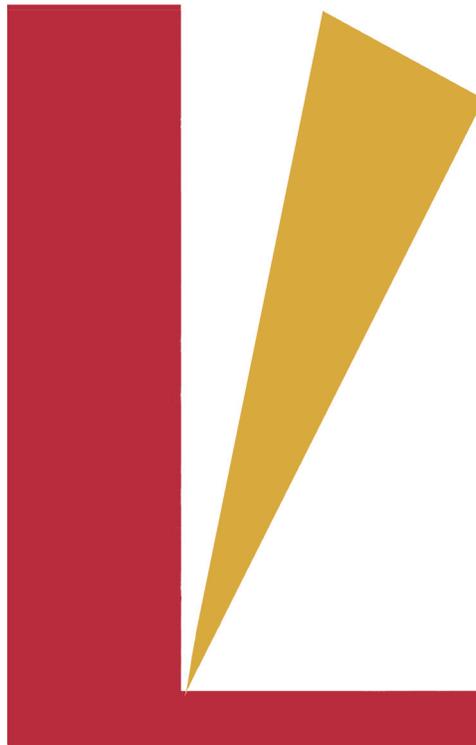


# Implementing Reforms in Public Sector Accounting

Susana Jorge  
Editor



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## TRACING CHANGES IN CENTRAL GOVERNMENT ACCOUNTING: A CASE OF RUSSIA

### Introduction

The last few decades have witnessed substantial efforts to reinvent the state worldwide. While OECD countries have stood at the forefront of these developments, more recently questions of how to revive the public sector have been put on top of the agenda in many developing countries and those in transition. The Russian state is no exception to this global trend, distancing itself from the legacy of its Soviet past. At the outset of the new millennium, appeals for boosting efficiency, effectiveness, and accountability have begun to be widely heard in the country, serving as truths, in the name of which, the Russian public sector is to be revitalized. Driven by a motto to double Russia's GDP by 2010, a series of ambitious initiatives have been put forward by government officials, signaling a clear-cut shift in the ideology in Russian public administration (Russia Journal, 2004). The modernization of the whole budget process was announced to be at the core of the program of economic transformation and development in Russia with the primary goal of "boosting accountability in government expenditures."

The importance of these efforts can hardly be emphasized enough as they are laid down in the *Concept of the Budget Process Reform for 2004-2006* endorsed by Cabinet Resolution # 249 on May 22<sup>nd</sup>, 2004 (hereafter, *the concept*). The reform, widely nicknamed by some Russian mass media as "A Reform for the People", "A Real Breakthrough in Boosting the Efficiency", or "A Budgetary Revolution" (Finansovye Izvestia, 2004; Kommersant, 2004), has been declared to be a step of vital social significance as it intends to make government expenditures clear and transparent to each Russian citizen. The objective of the modernization process, as stated in *the concept*, is "to lay down preconditions and prerequisites for the most effective allocation and management of government finances by appropriate prioritization of various government activities considered to have critical bearing on a country's development" (p. 2). In essence, the reform process is meant to move away from the costs and inputs (so-called «smeta» financing or *administration of resources*) towards goals and outputs (*management by results*) by "strengthening the accountability and widening the managerial autonomy within a medium-term financial

planning framework” (p. 2) (see also Lavrov, 2004; Tambovtsev, 2004). Out of those policy measures outlined in *the concept*, streamlining public accounting is reckoned to be “a necessary and indispensable precondition in modernizing a country’s budget process”, or “the paramount constituent part of the Budget Process Reform” (Charkov and Choroshev, 2005: 9). A common argument behind this step is to establish a system of accounting and financial reporting in Russian public administration that is capable not simply of tracking the flow of budgetary resources, but also of assessing their effective use. Literally speaking, *the concept* is in strong favor of a move from traditional *cash accounting* towards businesslike *accrual accounting* in order to boost accountability and transparency of government transactions.

Based on the above-mentioned, the present paper seeks to describe and analyze, and by doing so, contribute to knowledge about, Russian public sector accounting in times of change. With its exclusive focus on the central government level, this insight aims at tracing the emergence of a *new* version of accounting norms within the Russian state. The emphasis on the ‘*new*’ is akin to the present study as it “signals a break with the past and the introduction of something new” (Sahlin-Andersson, 2001: 58). Indeed, being different from the entity’s own tradition, the adoption of accrual accounting by the Russian state can be regarded as an organizational innovation. This makes the accounting reform in Russia at least attractive for those who tend to break with previous traditions. In striving to achieve this purpose, the development of Russian federal government accounting has been assembled into three successive periods, originating from the outset of the 90s until recently. By bracketing time, this research is intended to reveal what has changed in a particular transition period at the central government level, and what has remained untouched in the content of accounting norms and ordinances.

