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Budgetary Accounting in National Governments: Anglo *versus* American Accounting

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Abstract: This paper offers an understanding of the US federal budgeting and accounting system, in context. The system is unique among the major Anglophone countries, in being both cash-based and obligation-based, thereby providing what can be termed a polar opposite case to an accrual-based system, the technicalities of which the paper explains. The paper uses, as a comparator, the UK government's cash-based and accrual-based system, also in context. This shows that the US system is primarily a system of control by the legislature, whereas the UK's is primarily one of control by the executive. The paper analyses the long history of institutions of the US federal government defending the obligation basis in the face of accrual-based assaults; the obligation basis has remained resilient.

Keywords: budgetary accounting, national governments, legislative control, executive control, accrual basis, obligation basis, Anglo-American accounting

INTRODUCTION

The purpose of this paper is to offer an understanding of US federal budgeting and accounting technique, in context, using the UK government's system as

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a comparator. The accounting literature rarely discusses US federal budgeting and accounting technique. The system is unique among the major Anglophone countries in that, although it is of course cash-based, it is also obligation-based. It can be said to be the polar opposite of an accrual-based budgeting and accounting system. Given that so much of the global debate since the 1980s has been about accrual bases, it is important to understand the US federal government system. And since the UK government's system currently provides a definitive example of accrual-based budgeting and accounting, that system is used here as a natural comparator.

The technical differences between the US and UK systems naturally buttress and reflect fundamental differences in the two governments themselves, given that public money and politics are inseparable. The next section of this paper explains the constitutional and legal relationships between the US government and its budgetary accounting system, using the same relationships in the UK as a comparator. This makes clear that the US system is primarily a system of control by the legislature, whereas the UK system is primarily one of control by the executive.

The third section explains the essence of the US federal government's obligation-based budgeting, contrasted with accrual budgeting. Focusing on the technical accounting differences, it uses the definitive example of a depreciable capital asset. Institutions of the US federal government have a long history of responding to accrual accounting assaults on obligation-based budgeting, often in the context of this definitive example. This section rehearses the essential positions taken by the main agencies over the decades, and shows the resilience of the obligation basis.

The fourth section focuses on the marked increase in the influence of accrual accounting in the US federal government since 1990, which can properly be termed Anglo-American[1] private sector accrual-based influence, when the law required audited accrual-based financial statements and when an accrual-based-accounting standard-setter was established. This section also discusses a chronic accounting problem of national governments, namely that of social security benefits, to locate more specifically the extent, and in particular the limits, of this influence in the US federal government.

In the conclusions, the paper identifies an important, wider consequence for our understanding of budgeting and accounting in national governments. The accounting literature in English, relating to governments whose first language is English, has dominated discussion of accrual accounting. One consequence is that the term 'budgetary accounting' is less familiar in that literature. This lack of familiarity is only because of the dearth of references to the US federal government's system.

LEGISLATIVE CONTROL IN THE US VERSUS EXECUTIVE CONTROL IN THE UK

Control of government money is at the heart of government itself. The constitution in the US and statute law in the UK required, and still requires, all cash payments by the executive to have the explicit authority of the legislature. The two extant budgetary accounting systems emphasise the control of cash.

Both systems are providing the same fundamental protection, through the elected politicians in the legislature, to the public – at bottom as a protection against arbitrary taxation and spending of the executive. However, the way that these legal requirements are implemented in the two governments is fundamentally different: the definitions of, and relations between, the legislature and the executive (and judiciary) are different. Moreover, the legal requirements of budgetary accounting were conceived before budgets as we know them were (in terms of the size and influence of budgets, and of their technical appearance) and in each case, the cash-based budgetary accounting system has subsequently been supplemented by a fundamentally different budgetary accounting system: in the US case, an obligation basis was added; in the UK case, an accrual basis.

US Federal Government

The US constitution (Article I, Section 9) states:

> No Money shall be drawn from the Treasury, but in Consequence of Appropriations made by Law; and a regular Statement and Account of the Receipts and Expenditures of all public Money shall be published from time to time.

The US federal government is characterised, also by the constitution, as a separation of powers, between the legislature and the executive (and the judiciary).[2] And in US governmental practice, what is crucial to budgetary accounting about the separation of powers is that the budget is a legislative control: the budgetary accounting belongs to the legislature.

In the US, within the legislature and within the executive, powers are also separate: to take the most obvious example here, there is no single agency that is equivalent to a Ministry of Finance. The main agencies in the debates about the budgetary accounting system[3] are:

- the Treasury (of the executive), which is the central agency for collecting receipts and making payments, and maintains the government-wide bookkeeping system. It maintains the Standard General Ledger (Treasury, 2009), which includes a uniform chart of accounts for use across the government. This Standard General Ledger includes so-called ‘crosswalks’ between the ledger and specific aspects of accounting against the budget and financial reporting. It also maintains a government-wide database: the Governmentwide Financial Report System (Treasury, 2006);

