB. The definition and recognition criteria finally outlined in SAC 4 Definition and Recognition of Elements of Financial Statements captured several items not traditionally associated with the notion of “financial asset” (Satchiffe, 1985). This enabled accounting regulations to be developed and defended for the APS, particularly when such regulations became subject to considerable controversy in the context of not-for-profit public museums and, specifically, the monetary valuation of cultural, heritage and scientific collections for financial reporting purposes (Carnegie & Wolnizer, 1995, 1997, 1999; Micallef & Petison, 1997; Micallef, 1998).

**Background**

Australia is made up of six states and two federal territories, and has three levels of government – federal, state and local. Since the 1950s, various aspects of the Australian government expanded to such an extent that by the 1970s, the administration of the Australian “state” as a whole came to be widely criticised on several grounds. These criticisms coincided with the release of findings from several inquiries into the “operation of government”:

- 1973-1975 – Board of Inquiry into the Victorian Public Service (Chair: H. Bland) (Victoria);
- 1973-1975 – Committee of Inquiry into the Public Service of South Australia (Chair: D.C. Corbett) (South Australia);
- 1974-1976 – Royal Commission on Australian Government Administration (RCAGA) (Commonwealth);
- 1977 – Review of New South Wales Government Administration (Chair: P. Wilenski) (New South Wales);
- 1981 - Public Bodies Review Committee (PBRC – also referred to as the “Toche Ross Report”) (Victoria).

While a detailed review of the findings of these inquiries is beyond the scope of this study, several of the inquiries were critical of the state of government administration at the time. For example, in reviewing the submissions made to its inquiry, RCAGA (1976, p.18) noted that while many of the individual criticisms may have been exaggerated, there is no doubt that government service is “... excessively centralised, excessively hierarchical, excessively rigid and inflexible, and excessively resistant to organisational change”. RCAGA also identified the size of the government to be a barrier to effective control and accountability mechanisms, as did the PBRC. According to the PBRC, the creation of so many Public Bodies in Victoria meant that the effective management of these bodies was beyond the capacity of the Victorian Government (PBRC 1981, p.1). The Corbett Committee in South Australia was also critical of the size of
government, as was the Bland Board of Inquiry (Victoria), which called for a single, homogenous and integrated administration. Taken together, these reports came to a near identical definition of the "problems" facing the APS — "too big, complex, unaccountable and difficult to control using centralised management strategies" (Chua & Sinclair, 1994, p.677). While the solutions recommended by these inquiries largely depended on the nature of the problems identified, strategies of decentralisation and devolution were central to many of the suggested reforms. Associated with these strategies, several of the inquiries called for a reduction in the size of government, for clear, quantifiable objective statements to be prepared for departments and agencies, and also for an improvement in the flow of information both within government and for use by external parties.

In retrospect, a number of the recommendations of the inquiries were vaguely worded. This provided for flexibility in implementation, although at the same time allowing those concerned the opportunity to manipulate (or ignore) the intent of the recommendations. Action to implement many of these reforms gathered momentum shortly after, with the release of several government initiatives at both state and federal level (Cth, 1983; APSB/DoF, 1984; DoF, 1988; NSWG, 1989; HRSC, 1990). According to several authors, the nature and content of many of these initiatives demonstrated managerialist and economic rationalist philosophies (Pusey, 1991; Parker & Guthrie, 1993; Zifcak, 1994).

The broad findings of these inquiries created both opportunities and threats for the Australian accounting profession (Chua & Sinclair, 1994, p.688). On the one hand, opportunity existed to establish a substantial demand for professional accounting services in the APS, that was constantly, and perhaps unthinkingly, compared with the supposedly "more efficient" and "effective" private sector (JCPA, 1982, p.15; Willenski, 1988, pp.218-20; McPhee, 1992, p.9). During a period characterised by rhetoric alleging poor efficiency, accountability and financial transparency, the accounting profession set out to provide an "apparent" or "symbolic" solution, framed in such a way that the alternative seemingly amounted to a "refusal to give the public what it wants" (Edelman, 1977, p.146; Pfeffer, 1981, p.182). At the same time, if the profession was unable to get its "house in order", there was a risk that opportunities for an expanded jurisdiction in the potentially lucrative public sector would be lost and the profession's ability to regulate itself could be under threat. The following sections examine aspects of the accounting profession's response.