It is worth pointing out that Western English-language literature is relatively voluminous on the reformed practices in OECD countries (see e.g., Benito *et al.*, 2005; Lüder and Jones, 2003). Meanwhile, there is a conspicuous absence of rigorous research efforts on the Russian government accounting system. Whereas Russian local government accounting is already covered by Bourmistrov and Mellemvik (1999, 2001 and 2002), there is virtually nothing about Russian central government accounting in CIGAR’s publications and in most of international accounting’s research networks, workshops, and groups (see e.g., Bourmistrov and Mellemvik, 2005). Such a paucity of knowledge can be considered a valuable source of motivation to expand our knowledge in the field of Russian central government accounting. As Bergevärn *et al.* (1995: 39) stress, “such studies are obviously important today, when the public sector is putting so much effort into the reconstruction of accounting and accountability”. In a more or less similar manner, Miller (1994) encourages single studies of particular accounting events, serving as a starting point for new literature. Last, but not least, Preston *et al.* (1992) argue for a need for studies of the creation of specific accounting systems and the manner in which such systems alter. That is why tracing changes in Russian central government accounting is worth independent research efforts due to a plausibly unique reforming path and its particularity.

The current paper is structured as follows. First of all, a frame of reference driven by three theoretical ‘lenses’ is elaborated. This *troika* encompasses a system approach to accounting, an accountability approach, and an institutional approach. Next, an overview

of the data-capturing techniques utilized in the present research is undertaken. In the penultimate section, the evolution of a specific version of Russian central government accounting in terms of its norms is portrayed with respect to the three identified periods. These three are “accounting continuity”, “gradual change”, and “accounting renaissance” in the Russian public sector. Finally, some concluding comments are brought to light. Some propositions for new studies are also highlighted.

## 1. Accounting as a social and institutional practice

Planned changes in government accounting are believed to be linked to the emergence of particular systems and specific ways of seeking to govern Russian society. This fits well with modern literature that treats the techniques and practices of accounting as being fundamentally bound up with a wider social and organizational change (see e.g., Miller, 1994; Hopwood *et al.*, 1994). That is why it is vital to attend to conditions under which specific accounting technologies such as accrual accounting appear, penetrate, and extend into the Russian public sector. Consequently, if we are to comprehend how a nascent version of Russian central government accounting norms emerges; how demands for more efficiency, effectiveness, and accountability come to be translated into up-to-date calculative apparatus of accrual accounting; and why such significance is accorded the latter, we have to move beyond the boundaries of the organization and examine this accounting change in relation to new ways of managing the Russian public sector. This is congruent with the emerging view of accounting as a social and institutional practice widely advocated in contemporary literature (see e.g., Miller, 1994; Burchell *et al.*, 1985; Preston *et al.*, 1992; Mellemvik *et al.*, 1988). It is in this research tradition that I attempt to approach and understand changes in Russian central government accounting norms. Indeed, Hopwood (1983: 302) spoke of “the external origins of internal accounts”, implying that accounting “can never be seen in purely organizational terms”. This is due to the fact that accounting is a social construction which cannot be isolated from its context, i.e., social processes taking place in and around any organization (Mellemvik *et al.*, 1988; Hopwood, 1983; Miller, 1994). Hence, it is intellectually rewarding to study Russian central government accounting in the context in which it is enmeshed. Such a viewing incorporates at least three various aspects of accounting which need to be highlighted.

To begin with, there is an emphasis on accounting as a *technology*, implying the existence of specific calculative practices and procedures for handling and monitoring economic and financial activities. This corresponds to seeing accounting as a measuring instrument, the scientific task of which is to calibrate, polish, and clarify that instrument so that it generates true measures of reality (Jönsson, 1988; Roberts, 1991). Likewise, accounting may be looked upon as “a mirror or picture which neutrally and objectively records the ‘facts’ about what has happened in an organization over a particular period of time” (Robert and Scapens, 1985: 45). Treated from this theoretical approach, accounting is *a system*, consisting of various elements, linked to each other in one way or another and intended to fulfil certain goals. And changes in one element of the system inevitably lead to those alterations in other elements. It is in this manner that I seek to study the relationship between the Russian central government budget and

accounting over time. As Chan pointed out, one way of characterizing government accounting is to formulate its models in terms of its divergence from the traditional budget (2002: 26). Having said this, a fundamental use of government accounting is for budgeting and the concomitant budgetary control, a use that is often referred to in the literature as “budgetary accounting” (Lüder and Jones, 2003). Therefore, changes in Russian central government accounting may be looked upon as confronted to this traditional budgetary accounting. This is what is termed ‘*a system approach to accounting*’ in this study.