- the Office of Management and Budget (OMB, of the executive), which oversees the implementation of the budget once authorised by the legislature (Schick, 2007, p. 100). The two main instruments of this are *Circular A-11: Preparation, Submission, and Execution of the Budget* (OMB, 2010), focusing mainly on the budget itself, and *Circular A-136: Financial Reporting Requirements* (OMB, 2009), focusing mainly on the departments’ and the government-wide financial statements. Both Circulars include regulations about the reconciliation of obligation-based, cash-based budgets with accrual-based financial statements. OMB also has a cash management role in budgeting in that it releases authority for the departments to enter into obligations in the so-called 'apportionments' at stages (usually quarters) during the fiscal year;

- the Congressional Budget Office (CBO, of the legislature), which is primarily concerned with making budget projections and scoring the budget implications of legislation (Schick, 2007, pp. 132–5). CBO was established in 1974. As Schick (2007, pp. 132–3) puts it, 'CBO has secured a niche as an objective, skilled, and relevant producer of budgetary information and policy analysis. Its estimates have become influential, sometimes decisive, elements of policy debate, and the periodic appointment of a new director has become one of the important actions taken by congressional leaders. The main reason for CBO's rise is the prominence accorded scoring – measuring the budgetary impact of new legislation and other policy changes';
- the Government Accountability Office (GAO, of the legislature), which is the supreme audit institution. It began in 1921, as the General Accounting Office, and as it was transformed into the audit institution it is today, it retained some responsibility for accounting.[4]

Of these, the OMB, which is the body with the responsibility to execute the legislature's budgetary accounting system, is the most vocal defender of the extant system. *The budget system and concepts* (OMB, 2007, pp. 375–96) states:

> The budget system of the United States Government provides the means for the President and Congress to decide how much money to spend, what to spend it on, and how to raise the money they have decided to spend (OMB, 2007, p. 377).

However:

> Congress considers the President's budget proposals and approves, modifies, or disapproves them. It can change funding levels, eliminate programs, or add programs not requested by the President. It can add or eliminate taxes and other sources of receipts, or make other changes that affect the amount of receipts collected (OMB, 2007, p. 378).

One of the most striking, and continually troubling, aspects of these powers of the legislature is the prevalence of what formal language knows as 'earmarks', informally as 'pork barrel' (Schick, 2007, pp. 244–9). These refer to a budget for a project that is so local as to invite the criticism that the local benefits are far outweighed by the national costs. Such a budget is added on to unrelated legislation by the representative legislator from that locality, and the complete package is approved by the legislature in return for that legislator's support of the unrelated legislation.[5]

Crucial, routine parts of the US government cannot function without budget authority from the legislature:

> In some cases, the President has rejected continuing resolutions because they contained unacceptable provisions. Left without funds, Government agencies were required by law to shut down operations – with exceptions for some activities – until Congress passed a continuing resolution the President would approve. Shutdowns have lasted for periods of a day to several weeks (OMB, 2007, p. 379).

These 'shutdowns' occur, for example, because salaries are typically covered by annual authorisation by the legislature. On the other hand, as is the norm in government budgeting, there is a large percentage of total spending that is voted once and for all by the legislature, for spending such as interest on debt and social security payments (OMB, 2007, p. 379).[6]

The budget authority provided by the legislature is not only the constitutional authority to pay cash. In addition, the legislature provides the otherwise-legal authority to enter into obligations, which will ultimately lead to the payment of cash. The legislative control is, therefore, obligation-based and cash-based. It is a profoundly more extensive form of control of the executive's transactions: an ex ante control (of the commitment to pay cash) and an ex post control (of the cash payment). Moreover, the definition of an obligation is also extensively drawn (GAO, 2005, p. 70):

> A definite commitment that creates a legal liability of the government for the payment of goods and services ordered or received, or a legal duty on the part of the United States that could mature into a legal liability by virtue of actions on the part of the other party beyond the control of the United States. Payment may be made immediately or in the future. An agency incurs an obligation, for example, when it places an order, signs a contract, awards a grant, purchases a service, or takes other actions that require the government to make payments to the public or from one government account to another.

The consequent obligation-based system in the US federal government has developed its own language, definitions and practices to keep track of the budget authority, the obligations, the cash payments, and other ways of satisfying the obligations. It is important to note that the legislature can pass laws that create entitlements of citizens to receive federal funds that can be accounted for outside of this obligation-based budgeting system; an example of this, namely social security, is discussed in the fourth section.

The particular complexity of the obligation-based system is in that the accounting in each fiscal year refers to many fiscal years, previous and subsequent. Each specific part of the budget authority (known as the appropriation) has an accounting that accounts for obligations and outlays of that appropriation.[7] This accounting for any one fiscal year refers to many fiscal years because one year's budget authorises obligations for many years beyond (even indefinitely), and because outlays of a fiscal year can be liquidating obligations incurred in many previous fiscal years (an example of how this is reported is given in Schick, 2007, p.104). There is a standard chart of accounts for this accounting, determined by OMB. In the budget, against each appropriation, these accounts are presented. Each government department produces a Statement of Budgetary Resources, which sets out the amounts that were available to be obligated (and spent), including amounts carried forward from previous years, the obligations incurred during the year and the balances, and cash payments.