**Accrual accounting**

*When I use a word . . . it means just what I choose it to mean — neither more nor less.*

Humpty Dumpty, Through the Looking Glass
A review of early accounting literature reveals relatively few specific definitions of accrual accounting. Many authors have written on the subject of accrual accounting more recently and, almost without exception, accrual accounting is defined by comparison to the cash-based system of accounting:

... the consumption or accretion of a right which we need to record in economic statements, not the settlement of the claim in cash (Sprague, 1968, p.74);

... a refinement of method which makes possible a closer and more precise measurement of the real flow of economic resources rather than does the mere reporting of cash transactions (Vatter, 1950, p.60);

Accounting that takes into consideration income earned but not collected and expenses incurred but not paid (Vance, 1961, p.377);

... attempts to transfer the income and expense effect of cash receipts and disbursements, other transactions and other events from the year in which they arise to the year or years in which they more rationally relate (Bevis, 1965, p.95);

... attempts to record the financial effects on an enterprise of transactions and other events and circumstances that have cash consequences for the enterprise in the periods in which those transactions, events and circumstances occur rather than only in the periods in which cash is received or paid by the enterprise (FASB, 1978 para 44);

... the accounting basis where the assets, liabilities, equities, revenues and expenses are recognised in the periods to which they relate, regardless of whether cash is received or paid (AARF, 1995, para 8).

Implicit in the above definitions are assertions as to the superiority of accrual accounting when compared to accounting on a cash basis. The accrual-based system was understood to enable the “more timely” recording of revenues and expenses, independently of cash flows, providing users of financial reports with several assumed benefits. Yet there was no clear identification of the point(s) at which revenues and expenses must be recognised. Similarly, the benefits from the provision of accrual based reports for assessing the adaptability and solvency of public sector entities of all types at a stated date or the financial performance and accountability of these entities and their management during the reporting period remained largely unspecified, let alone evaluated. Taken together, this created an opportunity for the accounting profession to propose the adoption of accrual accounting in the APS, particularly since the incumbent system was cash-based.

Critical to the implementation of accrual accounting technology in the APS was the development of the CF project. SAC1 Objectives of Financial Reporting by Public Sector Entities (as originally released in 1985), required that APS organisations produce general purpose financial reports. SAC 1 was amended and
re-released (as SAC 2) in 1990, with no reference to "Public Sector Entities" in its new title. SAC 2 prescribed the preparation of general purpose financial reports with such reports defined in the following manner:

... a financial report intended to meet the information needs common to users who are unable to command the preparation of reports tailored so as to satisfy, specifically, all of their information needs (AARF/AASB, 1990a, para.5).

According to SAC 2, general purpose financial reports are intended to provide useful information, facilitate a more efficient allocation of resources and enable managements and governing bodies to discharge their accountability (paras.13-14). Under SAC 2, such benefits are assumed to flow to users of financial statements of entities in both public and private sectors, by providing information in respect of, *inter alia*, performance, financial position and financing and investing activities (para.28). This necessarily includes financial magnitudes for assets, liabilities, equity, revenues and expenses, and establishing financial concepts of abstract notions such as "performance" and "accountability" for both public and private sector organisations. Unless financial statement elements were recognised, at financial valuation, financial reports would not meet the SAC 2 objective(s) of financial reporting (see also Rowles, 1993, p.49). This effectively limited discussion and debate regarding public sector accounting reform to what is commonly referred to as "full" accrual accounting, just one of several possible forms of accrual accounting in existence.

The objectives of enhancing the efficiency and accountability of organisations, whether public or private is difficult to argue against, since the opposite are organisations that are "inefficient" and "unaccountable" and, in this sense, SAC 2 was carefully crafted. Such familiar terms might deliver the impression that a solution exists for a perceived problem. At the same time, plainly worded objectives such as these contain a range of inherent assumptions about the role and objectives of the organisations concerned and the information requirements of financial statement users (Whorf, 1972, p.244; Gower, 1973, pp.70-1). According to SAC 2, entities in both public and private sectors should report on efficiency, performance and accountability in financial terms. The result is to transform the task of enhancing the accountability and performance of APS organisations, from a complex one with social and political implications and consequences, to one that appears essentially technical and financial in nature (Gower & Legge, 1983, p.221; Aiken & McCrae, 1992, p.17; Carnegie & Napier, 1996, pp.25-7).

It is asserted throughout the CF that general purpose financial reports are to provide information that is, *inter alia*, relevant, reliable, understandable and comparable. Yet how these desirable though difficult to operationalise concepts are to be applied in the APS is not clearly specified. Instead, the concepts of financial reporting constructed in the CF seem almost taken for granted and are seldom
exposed to question, affording a power and validity to accounting in the APS which may be unjustified (Himes, 1989a, p.54; Guthrie, 1993, p.15).