Next, particular computational practices and techniques of accounting are thought to be inextricably linked to specific ways of knowing and managing organizations. Miller (1994) uses the term *rationales* to designate this dimension of accounting as a social and institutional practice. Indeed, it is these rationales or meanings that inspire organizations to change and that result in the calculative technologies and practices of accounting to be altered. New computational practices and techniques are expected to serve these rationales by substantially contributing to “the formation of beliefs and expectations” (Mellempvik *et al.*, 1988: 112).

As stated above, one of the main pillars of and common arguments behind a recent reform agenda embarked on in the Russian state is a growing preoccupation with the notion of *accountability*. And, for this notion to be translated into, an up-to-date calculative apparatus of accounting is likely to be called for. That is why an accountability approach is adopted in this study in order to reveal the role of accounting in the reconstruction of the Russian public sector. In fact, the practice of accounting institutionalizes the notion of accountability (Robert and Scapens, 1985), implying that any shift in focus and priority among the different patterns of accountability leads to considerable implications for the accounting system. Consequently, when researching accounting, a special reference to accountability is a prerequisite. Thus far, the second approach to describe and analyze Russian government accounting in change is to examine it in relation to broader rationales for more accountability, or new types of accountability in the Russian public sector.

Finally, there is also a view of accounting as *socially constituted* or *socially constructed* (Garrod and McLeay, 1986; Laughlin, 1988; Dillard, 1991), meaning that the computational practices and techniques of accounting are “intrinsically and irredeemably social” (Miller, 1994: 4). In line with this, the literature on accounting as a social and institutional practice has come to view the phenomenon of accounting as *a symbol of legitimacy*. A plethora of studies are currently available on the use of accounting practices in order to maintain appearances of legitimacy, as well as the importance of the institutional environment on the practice of accounting (Mellempvik *et al.*, 1988; Bergevärn *et al.*, 1995; Mellempvik and Olson, 1996; Carpenter and Feroz, 2001; Covaleski and Dirsmith, 1988; DiMaggio and Powell, 1983; Dillard *et al.*, 2004; Meyer and Rowan, 1977). And an important conclusion that can be drawn from them is that “accounting information not only reflects, but ... also shapes organizational reality” (Roberts and Scapens, 1985: 455). Indeed, the potential of accounting to make and mould, to give incentives, to focus attention, to create and shape new perceptions of organizational reality is now profoundly recognized (Roberts, 1991; Kurunmäki, 1999).

Based on the above-mentioned, the third and final way to investigate Russian government accounting in change is by using ideas from the field of *institutional*

*theory* (Meyer and Rowan, 1977), which deals with issues of how organizations adapt to the prescribed myths in their institutional environments. As the literature in the field suggests, this may occur by coercion, via imitation, and through normative pressures (Meyer and Rowan, 1977; DiMaggio and Powell, 1983; Carpenter and Feroz, 2001). To begin with, *coercive* pressures for change stem from the source of power that impels organizations to adjust. Next, the *mimetic* pressures for change refer to the adaptation of organizational rules or practices, which are being used by similar organizations in the field, especially those rules or practices that are being implied by so-called 'successful or legitimate organizations' (see e.g. Oliver, 1991). At last, changes are usually impossible without eminent professional actors who standardize the contents of norms and pack them up so that they would look attractive and applicable. This is what is labelled *normative* pressures for change.

Seen together, this *troika* – a system approach to accounting, an accountability approach, and an institutional approach – is believed to provide theoretical 'lenses' through which to describe and analyze Russian central government accounting norms in times of change. Rather than being isolated from each other, all three are seen as complementary for the purpose of the current study. In effect, their choice is explained by a desire to shed light on Russian government accounting in change from different angles or viewpoints in an endeavour to obtain a holistic view of the phenomenon investigated. The sequence of these three is not accidental; on the contrary, each approach supplements and extends the previous one, so that the phenomenon of Russian central government accounting in change is covered to a degree that would not be achieved by any single theoretical perspective. With these three being inextricably intertwined, such a multi-faceted approach appears to yield a richer and broader understanding of Russian government accounting than any single perspective.

## 2. Gathering accounting norms

The process of data-capture traces its launch to 2002 with the defense of my advanced master thesis at Bodø Graduate School of Business (Timoshenko, 2002). In the latter I strived to describe and analyze provisions governing the design of the Russian central government accounting system. In the aftermath of this assiduous effort, a host of documents and sources were unveiled. Follow-up search was then carried out to renew my database. This encompassed the most recent developments and initiatives embarked on in the Russian general government sector. In particular, the search for regulations and implementation guidance was driven by a desire to reveal changes in the objectives of budgeting and accounting systems, and how they are interrelated. The vast amount of budgeting and accounting norms were easily accessible and publicly available on the Internet and in libraries. In searching for them, snowballing sampling was largely utilized, giving rise to a rich collection of normative documents. These included various laws, presidential edicts, cabinet resolutions, and concept papers, which all contributed to a better understanding of the process of accounting development and changes in the Russian public sector.