The aggregate of these appropriations is a so-called 'unified budget' meaning that there is no separate capital budget. However, it is in the nature of the obligation basis that current items are dealt with differently from capital. For current spending, the amounts in the annual budget usually cover the needs for the year, and are subject to annuality in that those amounts are only available for that year (OMB, 2007, p. 386). Even for these current items, such as salaries, there is a time difference between incurring the obligation and the payment of cash (for salaries, it is taken to be three weeks).

Capital items, on the other hand, are dealt with under the obligation basis wholly differently:

> For major procurement programs and construction projects, the Government generally applies a full funding policy. Under this policy, agencies must request an amount to be appropriated in the first year that they estimate will be adequate to complete an economically useful segment of a procurement or project, even though it may be obligated over several years. This policy is intended to ensure that the decision-makers take into account all costs and benefits fully at the time decisions are made to provide resources. It also avoids sinking money into a procurement or project without being certain if or when future funding will be available to complete the procurement or project (OMB, 2007, p. 386).

The budgetary accounting consequences of this are that the budget for the year can include obligations and consequent spending for a specified number of years or even indefinitely (OMB, 2007, p. 386). It follows that the budget for the year also includes amounts that have not yet been obligated and amounts that have not yet been spent from previous years' budgets.

In summary, the cash-based budgetary accounting of the US federal government is a legislative control of the executive that is enshrined in the constitution. Since the introduction of a budget, this control has been supplemented by a far more extensive ex ante control of transactions, in the form of the obligation basis. The legislative control is implemented by the executive, primarily by OMB, but the control is distinctly of the legislature.

UK Central Government

The uncodified constitution of the UK determines the fundamentals of the raising and spending of money by the government, and of the concomitant budgeting and accounting:[8]

> Governments require powers of raising and spending money. In the British system the regulation of national finance is governed by rules of financial procedure concerning

> the relationship between the Crown and the House of Commons. The functions of the Commons are to authorise most types of public expenditure and most taxation; and to satisfy itself that the expenditure it approved has been properly spent (Phillips et al. 2001, para.12–001).

The 2000 law[9] that added an accrual basis of budgeting and accounting itself increased the use of statue law but did not change the emphasis on 'rules of financial procedure' (HM Treasury, 2000, Comment 5 on Section 1).

The 2000 law also did not change the fact that the spending of money by the government is defined, as it exclusively had been since the system was completed in the nineteenth century, on the cash basis. The accounting mechanism for this is a bank account at the central bank, called the Consolidated Fund,[10] into which money collected by the government must be paid.[11] Money can only be issued out of the Consolidated Fund with specific statutory authority: the annual budget, once it has been presented by the government, is then embodied in the law. It is the Treasury that then causes those issues to government departments to take place, after approval of the Comptroller and Auditor General.[12]

The issues of money are made in a series of tranches, before and during the fiscal year, so that government departments have money to spend throughout the fiscal year; about 40% of the previous year's expenditure can be spent in the current year before the current year's budget becomes law. Money that is unspent at the end of the fiscal year must be paid back to the Consolidated Fund. This is the sense in which the government still adopts a strict interpretation of the rule of annuality.[13]

Each budget line item is still defined in terms of cash but, since 2000, alongside each is the equivalent on an accrual basis (known by the UK government as the 'resource' basis). In both cash and accrual terms, the line items are at very high levels of aggregation.

The accrual-based budgets, of course, distinguish between current spending and capital spending. Depreciation is included in the former, while capital cost is in the latter – and current spending and capital spending are separate line items, as would be expected. There is an awkward problem that follows, created by this juxtaposition of a current budget with a capital budget. The system requires the overall budget to authorise one total for the particular line item but adding the current budget to the capital budget is a meaningless aggregate. The solution is to add current spending and capital spending but then deduct depreciation from the total, a solution that would still not be unequivocal in a cash versus accruals debate.

There is a fundamental constitutional principle that 'the Crown demands money, the Commons grant it, and the Lords assent to the grant' (Limon and McKay, 1997, p.732; and Phillips et al., 2001, para.12–002). A crucial interpretation of this is that *only* the government demands money – and not parliament or its individual members. The Commons has no other choice than to accept the government's budget unless the government's authority to govern is to be challenged.

In this control by the government, the Treasury has a central role, currently manifested in four publications: *Managing Public Money* (HM Treasury, 2007a); *Supply Estimates: A Guidance Manual* (HM Treasury, 2007b) and *Consolidated Budgeting Guidance from 2010–11* (HM Treasury, 2010a), which both deal with the budgeting reform; and *Financial Reporting Manual 2010–11: Issue 1* (HM Treasury, 2010b), which deals with the accrual-based reform. A fundamental rationale for all of them is that, while the Minister in each department has considerable power over that department, there are Treasury requirements (on behalf of Parliament) relating to all central government money. In the absence of a codified constitution, these publications provide the constitutional interpretations in matters of government money.

A crucial aspect of the UK's formal budgetary and accounting system is that the control of commitments to future spending, whether or not contingent on future events, are under the control first of all of the Treasury (HM Treasury, 2007a, paras. A.5.5.1, A.5.5.5 and A.5.5.8) and are not comprehensively recorded on the face of either the budgets or the financial statements.