Neither the words Accrual or Accrual Accounting are mentioned within SAC 2, although endorsement of the accrual basis of accounting is evident in the other elements of the CF. The link between accrual accounting and general purpose financial reports is formally mandated in AASB 1001 Accounting Policies (para.6.1). AASB 1001 requires disclosing entities to state that the reports that they prepare are general purpose financial reports and to explain why (if at all) the reports were not prepared according to accrual accounting tenets. AASB 1001 effectively provided legislative backing for the preparation of general purpose financial reports according to accrual principles, notwithstanding the loss of mandatory status of the Australian CF statements in 1993. With the asserted link between accrual reports, enhanced accountability and improved resource allocation now formally endorsed, the advent of accrual accounting technology in the APS could begin.

In December 1990, AAS 27 Financial Reporting by Local Governments was released and this was followed by AAS 29 Financial Reporting by Government Departments (1993). These standards constituted the first two pronouncements to be applied by professional accountants in Australia in this area and required the preparation of financial reports for local governments and departments according to accrual principles. It should be noted that neither AAS 27 nor AAS 29 are directly binding on government departments or agencies. The form and content of financial reports required of these entities is ultimately determined by the Commonwealth Department of Finance (DoF), and found in the DoF guidelines that have been released annually since 1983. In 1991-1992 these guidelines were amended to incorporate the concepts of financial reporting outlined in the CF, and required Commonwealth Government departments to move toward accrual reporting from 1993 (McPhee, 1992, p.10). This meant that the abstract rhetoric constructed in the CF became formally endorsed for all Commonwealth departments and this constituted the achievement of a long-standing goal of the accounting profession in general, and the Public Sector Accounting Standards Board (PSASB) in particular.

What followed was a co-ordinated effort by the DoF, State and Territory Treasuries, Australian National Audit Office, Joint Committee of Public Accounts, the AARF, and the ASCPA to establish, justify and defend the credibility of accrual accounting technology in the APS (Barrett, 1993, p.23). These bodies and their officers have for some time co-operated in the development of accounting regulation for public sector entities (McPhee, 1992, p.18; Barrett, 1993, p.18; Carter, 1994, p.2), and are largely responsible for facilitating the implementation of accrual accounting technology in the APS, primarily through the application of the financial reporting concepts articulated in the CF. The asserted benefits of accrual
reporting outlined in the CF were frequently recited in a wide range of publications and the perceived financial management deficiencies of the Australian “state” often associated with the use of the supposedly “inappropriate” cash system (Mackintosh, 1992, pp.27-9; McPhee, 1992, pp.11-2, 1994a, p.2; ASCPA, 1993, p.3; Meller, 1994, p.19). During this time, little effort was made to probe the broad and permissive nature of “accrual accounting” which, according to Walker (1988, p.22-5), may include a wide range of techniques, potentially giving rise to different financial results. Several authors recognised potential implementation difficulties associated with the planned reforms, but were generally able to recommend ways these hurdles could be overcome to realise the full benefit of the “new” technology. Appendix 1 contains references to several official style publications during the period 1986-1995 that attempted to promote and justify accrual accounting technology in the APS and provides some indication of the manner in which accrual accounting technology was generally depicted.

Commitment to the abstract concepts of financial reporting constructed in the CF also resulted in frequent re-labelling of accrual accounting as “Full Financial Accounting”, “Comprehensive Accounting”, and “Comprehensive Accounting Budgeting and Resource Accounting” (NSWG, 1992-1993; Mackintosh, 1992, p.2; OECD, 1993, p.8; Barrett, 1993, p.5; ICPA, 1995, p.65; Scullion, 1995). Whether such instances indicate a degree of confusion or a deliberate acknowledgement of the power of words and their usage is not clear. There is some evidence to suggest that the latter might be the case, since Mackintosh (1992, p.17) used the term “Full Financial Accounting”, largely because such a term is “… harder to argue against, as the variant is partial financial accounting.”

Over the past decade, a clear picture of accrual accounting as the means of quantifying, in financial terms, the “accountability” and “efficiency” of APS organisations has emerged. This picture was constructed through the application of the content of the CF, and was based largely on the asserted benefits of accrual information for both the entity concerned and the users of the financial reports. Yet throughout this unabashed advocacy of accounting reform in the APS, there seems a general lack of understanding of the nature of many public sector organisations. Carnegie and Wolnizer (1996, p.86) argue that those advocating the adoption of unmodified commercial accounting across all entities in the public sector have not fully grasped the complex environment within which these entities operate (see also Guthrie, 1993; Ma & Matthews, 1993, p.86; Guthrie & Parker, 1996, p.18). Many public sector organisations such as not-for-profit museums, libraries and archive centres are not formed for commercial purposes nor operated by adherence to commercially-oriented goals of income generation, wealth creation or profitability (Carnegie & Wolnizer, 1995, p.37). To assert that performance and accountability for such entities can be adequately measured and appropriately portrayed through the provision of accrual-based financial reports suggests notions of performance
and accountability that are too narrow (Carnegie & Wolnizer, 1996, p.86; Rentschler & Potter, 1996, p.101). Accountability for such organisations generally lies outside the "market" (Carnegie & Wolnizer, 1995, p.84). Notwithstanding, traditional notions of accountability for these organisations have been "hijacked" by accountants (Rentschler & Potter, 1996, p.110).