While collecting and assessing these norms, it was pivotal to assemble them with respect to a particular transition period, their institutional source, and the degree of

accounting regulations laid down in them. Besides this, a multitude of other independent and additional ‘texts’ available throughout the study (i.e., those from budgeting and accounting textbooks, articles, and press clippings) were utilized with the aim of boosting the level of detail and care. Noteworthy, the search for information furnished solid evidence indicating that the thinking of Russian government officials during the last decade has been greatly affected by international developments, particularly from organizations such as the IMF, the World Bank and the International Public Sector Accounting Standards Board (IPSASB). This made it imperative to access a series of recommendations and criteria on how to implement and assess reforms, as advocated by the aforementioned organizations, in order to grasp a nascent policy package hammered out in the Russian public sector.

### 3. The evolution of Russian government accounting

The evolution of the Russian public sector in general and its accounting system in particular has not been given much attention during the last fifteen years. Although varying stages and time intervals can be designated in order to trace the development of the Russian government accounting system, I have approached this by focusing on the three distinct periods (see Table 1). Their choice is due to the identified patterns of continuity and change in the content of central government accounting norms.

Table 1 – The Development of Russian Central Government Accounting from 1992 until recently

Item	Period		
	1992-1998 “Accounting Continuity”	1998-2003 “Gradual Change”	2003 until now “Accounting Renaissance”
<b>Potent institutional forces</b>	Learning primarily from own experience	Learning from own experience along with the IMF and the World Bank	International organizations, including the IMF, the WB, and the IPSASB
<b>The dominant accountability patterns</b>	Towards internal accountability of the executive to the legislature	Internal accountability of the executive to the legislature	Towards accountability in terms of results within the executive branch
<b>The system of government accounting</b>	Towards establishing a Treasury system for budget execution	A well-elaborated system of ‘Treasury accounting’	Towards a system for supporting public entities’ management and evaluation

To be more precise, with some minor adjustments and modifications, the first transition stage (1992-1998) was characterized by the continuation of those provisions inherited from the Soviet past. While in principle preserving the legacy of old accounting and budgeting norms during the second stage (1998-2003), the Russian government had made some important strides towards establishing an up-to-date system of government

accounting and financial reporting. Since 2003, the state of Russia has been distancing itself from the legacy of the Soviet budgeting and accounting systems and seeking to adopt the budget institutions and techniques commonly advocated in the West. It is, in fact, this period in which accounting thought drastically changes direction. This is what I term the central government accounting '*Renaissance*' in Russia for the sake of this research. Let us now discover the forces that drove this rebirth of accounting by dealing with the three periods above in more detail.

### 3.1. The First Transition Period – “Accounting Continuity”

At the very outset of the 90s, Russia turned out to be a nation lacking the basic pillars of the market economy and democracy. This made it urgent to restore those elementary institutions without which no democratic nation can function. Structural economic reforms (such as privatizing state-sponsored enterprises) were clearly prioritized during the first transition period, whereas the transformation of the Russian public sector was relegated to a remote second place. In this regard, only minor and the most basic changes in fiscal management were introduced during this stage in order to adapt the budget process to the discontinuation of Soviet practices. To be more precise, the federal government had begun launching a treasury system for budget execution with the creation of the Federal Treasury department under the Ministry of Finance in 1992. The named body was empowered by the legislation to render the role of the government accountant and a cashier for all federal budget disposers and receivers.

Equally important, the Accounts Chamber was established as the Russian Supreme Audit Institution in 1995. According to the 1993 Constitution of Russia, the Accounts Chamber is the only body responsible for external audit of government finances that is accountable to the Russian legislature. The Federal Law “On Accounts Chamber”, which came into force in January 1995, laid down the foundation for the independence of the Chamber from the executive branch of the government and clearly stated the principles of legality, neutrality, and objectivity. The World Bank (2003) assessed its creation as a significant stride in institutionalizing the accountability of the executive to the legislature in the country which had no tradition of an independent, ex-post, external audit function for public financial management. Treated in this way, the Accounts Chamber filled an important gap in the country’s financial accountability framework.

Even though the economic conditions had dramatically altered, both the budget institutions and the processes of fiscal management were to a significant extent a continuation of the Soviet era, lagging far behind those developments in the private sector. Coping with the turbulent financial environment, Russian policy makers seemed to be mostly preoccupied with avoiding political and social instability. Indeed, the very existence of Russia as a sovereign state was threatened during these years. This entailed deteriorating budget performance, high levels of inflation, augmented levels of domestic and foreign debts, which all culminated with the Russian economic crisis of August 1998.