In the UK government, budgetary accounting is a control by the Treasury of the rest of the executive. This familiar 'Treasury control' is fundamental to the non-separation of powers between the legislature and the executive. The UK Parliament has to accept the executive's budget (if it is to continue to accept that government) and neither adds to the budget nor deletes items from it. The operations of the government are not subject, in the short-term, to statutory appropriations: there are no shutdowns. The executive everywhere obligates future budgets without explicit Parliamentary approval and, even when there is such approval, it is mediated by the Treasury.

Summary

The nature of the US federal government, in the relations between the legislature and the executive, is fundamentally different from that in the UK.

Their budgetary accounting systems are immanent in each government: they are an observable expression of the politics, inseparable from the politics of the governments[14] – and they are consequently different.

Budgetary accounting in the US federal government is, above all, a legislative control; in the UK government it is, above all, an executive control. It is true by definition that the respective executives execute the budgets, and play the central role in the accounting against the budgets. Thus, the distinction here between legislative control and executive control is not a matter of exclusive control by the legislature versus exclusive control by the executive: it is, rather, a matter of relative influence.

The next section turns to the technical differences between the obligation basis of budgetary accounting and an accrual basis, using the definitive example of a depreciable capital asset, and then rehearses the essential positions taken by the US federal government, showing the resilience of the obligation basis.

OBLIGATION-BASED BUDGETING VERSUS ACCRUAL BUDGETING

The technical accounting differences between an obligation basis and an accrual basis are clearest, and have been most often elaborated in the US federal government, in accounting for a depreciable capital asset. Under that government's obligation basis, the budget that approves the purchase of the asset gives the authority to the executive to obligate the total capital cost and to pay the subsequent cash (however far in the future the obligations and cash payments actually take place): the budgetary accounting thereby scores the full capital cost at the time that the legislature provides the authorisation. It can be noted that this scoring is historic cost based.

In contrast, in an accrual budget capital spending is scored only when it is to be incurred by the executive (not the earlier point when it is to be obligated), in a separate capital budget. Capital budgets typically identify the fiscal years when this spending is expected to be incurred and, in strict forms, might require spending only to be incurred in those years. The current budgets will then score depreciation over the useful economic life of the asset. This scoring could be historic cost based but could also be based on some form of fair value.

Thus, for a depreciable capital asset, the two associated aspects of the debate between an obligation basis and an accrual basis are the need for a capital budget and the relative merits of depreciation. These two aspects have debated within the US federal government for many decades.

OMB, with its responsibility to execute the legislature's obligation-based budgeting, is the repository of the arguments for that method set against the accrual method. Its core position in defence of obligation-based budgeting is (OMB, 2007, p. 383):

> The budget needs to measure costs accurately so that decision makers can compare the cost of a program with its benefit, the cost of one program with another, and the cost of alternative methods of reaching a specified goal. These costs need to be fully included in the budget up front, when the spending decision is made, so that executive and congressional decision makers have the information and the incentive to take the total costs into account for setting priorities.

The argument is developed (OMB, 2007, p. 383):

> There have been a number of proposals to change the basis for measuring capital investment in the budget. Many of these would undermine effective consideration and control of costs by spreading the real cost of the project over time and record as a current operating expense the annual depreciation for each year of an asset's life. No depreciation would be recorded until after the asset was put into service. This could be several years after the initial expenditure, in which case the budget would record no expenses at all in the budget year or several years thereafter, even though the Government is legally obligated to buy the asset, and the asset is being constructed or manufactured. Recording the annual depreciation in the budget each year would provide little control over the decision about whether to invest in the first place. Control can only be exercised up front when the Government commits itself to the full sunk cost. Spreading the costs over time would make the cost of a capital asset

> appear very cheap when decisions were being made that compared it to alternative expenditures. As a result, the Government would have an incentive to purchase capital assets with little regard for need, and also with little regard for the least-cost method of acquisition.

This core position reiterates that of OMB (2004), which itself drew on a study by GAO in 1993 and on GAO (1995 and 1996) concluding that depreciation was inappropriate in budgetary accounting. One significance of the 1990s, of course, was that real examples of accrual budgeting had begun to emerge in a few other national governments; and indeed, at the end of that decade, GAO (2000) conducted a comparative international study of them, learning largely from Australia, New Zealand and the UK, but emphasising that the challenge was in how to learn from 'a parliamentary political system to the U.S. system in ways that could improve its decision-making process while protecting its unique institutional needs' (p.12). The other, more specific, significance of the 1990s was the Chief Financial Officers Act 1990, requiring for the first time as it did a full, accrual-based accounting (alongside the budgetary accounting not instead of), which was 'the first significant legislative step toward audited financial statements for the entire executive branch' (Jacobson, 2005, p. 63).

However, it is important to recognise, in the history of accrual-based ideas, that institutions of the US federal government had in fact had a long previous history of addressing accrual accounting: the accrual accounting assault on obligation-based budgeting was not very much newer than US government budgeting itself. In 1937, a report (President's Committee on Administrative Management, 1937, p. 21 of Report; the words were taken from one of the Studies, by A.E. Buck, *Financial Control and Accountability*) concluded:

> There should now be installed in the Treasury Department a modern system of general accounting and reporting that would produce accurate information quickly and easily concerning expenditure obligations, appropriations and allotment balances, revenue estimates and accruals, and actual collections, as well as cash disbursements and receipts.