Curiously, the implementation of accrual accounting technology in the APS has also proceeded with little reference to empirical research conducted in recent years. Little research was conducted on the potential benefits of this information for management and other users or on the costs of implementation prior to the drafting of accounting regulations in this area (AARP, 1985; Walker, 1988; JCMA, 1995, p.80). Where such research has since been conducted, the results indicate many public sector organisations such as government departments, agencies and authorities are not adequately equipped to implement a fully integrated accrual management system. For example, several studies identify a range of specific issues that would need to be addressed before accrual accounting technology could be successfully implemented. These issues include a shortage of suitably qualified staff, low commitment by senior officers toward using accrual accounting information in day to day decision making, and the belief that the benefits of accrual accounting for managers and users are problematic (ANA, 1994, 1995; Jones and Puglisi, 1997; Mollard & Bellamy, 1997; Rowles et al., 1998). These results have been either dismissed or ignored, whilst they are often attributed to the "lack of knowledge", "misconceptions" or the "inertia" of respondents (Mackintosh, 1992, p.29; Barrett, 1994, p.3; McPhee, 1994a, p.7; Rowles et al., 1998).

Asset

The generally accepted definition of "assets" impacts directly on what is to be recognised, measured and reported in an entity's balance sheet (Samuelson, 1996, p.147). Many definitions have been put forward for assets, with definitions generally possessing the following characteristics:

- Identification of a future benefit characteristic;
- Identification of a cost sacrifice;
- Specification of the connection with a specific entity;
- Specification of a time dimension;
- Delineation in terms of accounting process.

(Belkaoui & Jones, 1997, p.474)

That assets are "things" that are owned or controlled and can afford the entity concerned with future economic benefit, generally in the form of cash flows, is nothing new and is evident in early definitions. For example, Lisle (1899, p.67) defined assets as "... property or rights belonging to a business which have money value", while Paton (1949, p.15) perceived assets as "... any factor, tangible or
otherwise, owned by a specific enterprise and having economic significance" (see also Goldberg & Hill, 1958, p.17).

The notion of future economic benefits was also evident in the work of Sprague (1908, p.36) who defined assets as "... material things now in possession and ... material things which shall be in possession" (see also Paton, 1922, Canning, 1929, Sanders et al., 1938). Some writers have also included exchangeability in their asset definition. For example, MacNeal (1939, p.200) argued that "the best indication of the economic value of an asset is its price in an acceptable market". Chambers (1966, 1967) also emphasised the exchangeability and severability of assets, arguing that "current cash equivalent" is the most appropriate and informative indication of net worth (1967, p.8). According to Chambers "current cash equivalent" is comparable, both between periods and between entities (p.36), relevant for business decisions, (p.64), and able to be independently authenticated (p.149, see also Wolnizer 1987, pp.58, 84).

As a part of its CF, the FASB outlined the following definition of assets:

... probable future economic benefits obtained or controlled by a particular entity as a result of past transactions or events (SFAC 3, para.19).

According to SFAC 3 the common characteristic possessed by all assets is service potential or future economic benefit which, in the case of business enterprises, was asserted to eventually result in net cash inflows (para.22).

In 1985, SFAC 6 Elements of Financial Statements replaced SFAC 3 and in doing so signaled a broader stance taken by regulators. The link between future economic benefits or service potential and cash flows that was so evident in SFAC 3 was not specified, with the new concepts statement indicating that such a relationship may often be indirect in both business enterprises and not-for-profit organisations (para.28).

In 1985, the AARF released Accounting Theory Monograph No.5 entitled Financial Reporting in the Public Sector - A Framework for Analysis and Identification of Issues (Monograph 5). This monograph sought to explore "conceptual matters" worthy of detailed investigation and, by 1987, the AARF asserted that it had the answers (Walker, 1989, p.9). According to Monograph 5, the appropriateness of the FASB definition of assets (emphasising future economic benefits) for application in the public sector environment was "not clear" (Sutcliffe, 1985, p.30). The extracts below indicate the arguments put forward in the monograph:

... many public sector "assets" such as parks or memorials, are anticipated to generate negative cash flows over their life. Their economic benefit to the entity is therefore questionable ...;

The extent to which public sector entities control "assets" and receive benefits from them is equally questionable. Many public sector entities use "assets" which are subject to legislative or ministerial restrictions or are held in trust for
the community. The ability of the entity to freely use these "assets", control access to services provided by them and receive any resultant benefits may well be limited in the public sector.