Given a great deal of ‘fire-fighting’ activities during the early transition, government budgeting and accounting systems were not focal points, implying the legacy and

continuity of those practices and procedures inherited from the Soviet past. The relative stability in the content of central government accounting norms indicates this vigorously. Indeed, with a previous set of accounting norms serving as a point of departure, post-Soviet Russian policy makers were likely to adjust or modify them slightly to cope with a rapidly changing economic environment. With little or no ascendancy prompting externally, the system continued to regenerate itself, resulting in a 'new' pattern of accounting provisions that was chiefly reminiscent of its predecessor and that was hardly relevant providing new economic conditions. For instance, the 1993 Instruction #122 "On Accounting for Organizations Financed from the Budget" was nullified by the Supreme Court's resolution in July 1998 as *contradictory* to the Russian legislation. As a result, a lack of up-to-date accounting rules in the Russian public sector had induced government entities across the country to be guided by those provisions in the private sector for nearly two years (see e.g., Tokarev, 2000).

### 3.2. The Second Transition Period – "Gradual Change"

In the aftermath of the 1998 fiscal stress, reform efforts were intensified, heralding the second phase of transition. This was indeed the time when the economy recovered and grew, permitting the federal government to start solving some strategic tasks. More precisely, in cooperation with international financial organizations such as the IMF and the World Bank, the Russian central government adopted a series of fiscal austerity measures directed at halting macroeconomic instability. It also pursued some institutional reforms, including the adoption of the Russian Budget Code which finally came into force in 2000. Its adoption was, in fact, met by many international observers such the IMF and the World Bank as a significant step forward in modernizing the Russian public sector. This law took four years to be passed by the Russian Parliament and to be promulgated. While it is possible to detect some features in the Code depicting the legacy of the Soviet era, its passage can generally be characterized as a significant step forward in modernizing the Russian public sector (Diamond, 2002, 2003 and 2005). Perhaps more importantly for the sake of this study, the approval of a new Budget Code was reinforced by the launch of a Federal Treasury accounting and financial reporting system in 1999, allowing the management of the budget execution process.

Indeed, since its creation in 1992, the Federal Treasury had implemented a system to manage the budget execution process, allowing for greater timeliness and effectiveness of accounting and reporting, as well as a considerable improvement in the quality of data (World Bank, 2003; IMF, 2004). For instance, a federal execution balance sheet for the Russian Federation was for the first time prepared in 2000. Also for the first time in 2000, interim reports depicting the budget flows and net financial position were issued by the Ministry of Finance and circulated within the government, to supplement the annual report on budget execution. Furthermore, monthly reports on the federal budget execution, comprising revenues, expenditures, and financing data, had begun to be provided on a regular basis (World Bank, 2003). Besides that, a system of commitment recording was introduced in 2001 by Cabinet Resolution # 806 dated July 15<sup>th</sup>, 1999 to track utility-related expenditures such as heating, natural gas, fuel,

electric power, and water supply (Diamond, 2003). Following the IMF's Report on the Observance of Standards and Codes on Fiscal Transparency, the latter proved to be effective in tracking and avoiding arrears (IMF, 2004).

Moreover, a major step in the development of the Federal Treasury system was undertaken with the approval of a Federal Treasury Development Program by Cabinet Resolution # 677 dated June 23<sup>rd</sup>, 1999. The objectives of this program were specified as follows: (i) to implement a Treasury Single Account for federal budget revenues and expenditures; (ii) to centralize all government operations in the Federal Treasury's accounts; (iii) to ensure the implementation of a uniform accounting and reporting system based on a single accounting and budget classification; and (iv) to develop, implement, and facilitate an integrated treasury computer/communication system.

Noteworthy, the overall development of the Federal Treasury's capacity has been supported under the Ministry's of Finance *Treasury Development Project*, with World Bank loan funding (World Bank, 2001). Among other things, a US \$231 million project has aimed at providing a transparent system of accounting that shows the utilization of the financial resources of the government and enables management and audit of these resources (World Bank, 2002). This project commenced in June 2002, and has a maturity of 17 years including a 5-year grace period. The government expressed its deep commitment to the project due to its vital importance for strengthening fiscal management in the country (World Bank, 2003).

However, with some progress achieved during the second transition stage, Russian public accounting was solely aimed at ensuring control and compliance with those provisions and rules endorsed in the budget. To illuminate, the 1999 Chart of Accounts on Budget Execution effective from January 1<sup>st</sup>, 2000, explicitly specified the objectives of government accounting reporting, which were as follows (my translation):

- To provide comprehensive and reliable information on the federal budget execution;
- To secure control for the rightful use of resources from the federal budget;
- To provide the accounting reports necessary for the executive (i.e., the Russian Cabinet of Ministers) and the legislature (i.e., the Federal Assembly);
- To furnish useful information for other internal and external users.