This is, strictly, only calling for accruals of revenues. The more common citation for the influence of accrual accounting, being of much wider application, is to the 1949 Commission on Organization of the Executive Branch of the Government. Known as the First Hoover Commission, its *Report to the Congress: Budgeting and Accounting* proposed performance budgeting but its 'Other Recommendations' included a proposal for accrual accounting (though not linked to budgeting).

The Accounting and Auditing Act of 1950 might be said to have required accrual accounting (it required agencies to have 'systems of accounting and internal control that provide . . . full disclosure of the financial results' (Jacobson, 2005, p. 69)), and gave responsibility to the General Accounting Office (GAO) to establish accounting standards for federal agencies. However, any doubt in the 1950 Act was dispelled in 1956, with an explicit legal requirement for accrual accounting, and as Jacobson (2005, pp. 69–71) identifies, there have been many subsequent initiatives that involved accrual accounting in both the agencies' and the government-wide bookkeeping systems.

Two notable initiatives in the 1970s and 1980s related to the development of what have come to be known as government-wide financial statements. In 1976, the Treasury issued a prototype set of consolidated financial statements for the federal government, repeated for 1977 and beyond; these were not audited but GAO commented on them (Department of the Treasury, 1977). In 1986, GAO issued a report, *Federal Government Reporting Study*, which had been carried out jointly with the supreme auditor in Canada, including a set of illustrative accrual-based financial statements for the federal government as a whole (Office of the Auditor General of Canada and the United States General Accounting Office, 1986). The Chief Financial Officers Act 1990 was an evolution of accrual-based ideas within the federal government, not a revolution.

The core position of the OMB in defending the obligation basis has not deviated over the decades but the position of GAO often did. OMB has been able to draw out supporting arguments for the obligation basis, sometimes clearly, but GAO's studies also offer counter-arguments and different policy stances. These different positions often address two accrual issues that are actually inseparable from each other but are sometimes discussed as though they can be separated. To take the example of depreciable capital assets, the first issue is whether what the US terms the 'unified budget' should be separated into a capital budget and a current budget; the second is whether depreciation is a better measure for budgetary accounting.

The unified budget question has long been controversial.[15] The Comptroller General (1981, p. 10) pointed out that the First Hoover Commission, of 1949, had recommended a separate capital budget (because capital is of an essentially different character), while a 1967 President's Commission argued against it, citing experts who argued that 'bricks and mortar' would prevail over other kinds of spending, and that capital is difficult to define. The 1981 report did not actually support a separate capital budget though its recommendations pointed towards it, and all the agencies cited in the report supported the recommendations – except OMB, which offered long and detailed objections.

An essence of OMB's objections was that capital should not be separated from operating in the budget so that there was no bias in favour of one form of spending over another. The arguments offered then, and subsequently, against this bias sometimes focused on the spending itself but were always in the macroeconomic context of arguments about taxation versus borrowing in relation to current and capital spending, and budget deficits versus balanced budgets or budget surpluses. Given OMB's other responsibilities in the macroeconomic arena, these arguments are unsurprising, including the familiar argument that, even under a unified budget, economic statistics did distinguish between capital and operating (Comptroller General, 1981, p. 14).

In 1983, GAO clearly came out in favour of a bias but agreed that this would be at the expense of the extant legislative control (Covering letter, p. 2):

> A separate capital budget could help focus attention on national capital investment needs. But unavoidable problems in creating such a budget and its implications for weakening aggregate spending controls suggest that a simpler solution be considered first.

In 1988, at a time when the federal government's 'deficit' was seen as the biggest problem facing the US, GAO reversed its position (Covering Letter, p. 1):

> GAO proposes restructuring the current unified budget to include an operating and a capital component within the budget . . . Drawing a distinction between 'capital financing' and 'operating deficits' will provide the President and the Congress a sounder approach to deficit reduction, correct a bias against capital project initiatives, more accurately report the costs of the federal government's direct loan programs, help focus public attention on the nation's physical infrastructure needs, and provide a direct link with agency and governmentwide financial statements.

The main point was that this 'deficit', being of the unified budget, was much worse than the real 'deficit' because it included good borrowing for capital. And this time GAO argued against the obligation basis. The ground was that the 'scorekeeping practice' of budgets 'front-end loads' the capital investment, which then counts the same as an operating expense; this is bad because it makes capital investment seem much more expensive than, say, leasing (p. 5 of the Report).

In 1992, there was an interesting twist in the argument between GAO and OMB. Comptroller General (1992, p. 1) referred to two accruals that the executive had proposed in the budget, for deposit insurance and pension guarantees, and began by stating that in principle the accruals would better disclose the costs (and, by implication, increase them):

> In summary, we believe that the current, cash-based budget treatment of deposit insurance and pension guarantees does not disclose the true costs of those programs and that the concept of reporting accruals in the budget is sound and could result in improved disclosure of program costs.