The definition and recognition of assets in relation to government departments and agencies represented a challenge to the successful implementation of full accrual accounting technology in the APS (Mackintosh, 1992; McHugh, 1993, p.166; Wallace, 1994, pp.13-4). However, the challenge lay not in examining items held by APS organisations in the public domain in light of the conventional understanding of the notion of financial assets, but in developing an asset definition and recognition criteria that were sufficiently broad enough to encompass items held in the public domain.

In 1987, the PSASB and the Accounting Standards Board of the AARF produced a series of exposure drafts to form the basis of the CF for financial reporting in the public and private sectors. While it is beyond the scope of this study to examine the contents of these exposure drafts in detail, ED 42C Definition and Recognition of Assets is of particular interest. Consistent with SFAC 3 and SFAC 6, ED 42C (para.7) contained the following asset definition:

... service potential or future economic benefit controlled by the reporting entity as a result of past transactions or other past events.

ED 42C echoed the broader stance taken by the FASB, with neither "future economic benefit" or "service potential" necessarily dependent on underlying cash flows. The following extracts elucidate the explanation given in ED 42C to support the asset definition and the concepts of "future economic benefit" and "service potential":

... assets provide a means for reporting entities to achieve their missions or objectives ... (para.11);

In non-business entities, including both government non-business entities and not-for-profit entities in the private sector, the service potential or future economic benefit is also used to provide goods and services in accordance with the entities' objectives. However, since the entities do not pursue profit objectives, the provision of goods and services may not directly result in net cash inflows ... (para.13);

The fact that entities do not charge or do not fully charge their beneficiaries or customers for the goods and services they provide, does not deprive those outputs of utility or value; nor does it preclude the entities from benefiting from the assets used to provide the goods and services. For example, assets such as monuments, museums, cathedrals and historical treasures provide needed or desired services to beneficiaries, typically at little or no cost to the beneficiaries. These assets benefit the reporting entities by enabling them to meet their objectives of providing the needed services to beneficiaries (para.14);
The service potential or future economic benefit can be distinguished from the source of the benefit—a particular object or right. The proposed definition refers to the benefit and not the source ... (para.16).

The asset definition and the interpretation of that definition as outlined in ED 42C, and subsequently adopted in SAC 4 Definition and Recognition of the Elements of Financial Statements, effectively divorced the notion of future economic benefit/service potential from cash flows and this effectively meant that part of the difficulty identified in Monograph 5 had been addressed. Many items in the public domain such as cultural, heritage and scientific collections and other community resources would then be recognised as assets in accrual-based financial reports.

Applying ED 42C, items were required to be recognised as assets (at financial valuation) if they could assist the entity to meet its objectives, notwithstanding these items may not be readily exchangeable or may not generate cash flows (AARF, 1987a, para.14). It is contestable whether the recognition of such items would inform assessments of the financial structure, solvency and adaptive capacity of an entity, as is required of information disclosed in general purpose financial reports (AARF, 1990a, para.32). Where the objectives or missions of the entities concerned do not express a commercial orientation, the justification offered for the quantification of such items seems particularly problematic (Carnegie & Wolnizer, 1993, p.38).

ED 42C acknowledged that while possession or ownership of an object or right would normally be synonymous with control, this is not essential. According to ED 42C, items are required to be recognised as assets, depending upon the ability of the entity to benefit from the asset and deny or regulate access of other entities to that benefit. Consider these extracts from ED 42C in relation to control:

The capacity of an entity to control the service potential or future economic benefits would normally stem from legal rights and may be evidenced by deeds, possession or other sanctions and devices that protect the entity’s interests. However, legal enforceability of a right is not a prerequisite to the establishment of control over service potential or future economic benefit ... (para.18);

Possession or ownership of an object or right would normally be synonymous with control over service potential or future economic benefit ... (however these are not essential asset characteristics (para.19);

... inclusion in the definition of assets of a control test rather than a legal enforceability test means the definition is less rigid ... (para.21).