As stems from the text of the instruction, the primary objective of accounting was to generate financial reports on budget execution at required time intervals (quarterly and annually) in order to assess budget accomplishments. Having said this, Russian central government accounting was designed for the recording of data and possessed as such the compliance orientation, whose main task was to measure and communicate actual spending versus authorizations, and not to provide information for fiscal management. Not surprisingly, government accounting was recognized on a modified cash basis to record the varying economic transactions, tracking the record of receipts and disbursements in relation to the budget.

Next, although other internal and external users were recognized in the text of the instruction, the reports produced were intended to be useful, first and foremost, to the Russian Cabinet of Ministers and the Federal Assembly, which were regarded as the primary users of accounting information for the purpose of the government's management of the macro-economy. This means that the operational objective of accounting was to secure the legislative approval of the final accounts, so that the

former could annually discharge its fiscal accountability. All this suggests that Russian central government accounting was intended to operate in a relationship between the Federal Assembly as the principal and the Cabinet of Ministers as the agent, in order to secure control of the rightful use of federal budget resources by providing comprehensive and reliable information on federal budget execution. In this regard, accounting constituted an adjunct to the budget, was held in low esteem, and considered solely a matter for government officials who were reckoned to be the only users of accounting information.

### 3.3. The Third Transition Period – “Accounting Renaissance”

Since 2003 demands for greater efficiency, effectiveness, and transparency in Russian public administration began to be widely heard, heralding the beginning of the third and most remarkable transition period. This has been enacted through a series of government initiatives embarked on in the country, signaling a clear-cut shift in the ideology in Russian public administration. Being essentially accountability-driven, they are all believed to alter significantly the scope and function of the Russian state in years to come. Rather than giving priority to strict obedience to the rules and provisions enacted in the budget law, there is now a definite move towards a greater element of accountability in terms of results within the executive branch. A radically improved structure of the Russian Cabinet of Ministers endorsed with the passage of Presidential Edict # 314 “On the System and Structure of Federal Organs of Executive Power” from March 9, 2004, indicates this strongly, giving birth to new ministries, agencies, and services. Albeit the degree of managerial autonomy of the agencies and services from the respective ministries is not yet clearly identified (Diamond, 2005), there appears to be a salient trend towards discerning policy from delivery of this policy. This is expected to result in better defined responsibilities and, as a repercussion, in heightened accountability and control issues, so that federal budget managers, rather than being held accountable for the correct use of inputs, would be held accountable for the results of using those inputs.

As far as the Budget Process Reform is concerned, it aims at ensuring the effective allocation and management of government finances that meet the country’s policy priorities and objectives. If implemented, the effectiveness of the use of budgetary expenditures is expected to rise by 10-20% after three years. A policy kit is diverse, encompassing the introduction and implementation of performance-oriented budgeting and medium-term financial planning, as well as the transformation of Russian public accounts towards accrual accounting. Along with the budget classification, the reforming of Russia’s public sector accounting system, as stated in *the concept*, is

“... a necessary and indispensable precondition in modernizing a country’s budget process. Both the budget classification and accounting system should become a reliable tool that ensures transparency of those activities of the state bodies and administrators of budget resources, and provides a wealth of financial information required throughout all the phases of the budget process, emanating from the analysis of the previous period’s financial results, to the

preparation and presentation of the draft budget, and its execution throughout the fiscal year up to the generation of final accounts” (p. 4, author’s translation).

This quotation suggests that the budget and accounting are still inextricably intertwined, and that accounting change is perceived as *complementary* or *residual* to that in the budget process. Needless to say, this also stems from the very name of the reform effort itself. Even though public budgeting gains much more attention than accounting, the outcome of the Budget Process Reform is deemed partially dependent on the availability of feedback information from the accounting system. Indeed, “without the reforming of government accounting, it is almost impossible to adopt performance-oriented budgeting and medium-term financial planning framework” (Nesterenko, 2004). In a more or less similar vein, “to achieve all the goals of economic reforms occurring in Russia nowadays, there is a need for the establishment of an adequate system of government accounting” (Corporation Parus, 2005). This makes the transformation of Russian public accounts at least as important as the budget reform itself. That is why moving Russian government accounting towards accruals is reckoned as the first element of the reform package enunciated in the Budget Process Reform Paper for 2004-2006.