However, he went on to point out that the effect of grafting on the two accruals to the existing system at that point would actually have been to lower 'costs':

> A number of factors have led many to suspect that the Administration has proposed to go forward with its proposal at this time in order to pursue certain policy objectives rather than to improve budget reporting. The proposal would include the use of questionable budget scoring procedures which would provide budgetary 'savings' that could offset the revenue loss effects of the Administration's tax proposal (Comptroller General (1992, p. 2).

The letter goes on to explain that there had been a lot of support for accrual budgeting (including by 'blue ribbon study commissions'), which GAO also supported. It points out that the two accrual adjustments of concern here would have provided good information when the (bad) decisions were originally taken about taking on liabilities from the savings and loans, and pensions for the military. But at this point, because the cash basis happened to score higher than the accrual basis, the accrual adjustments were being used to hide the future costs.

GAO (1995, pp. 1–2) reverses its position on accrual budgeting, at least in relation to spending on transportation infrastructure, research and development, and human capital:

> Our review of the professional literature and consultation with budget and accounting experts did not support depreciating such investments in federal budgeting as useful or appropriate because (1) it could undermine budgetary control (2) it would result in depreciating assets the government does not own, and (3) determining the value and useful life of these investments would be difficult to do.

By 2000, GAO's position was that the selective application of accrual budgeting to certain long-term commitments can strengthen the information and accountability for these costs. In addition, decision-making could benefit from incorporating accrual measurement into the budget in ways that better match the cost of resources consumed with the performance achieved without forfeiting budgetary control. Finally, even without changing the measurement basis of budgeting to accrual, congressional oversight and managerial decision-making could be enhanced by better integration of supplemental accrual-based information (e.g., net present value for long-term commitments and unit cost for goods and services) into the decision-making process (GAO, 2000, pp. 13–14).

Conversely, for capital assets, GAO's view was that accrual measurement would delay cost recognition by spreading costs over the lives of assets. Thus, while accrual budgeting matches budget costs with the provision of goods and services, it raises issues about up-front cost recognition and control for capital assets (GAO, 2000, p. 14).

In summary, the technical arguments for and against the accrual basis, set against the longstanding obligation basis, have often been rehearsed, especially for depreciable capital assets. Without a separate capital budget, accrual budgeting is easily countered. Apart from being unworkable without the separation, if the sole meaningful charge for capital is depreciation, the obligation basis is bound to be favoured as a control mechanism.

The one issue that these recurring debates have rarely included is an accrual basis using current values. The extant legislative control is, not unnaturally, expressed as a control of transactions, whether before each transaction or at its culmination. This, of course, ignores economic events such as the effect of the use of assets. But it also ignores economic events such as current market valuations of the assets and their use. The UK government's adoption of current values (under IFRS, now known as fair values) has not been a consideration.

ACCRUAL ACCOUNTING IN THE US FEDERAL GOVERNMENT

In 1990, a further institutional agency in accounting in the US federal government was established: the Federal Accounting Standards Advisory Board (FASAB). From that year, the government developed – and now produces – audited accrual-based financial statements in addition to the budgetary accounting. The sets of accrual-based financial statements have two distinct focuses: the consolidated financial statements for each government department or agency; and the financial statements for the federal government as a whole, known as the governmentwide financial statements.[16] In both focuses, the financial statements are similar, not the same. They include, of course, operating statements (statements of net cost), balance sheets, and statements of changes in net position, among others. They also include detailed reconciliations between accrual-based numbers and the budgetary accounting.

FASAB was established as an advisory board within the federal government to produce the associated accrual-based accounting standards. Its 'mission' is to:

> develop accounting standards after considering the financial and budgetary information needs of congressional oversight groups, executive agencies, and the needs of other users of Federal financial information (FASAB, 2009, p. 2).

Its sponsors were and are the Treasury, OMB and GAO. The board of FASAB (2004, p. 1287) had ten members: one from each of the three sponsors, one from the Congressional Budget Office, and six non-federal members 'from the general financial community, the accounting and auditing community, and academia'. It now has nine members (FASAB, 2009, p. 3). CBO withdrew its membership in 2009, without giving reasons, although its request for its own budget for 2011 to increase by $5.4m to $47.3m, included a consequential offsetting saving of $0.6m (CBO, 2010, p. 1).

In 1999, the American Institute of Certified Public Accountants (AICPA) recognised the FASAB as the body to establish generally accepted accounting principles for federal entities (FASAB, 2010a, p. 1). In 2010, this designation was re-affirmed after the second five-year review by the AICPA. The significance of the designation is that:

> AICPA members, as preparers and auditors of federal entity financial statements, will continue to recognize accounting standards promulgated by the FASAB as generally accepted accounting principles (GAAP) for federal government financial reporting (FASAB, 2010a, pp. 1–2).

On the one hand, this designation clearly places FASAB in Anglo-American accounting, whose foundation was private sector professional accounting bodies independent of government, representing auditors independent of government. On the other hand, as Patton and Mosso (2009) explain, in significant senses FASAB is not independent of the federal government. OMB and GAO still have veto power:

> The federal government continues to dominate FASAB by threats of veto, selection of board members and budget control/oversight management. This domination

> constitutes a continuing threat to the independence of FASAB (Patton and Mosso, 2009, p. 61).