Since many items in the public domain are not legally owned by the presiding government department or agency, excluding “ownership” from the asset definition meant that another potential hurdle for the successful implementation of “full” accrual accounting in the APS was removed (Wallace, 1994, pp.13-4).
Efforts to develop a broad notion of assets under ED 42C, seemingly to capture particular items in the public domain, prompts a re-examination of the nature and purpose of providing a definition at all. See below for extracts of the Webster’s New International Dictionary (1924, pp.585-6) entry for the term “definition”:

A description of a thing by its properties, or of a conception of its attributes; a brief explanation of the meaning of a word or term, such an account as intelligibly relates the idea defined to analogous or related ideas. Formally, a definition consists of a statement of the class in which the subject of a definition is included, and an enumeration of the differentiae, or specific marks or traits, which distinguish it from other members of the same class. A definition is adequate or exact when the differentiae make certain the identification of the object intended. (emphasis in original)

Evident in the above is the discriminatory potential of an adequate definition – the ability to identify an object by its attributes or traits. Yet, it seems that the ED 42C asset definition exhibits little discriminatory potential and as a result, the ability of the definition to suit its intended purpose, that is, to assist in deciding what is, and is not an asset, seems problematic. One wonders if this type of instance was what Cohen (1932, p.35) had in mind commenting that “the tendency to make a term cover everything, prevents it from denoting anything definite”. Despite this, the ED 42C definition of assets was interpreted in a fashion to provide unyielding support to the development, promotion and defence of accrual accounting technology in the APS.

The ED 42C asset definition was adopted in SAC 418 and also AAS 27. AAS 27 advocated the preparation of accrual-based financial reports for local governments, specifically requiring the recognition of items of infrastructure such as buildings, monuments, roads, land under roads and bridges as assets (AARF 1991). In the AARF Discussion Paper No.17 entitled Financial Reporting of Infrastructure and Heritage Assets by Public Sector Entities, Rowles (1992, p.49) endorsed the stance taken by AAS 27 by asserting that infrastructure and heritage items did meet the definition and recognition criteria for assets as outlined in SAC 4 and should be recognised in general purpose financial reports. Shortly after the release of AAS 27, AARF released AAS 29 which recommended the application of all concepts statements in the CF, specifically mentioning heritage items which were not previously specified as a separate class of assets in AAS 27. This effectively meant that not-for-profit public arts organisations such as museums, art galleries and archive centres were now required to produce accrual-based financial reports for the first time.
Conclusion

As demonstrated throughout this study, a form of accounting commonly associated with profit seeking entities came to be linked, by means of the CP, with calls for enhanced resource allocation and improved accountability of public sector organisations and their management. The implementation of accrual accounting technology in the APS has subsequently proceeded largely without sustained critical examination, with such reforms being widely perceived as inevitable (Barrett, 1993, p.1; OECD, 1993; McPhee, 1994b; JCPA, 1995). In placing certain kinds of language beyond question, we allow ourselves to “think what we say, rather than say what we think” (Kramer, 1993, p.53), and this appears to have occurred with the definition and interpretation of the terms accrual accounting and asset. As a consequence, accounting reforms were developed for the APS in a programmed and limited fashion. Many issues and problems in relation to the reforms were not directly addressed, and the ability of accrual information to quantify the performance and accountability of public sector entities and their management seemingly remains beyond question. The implications of these changes for the organisations concerned and for society have also yet to be fully highlighted, let alone evaluated.

It is contestable whether accrual accounting reforms could have impacted accounting regulation in the APS without the accompanying language used to define, promote and justify them. The construction and application of key terms enabled the organised accounting profession in Australia to promote accrual accounting technology in the APS. Amid calls for a more efficient and accountable Australian “state”, the accounting profession produced an apparent solution in a way that was seemingly consistent with prevailing economic rationalist values (Pfeffer, 1981, p.188; Rowles, 1993, p.62). Faced with potential hurdles to the successful implementation of this solution, an abstract and vague definition of assets was formulated and applied that was broad enough to include almost “anything and everything” (Schuetze, 1993, p.68), thereby maintaining the momentum and direction of the reforms.

From this study, several avenues for further research arise. First, it is worthy to consider how the belief in accrual accounting as the “appropriate” solution to the perceived problems of financial management arose among those responsible for determining the nature and content of financial statements for government departments and agencies. Recall that neither the CP, nor AAS 27 or AAS 29 are directly binding on government, yet references to the content of these regulations pervade recent DoF guidelines. Such a belief does not arise in the absence of influential variables, and is necessarily a product of the forces affecting the thinking of those with the power to bring about change (Laughlin & Pallot, 1998, p.384). Hence, interested researchers might probe the relations between the institutions,
groups and individuals involved in developing accounting regulations for the APS to explain how and why important words arise and are applied.