According to *the concept*, the introduction of accrual accounting is intended to “fundamentally boost accountability and transparency of government transactions, and to furnish information showing the financial consequences of decisions being made in the fiscal and budgetary sphere” (p. 6). More precisely, in a move away from the previous exclusive emphasis on receipts and disbursements, the scope of Russian government accounting has now been extended to account for transactions affecting financial and non-financial assets and liabilities belonging to the Russian state:

“Unlike cash accounting, which merely enables flows of financial resources to be tracked and does not yield a complete picture of those assets and liabilities belonging to the state bodies, accrual accounting makes it possible to assess the outcomes of programs, as well as to match the costs of services provided by the government against those costs of obtaining the same services in the market” (p. 6, author’s translation).

As such, the financial information generated by the accounting system is expected to be in line as much as possible with the accounting methods used by the private sector, with three main statements prepared – a balance sheet, an operating statement, and a statement of cash flows (Romanov, 2004). Reports based on accruals are claimed to yield “full and comprehensive information about activities in Russian general government sector on a completely new basis” (Makleva, 2004). More specifically, they will allow their users not merely to assess cash flows, but also to evaluate a government’s ongoing ability to finance its activities and to meet its liabilities and commitments. Next, this information may be useful not solely for internal users such as the executive and the legislature, but for a wide constellation of external users like creditors and investors of the federal government as well. The latter are thought to “compare the results of activities in the Russian general government sector with those in other countries” (Makleva, 2004). Above all, the general public may also

find information on a government's overall position and current stock of assets and liabilities useful in demonstrating accountability for government's management of resources. In particular, this may "assist the Russian public in being kept informed about that economic policy conducted by the government and giving the latter a vote of confidence" (Makleva, 2004). This suggests that Russian central government accounting tends to become an important tool for supporting public entities' management and evaluation.

Furthermore, the transformation process in Russia appears to be substantially affected by overseas forces in the shape of large international organizations such as the IMF and the World Bank. Both organizations are deeply embedded in issuing normative models designed to conduct reforms, as well as in keeping a close eye on progress achieved. To illuminate, the IMF's 2004 report on fiscal transparency practices in Russia prescribed that "the new Chart of Accounts should be based on a GFS-consistent budget classification system, reflect international accounting standards in the public sector (IPSASs), and facilitate a gradual transition to accrual accounting" (p. 28). Having said this, it is not surprising that the Russian state is currently making a great effort to adopt these practices and definitions in accordance with the IMF *Code of Good Practices on Fiscal Transparency*, the 1986 edition of *A Manual on Government Finance Statistics* (GFSM 1986), and its revised version, *Government Finance Statistics Manual* (GFSM 2001). In this respect, launch and implementation of *the concept* with its focus on altering the budget classification and Chart of Accounts in favour of accrual accounting for the whole government sector can be considered to be the positive response to the ideas advocated by the IMF.

Finally, the Ministry of Finance officials are deemed pretty well aware of the International Public Sector Accounting Standards Board's (IPSASB) activities and its accrual-based International Public Sector Accounting Standards (IPSASs). While it is still premature to talk about the conformity of new Russian government accounting norms with IPSASs, it has become evident that their adoption is absolutely inevitable in the future (Zelenskyi, 2004; Artuchin, 2003; FBK, 2005). To illustrate this, the application of IPSASs is thought to help streamline the system of government accounting standard-setting in Russia. What is more, their adoption can assist in avoiding an endless stream of instructions, orders, and decrees, which have all proved to be rather contradictory in the past (Charkov and Choroshev, 2005). More importantly, the Concept of Accounting and Financial Reporting in Russia for the Medium-Range Outlook is strongly in favour of their implementation, stating that "the paramount instrument of reforming accounting and financial reporting in the budgetary sphere should be IPSASs". Regardless, throughout the course of reforms there is "a need to reach a positive answer to the question of whether the system of government accounting and financial reporting admits to produce those accounting statements in accordance with IPSASs and GFSM" (Artuchin, 2003: 17). All this manifests the strong commitment of the federal government to alter the existing system of accounting and financial reporting in the Russian public sector in support of accrual accounting.

#### 4. Discussion and concluding remarks

The evidence gathered in this paper exhibits that the traditional pattern of transforming Russian central government accounting has its roots in the Soviet period. In fact, being isolated from the outside world, the Soviet state was the only designer of all accounting solutions across the whole country, giving birth to the so-called 'balance school' (Bourmistrov, 2001). The latter had been a dominant accounting paradigm in the nation for many decades, stretching its power and ascendancy even beyond the 1990s when the USSR ceased to exist. This predetermined a relative stability in the content of central government accounting norms until recently. More probably, Russian government officials felt little pressure to alter the accounting system inherited from the 'good old times' (Martinez-Vazquez and Boex, 2001). This resulted in a 'new' detailed pattern of central government accounting norms essentially reminiscent of its predecessor. The state of Russia turned then out to be the only institutional pressure steering all changes in the content of accounting norms during the 90s.