FASAB's standards have no explicit relation to those of the Governmental Accounting Standards Board (GASB, which promulgates standards for US state and local government) or of the Financial Accounting Standards Board (FASB, which promulgates standards for US business and some nonprofits), though these are referred to in a few places. GASB and FASB are part of the same private sector institution (Financial Accounting Foundation) but each has an explicitly different jurisdiction. The GASB asserts that government accounting systems need to be different from those of businesses (GASB, 2004, p. xi) and their standards are. This is in part because the GASB standards are standards of accounting as well as of financial reporting, while the FASB standards are standards of financial reporting. As such, the GASB standards do address the needs of internal users.

FASAB is explicit that its standards consider the needs of internal users of the federal government, as well as external users. It considers this different from FASB and GASB, both of which 'do not need to weigh heavily managers' information needs' (FASAB, 2004, p. 14) because the respective managers have direct access to information about their own entities. In the federal government, officials may not have access, partly because of the

> size and complexity of the government, the rapid turnover among senior political executives compared with the time required to install information systems in large bureaucracies, and the division of authority in the federal government (FASAB, 2004, p. 14).

FASAB has increasingly been the crucible for observing the conflict between the obligation basis and an accrual basis. Its remit only includes the accrual-based financial statements, not the budgetary accounting, but it naturally confronts the obligation basis. One of the chronic accounting problems for national governments, namely accounting for social security programmes, provides a good example of the nature of this conflict. It is a problem for budgetary accounting in isolation: the accounting does not recognise payments in future fiscal years to have been obligated when the relevant entitlements were made law, even though commonsense suggests that they were; the only concession, as it were, to commonsense is that the payments made each year are not annually appropriated. But, more importantly, the controversy is acute when confronted by an accrual basis.

In 1977, for example, the prototype consolidated financial statements referred to earlier, which promised further study, stated:

> On the liability side, much debate centers on the liability for accrued social security pensions. Some contend that social security benefits are current transfers of income and that no liability for future payments should be shown. Others contend that the full actuarial deficit – the difference between projected receipts and payments over the next 75 years – should be shown as a liability (Department of the Treasury, 1977, p. 2).

FASAB addressed the issue in 1999, in Statement of Federal Financial Accounting Standards 17, which required that:

> a liability be recognized when payments are due and payable to beneficiaries or service providers. Supplementary stewardship information is to be reported to facilitate assessing the program's long-term sustainability and the ability of the program and the nation to raise resources from future program participants to pay for benefits proposed to present participants (FASAB, 2004, p. 830).

In effect, using the earlier language of the Treasury (1977, p. 2), no liability for future payments is included in the balance sheet but related supplementary information is disclosed.

This position was re-addressed in 2010 under SFFAS 37, which states:

> The key difference among members [of FASAB] is in regard to the timing of the recognition of expense and liability for social insurance programs. Some members believe that an expense is incurred and a liability arises for social insurance programs during the working lives of participants, and that some portion of the benefits accumulated at the balance sheet date should be recognized as a liability. Other members agree with. . .SFFAS 17. . .that an expense is incurred and a liability arises for social insurance programs when the participants have met all eligibility requirements and the amount is 'due and payable.'
>
> [SFFAS 37] represents a compromise. It provides enhanced reporting but does not resolve the two strongly held views regarding when the obligating event occurs for social insurance programs and, thus, when the liability and expense definitions are met within those programs. Therefore, this Statement does not change the liability and expense recognition and measurement from that required in SFFAS 17 (FASAB, 2010b, pp. 1–2).

Patton and Mosso (2009, p. 61) elaborate on the due process of SFFAS 37. In 2006, the ten-member board voted 6 to 4 for an Exposure Draft that proposed that the liability in the balance sheet would be extended beyond the 'due and payable' liability that ended up in SFFAS 37. The four who voted against were the four federal members of FASAB. However, notwithstanding the majority in favour, the matter was reconsidered, according to Patton and Mosso (2009, p. 62) under the threat that FASAB itself could not survive a standard that required a fuller liability to be booked.

In summary, the accrual assault on the obligation basis has, since 1990, had added impetus from FASAB, which in part is a conduit for Anglo-American accounting. But, being a federal body with a carefully chosen membership, FASAB has also been a shield against the assault. It takes a distinctly different view of accounting standards from the views of parallel bodes in the US (FASB and GASB), in form, content, level of detail and the need for continuous re-evaluation of policies.

CONCLUSIONS

The debate in the US federal government about the obligation basis versus the accrual basis has been – and an equivalent debate in the UK government, were it to happen, would be – a debate about government itself, in particular about the relations between the legislature and the executive. GAO (2000) understood this well:

> The U.S. Congress is an independent and separate branch of government that takes a more active role in resource allocation decisions than parliaments in GAO's case study countries [Australia, Canada, Iceland, the Netherlands, New Zealand, and the UK]. Many important decisions that, in the United States, are debated during the annual appropriations process occur in case study countries before the budget is presented for parliamentary approval. Also, most case study countries generally deal with the approval of obligations through executive branch controls whereas in the United States congressional approval (budget authority) is required before executive branch departments can obligate funds. Further, most case study countries used purely cash reporting for budgeting before adopting accrual budgeting (GAO, 2000, p. 13).