Careful examination of keywords in accounting can illuminate the context in which they are used and offers insight into, *inter alia*, the role of words and their usage in driving accounting change. In the context of recent changes to public sector financial management in Australia and overseas, "accrual accounting" and "asset" are just two terms that might be examined. Concepts such as "performance", "efficiency" are often used to drive, justify and defend the changes occurring, and the way in which these terms arise and are applied also deserves careful attention. At the same time, such studies should not be limited to accounting for public sector organisations, with many fruitful avenues for further inquiry relating to changes in private sector accounting philosophies and practices.

Significant financial accounting reforms have been thrust upon the APS in recent years, guided by a socially-desirable rhetoric or language which includes the pursuit of efficiency and greater accountability. Yet surprisingly little is known about aspects of the reform process, such as the manner in which specific reforms were developed, promoted and justified, or the consequences associated with these developments. This paper has attempted to add to our understanding of the dynamics of accounting reforms by exploring the power of words and their usage in developing, justifying and promoting changes to accounting regulation and practice. It is hoped that further studies will follow, to assist in developing a more comprehensive understanding of the reform process, particularly the role of words in shaping the nature and extent of the jurisdiction of accounting.

**Notes**

2. Mills does not suggest what makes a particular word "important". Underlying this study is the notion that the importance of a word depends upon its definition, interpretation, application and the associated consequences.
3. The principle of linguistic relativity is based on the notion that language is an active determinant of thought (Belknap 1989, p.283). Belknap argued that much research into accounting as language has ignored linguistic relativity, focusing only on the connotative meaning of accounting constructs.
4. The organised accounting profession in Australia comprises members of the Institute of Chartered Accountants in Australia (ICAA) and the Australian Society of Certified Practising Accountants (ASCPA), and is jointly governed by these bodies. Both bodies provide ethical, technical and educational guidance for members and reserve the right to impose penalties on members for
breaches, both ethical and technical in nature. In 1966, these bodies jointly funded the formation of the Australian Accounting Research Foundation (AARF), a body with a primary responsibility for developing financial accounting regulations for the Australian accounting profession.

5. Government Business Entities and statutory authorities in Australia have been required to prepare financial reports according to accrual principles since the mid 1980s, such that the relevance of the information produced to the entities concerned is "no longer regarded as contentious" (Carter, 1994, p.1). The requirement that such information be prepared for government departments and agencies in Australia is a more recent and potentially contentious initiative, with Commonwealth Departments first required to move toward accrual reporting in 1993 (OECD, 1993, p.9; Wallace, 1994, p.2).

6. Several different “forms” of accrual accounting are said to exist, distinguished largely by different conceptualisations of financial statement elements such as assets and liabilities (Walker, 1988, pp.22-3). In the context of financial accounting reforms in the APS, discussion/debate has centred almost exclusively on what is commonly known as “full” accrual accounting, a form of accrual accounting denoted mainly by the requirement for full disclosure, at financial valuation, of all assets and liabilities pertaining to the entity.

7. Substantial criticism had previously been leveled at the FASB definition for assets. For example, Schuetze (1993, p.68) argued the definition was “complex”, “open-ended” and “all inclusive”, with little discriminatory potential. Interestingly, a definition similar to that developed by the FASB was subsequently developed and applied in the APS.

8. While the appropriateness of these conclusions is beyond the scope here, Zifcak (1994, p.19) asserts that many of the criticisms leveled at the Australia state were “ill informed and ideologically motivated”.

9. In The System of Professions, Abbott (1988) used the term “jurisdiction” to describe the domain, recognised by society, within which a profession can claim exclusive rights. These rights might include the absolute monopoly of practice and of public payment, rights of self-discipline and unconstrained employment and control of professional training, recruitment and licensing (p.59). According to Abbott, a profession’s ability to seize and defend jurisdiction will largely determine the likelihood that it will remain in existence. In the Australian context, it is well documented that early regulatory output from the ASCPA/ICAA funded AARF was criticised for being low, largely due to limited available resources (Chua & Sinclair 1994, p.680). Perhaps as a result, although there seemed to be general recognition of the need for accounting reform in the APS, the precise nature of the reforms required, and
the role of the AARF in the reform process was, in the initial stages, by no means certain (JCPA, 1982, p.13).

10. In this study, the term “accrual accounting” is used in a general sense to include those financial records and statements prepared according to accrual principles.

11. Hines (1989b, p.86) argued that CFs in accounting often represent “strategic resources” or “tactics” used in professionalising activities. According to Hines, CFs are more likely to be undertaken in countries where the organised accounting profession perceives a threat to its legitimacy, intervention by government or competition.

12. For example, SAC 4 requires the recognition of financial statement elements based on probability and reliable measurement rather than the exchange of cash.