Since the beginning of the new millennium, the state of Russia has been distancing itself from the legacy of the Soviet budgeting and accounting systems, and seeking to adopt ideas and ideals advocated by international organizations. This means that the reconstruction of accounting is now more a collective endeavor rather than a pure internal exercise, coalescing both external agencies and the government. Consequently, the reforming process is no longer confined to self-experience. The evidence presented in this study suggests that accrual accounting along with other up-to-date budgeting techniques is dispatched as a symbol of sound fiscal management practices to Russian government officials, making Russian central government accounting more and more reminiscent of its Western counterparts. In fact, myths generated by specific organizational practices (in our context, the adoption of accrual accounting does enhance fundamentally accountability and transparency) and widely propagated by international organizations (namely, the IMF and the IPSASB) possess legitimacy based on the supposition that they are rationally effective (Meyer and Rowan, 1977). These myths are a consequence of a set of ideas traveling around the globe (Czarniawska and Joerges, 1996; Czarniawska and Sevón, 1996).

Indeed, these ideas are on today's agenda worldwide, universal, fashionable, socially and politically legitimized, and are thus hard to resist or object to (Gherardi and Jacobsson, 2000; Sahlin-Andersson, 2001; Czarniawska and Sevón, 2005). Having become increasingly known as 'the steering wheels' around the globe, they were likely to attract the attention of Russian policy makers, and were, therefore, selected. As Forssell (1989) stresses, to follow what is 'progressive' and 'modern' is often perceived as a duty by organizational members. In this regard, GFSM and IPSASs have been adopted as the 'steering wheels' for reinventing Russian public accounts, commemorating the end of the balance school era. Therefore, the inclusion of new accounting and budgeting techniques into the political rhetoric, calling for better governance, accountability, efficiency, and effectiveness may be classified as *a symbol of legitimacy*, intended to bolster the image of the Russian state as more 'progressive' and 'modern' in the eyes of external parties and others. All this is to say that the state of Russia is undoubtedly subject to normative isomorphic pressures from the institutional environment of the accounting system.

In turn, coercive isomorphic pressures for change emanate from those international aid agencies (e.g., the IMF and World Bank) upon which the state of Russia depends in terms of financial resources to survive. A Treasury Development Project, with World Bank loan funding (US\$ 231 million), provides a vivid illustration of this. However, coercive pressures for change seem less potent today in comparison to the mid and late 90s. This is because of the sound economic and financial performance of the country during the last few years and its increased ability to pay debts back. For instance, Russian authorities have not sought to borrow from the IMF since 2001 (see e.g. Odling-Smee, 2004). More probably, the economic crisis of the 90s made the state of Russia reliant upon international donor organizations. But it is indeed through these organizations that new budgeting and accounting technologies have gradually penetrated down to the central government at the outset of the 2000s. This is well in line with DiMaggio and Powell (1983), pointing out that the potency and power of the various types of pressures tends to vary over time, given the particular set of actors in place.

Furthermore, it is also possible that mimetic isomorphic pressures are a potent force for the Russian federal government, acting in concert with normative and coercive ones. To be more specific, mimicking certain accounting and budgeting practices and techniques of successful states around the globe (in particular from OECD countries) may already have encroached upon the decision to reinvent the Russian public sector management system. This may stem from a plethora of international agencies and departments worldwide (the EU, DFID, USAID, the Swedish Ministry of Finance, etc.) which are embedded in the transformation process. Nevertheless, no compelling evidence has been found in this study revealing whether or not this form of isomorphic pressures does, in fact, prevail in the Russian state today. Moreover, identification of one type of pressure for change at a particular point in time does not necessarily imply that the remaining two are absolutely ineffective (Carpenter and Feroz, 2001; Mizuchi and Fein, 1999).

Last, but not least, while it is hard to argue against the positive consequences of the declared reforms, the question arises of whether Russian central government will actually succeed in promoting the desired outcome, by penetrating and altering operating processes currently in place in particular public sector entities. Formulated differently, it is one thing to promulgate a new set of accounting norms at the central government level, whereas quite another to implement them locally. As Preston *et al.* (1992: 590) have argued, the final accounting technology is “just as much the result of the actions and reactions of others as of the designers themselves”. These ‘others’ are numerous, including, first and foremost, a huge army of public sector accountants involved in operating actual accounting and budgeting systems. Besides this army, there are systems analysts, software engineers, and consultants, whose efforts are also deemed crucial. This makes it intellectually rewarding to link the central government initiatives to reinvent the Russian public sector with those endeavours to hammer them out in specific organizational settings.

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