The technical arguments for and against the two bases are important but, abstracted from the constitutional, otherwise-legal, and political settings, they are indeed abstract. At the national levels in the US and the UK, notwithstanding the (approximately) shared language and the (still) many shared traditions, those settings are fundamentally different. Anglo-American accrual-based accounting will surely continue to have influence in both settings but those settings decidedly cannot be grouped together as Anglo-American. This paper has offered a discussion and analysis of what can be called a polar opposite view of budgeting and accounting technique in a fundamentally different governmental setting from that in which most accrual-based debates have taken place. It has not attempted judgments about which techniques are better but does provide a richer setting for such judgments.

The accrual accounting literature in English, relating to governments whose first language is English (and, in particular, those in Australia, New Zealand and the UK), is skewed by the virtual absence of references to technical details of the US federal government's system. The historical extent of the obligation budgeting versus accrual budgeting debate in the US, and of the resilience of the former in the face of the latter, should also help to correct the skewness.

NOTES

1 Continental Europeans are more likely to use the older term 'Anglo-Saxon'.

2 The judiciary has not had a significant role in budgetary accounting in either country.

3 The Federal Accounting Standards Advisory Board, which is not directly concerned with budgetary accounting, is introduced in the fourth section.

4 When GAO began, as the General Accounting Office, it was headed by the Comptroller General, but became what we now know as the supreme audit institution, even though the Comptroller General title was retained (in parallel with the UK's Comptroller and Auditor General). In 2004, retaining the acronym, the name was changed to the Government Accountability Office when the pay system for GAO's employees was separated from that of federal employees. As early as 1937, a President's Committee had stated that GAO was involved in accounting and in authorising payments but should not be, given that audit should not be part of the accounting system. The First Hoover Commission Report (1949) carried on this theme: accounting should be in the Treasury and payments should not be sent to GAO

before payment. The 1950 Act changed GAO's role accordingly (Jacobson, 2005, pp. 64–65) but gave it the role to prescribe 'accounting principles, standards, and requirements'. As this long predated the Chief Financial Officers Act of 1990, requiring for the first time as it did a full, accrual-based accounting that led to audited financial statements, this accounting was about routine bookkeeping within budgetary accounting.

5 Earmarks and their problems are often tracked and discussed in the media. The issue is not that they are clandestine. 2010 saw another attempt to reduce the number and amount of them, with a moratorium being placed on them in 2011.

6 The two ways that the US legislature (in common with other national governments, including the UK's) can provide the authorisation (first, by annual authorisation in an annual budget, and second by an authorisation once and for all) has been used by Schick (2007, Chapter 2) to bolster his view that the latter can, and did during certain periods, increase the relative power of the executive. Posner (2007) uses the President's Committee on Administrative Management report of 1937 to relate its preference for executive control to the current realities of legislative control. Others in the public administration literature have taken a broader view of the ebb and flow between the two branches, and over a longer period (see, for example, McCaffery, 1987).

7 Outlays, which liquidate obligations, are primarily payments of cash (or cheques or electronic transfer of funds). There are a few, more recent, inclusions in outlays that are accrual-based, for example:

- when interest on the Treasury debt held by the public accrues;
- when the government issues bonds, notes, debentures, monetary credits, or other cash-equivalent instruments to liquidate obligations;
- with a direct or guaranteed loan, the credit subsidy cost is recorded as an outlay.

8 More details of both the context and content of the UK government's system are in Jones (2003).

9 Government Resources and Accounts Act 2000.

10 There are now two linked bank accounts, for separating loan transactions and for making cash payments to departments for which there is as yet no parliamentary authority, respectively.

11 The law empowers the Treasury (within limits) to allow government departments to retain some of the receipts they collect in a year, to be spent for approved purposes within that year.

12 This is the lingering sense that the UK's supreme auditor (Auditor General) still has a 'comptrollership' function (Comptroller).

13 As the Treasury's Explanatory Notes to the 2000 Act state (Treasury, 2000, Comment 7, on Section 1):
The purpose of this provision is to ensure that sums of money drawn by departments from the Consolidated Fund can be used only for expenditure in the authorised year. Any money drawn down and not spent would have to be surrendered back to the Consolidated Fund (or be offset against issues in the next year). This prevents departments from building up cash balances that could then be used to circumvent Parliamentary spending controls.

14 Wildavsky (1964), and much of his subsequent work, was the seminal expression of this point. This had particular influence on public sector accounting in the UK literature but his influence seems to have waned since his passing. Of more importance here is that, in emphasising the politics of budgeting, his work usually eschewed detailed discussion of technique. Schick (2007), the core text on the US federal government budget, is a balance of politics and budgetary technique; as Caiden (2010, p. 208) puts it, in an overview of Schick's work, '(b)udgeting is first and foremost about people, policies, and politics'.

15 A rare academic accounting contribution was an early editorial of *Journal of Accounting and Public Policy* (Gordon, 1983), which rehearsed the arguments at a time when there was particular public concern about deteriorating infrastructure.

16 FASAB's standards were initially concerned mainly with the consolidated financial statements for each government department or agency. Subsequently, FASAB issued a standard (SFFAS 24, in 2003) that comprehensively addressed the financial statements for the federal government as a whole.

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