13. AASB standards must be followed by most entities preparing financial reports in Australia (under s.296, Australian Corporations Legislation), with substantial penalties prescribed for non-compliance.

14. Until this time, such entities were not required to produce general purpose financial reports of the kind specified in the CF, nor were they required to recognise, at financial valuation, their holdings of cultural and heritage collections or other community resources.

15. The authority for these guidelines is established by section 25 of the Public Service Act 1922.

16. The PSASB was established in 1983 with the primary responsibility of developing accounting standards for public sector entities in Australia. Carpenter, a long-time member of the PSASB, commented in 1987 that the PSASB recognised it could never set accounting standards that were directly enforceable against governments or government departments. Carpenter added that the PSASB hoped that future accounting standards (set by the PSASB) could one day become authoritative throughout the public sector (ASCPA, 1987).

17. The words “service potential” were removed from the SAC 4 asset definition on the reissue of the concepts statement in March 1995.

18. Issued in 1992, SAC 4 was the culmination of five exposure drafts: ED 42C; ED 42D Definition and Recognition of Liabilities (AARF 1987b); ED 46B Definition and Recognition of Expenses (AARF 1988); ED 51A Definition of Equity (AARF 1990b); ED 51B Definition and Recognition of Revenues (AARF 1990c).
## Appendix 1

**Promoting and Justifying Accrual Accounting in the APS**

<table>
<thead>
<tr>
<th>Author</th>
<th>Stated Purpose</th>
<th>Asserted System</th>
<th>Justification</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carpenter (1986) (COT Government)</td>
<td>• address issues and policy implications associated with the adoption of accrual accounting (p.3)</td>
<td>both cash and accrual accounting (p.3)</td>
<td>• enhanced economic decision making and accountability (p.10)</td>
</tr>
<tr>
<td>Mackintosh (DoF) (1992)</td>
<td>• (inter alia) discuss the usefulness of accrual accounting techniques in budgeting and monitoring (p.11)</td>
<td>accrual accounting (p.30)</td>
<td>• provision of &quot;true cost&quot; of public services, enhanced identification, control and management of economic resources (p.27-29)</td>
</tr>
<tr>
<td>McPhile (1993) (DoF)</td>
<td>• speak on developments and priorities in Commonwealth Govt. accounting (p.2)</td>
<td>accrual accounting (p.10)</td>
<td>• superior to current system (p.27-29).</td>
</tr>
<tr>
<td>McPhile (1994a) (DoF)</td>
<td>• (inter alia) underlines the importance of accrual accounting for public administration (p.1)</td>
<td>accrual accounting (p.1)</td>
<td>• improved accountability and effectiveness of management (p.29).</td>
</tr>
<tr>
<td>ASCPA (1993)</td>
<td>• examine financial reporting in the APS (p.3)</td>
<td>accrual accounting (p.4)</td>
<td>• superior to current system (p.11-12).</td>
</tr>
<tr>
<td>Barrett (1993) (DoF)</td>
<td>• align accrual accounting with recent government initiatives (p.28)</td>
<td>accrual accounting (p.4-5)</td>
<td>• superior to current system (p.27).</td>
</tr>
<tr>
<td>Barrett (1994) (DoF)</td>
<td>• overview of progress toward implementing accrual reporting (accounting) (p.23)</td>
<td>accrual accounting (p.3)</td>
<td>• improved efficiency, resource allocation (p.12).</td>
</tr>
<tr>
<td>Meller (1994) (NSWD Treasury)</td>
<td>• discuss recent development in financial management reforms in New South Wales (p.15)</td>
<td>accrual accounting (p.15-16)</td>
<td>• enhanced assessment of financial performance, position and accountability (p.6).</td>
</tr>
<tr>
<td>Crost (1994) (DoF)</td>
<td>• discuss the relevancy of accrual accounting to budget dependent government bodies (p.1)</td>
<td>accrual accounting (p.1)</td>
<td>• enhanced management decision making and the assessment of performance and position (p.18-20).</td>
</tr>
<tr>
<td>DoF (1995)</td>
<td>• explain accrual concepts and how to use accrual financial statements (foreword).</td>
<td>accrual accounting (p.4)</td>
<td>• in line with recent government initiatives (p.2).</td>
</tr>
</tbody>
</table>

**Notes**

- Each publication made reference to accounting regulations such as ED55, AAS 27 & 29 and the CP in justifying the application of accrual accounting.
- Each publication acknowledged difficulties that must be overcome to realize the full benefit associated with accrual accounting.
- Carpenter, Mackintosh, Barrett and Meller have, at various times, served on the PSAB.
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