

Implementing Reforms in Public Sector Accounting

Susana Jorge
Editor



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Comparative
International
Governmental
Accounting
Research

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COORDENAÇÃO EDITORIAL
Imprensa da Universidade de Coimbra
Email: imprensauc@ci.uc.pt
URL: http://www.uc.pt/imprensa_uc

CONCEPÇÃO GRÁFICA
António Barros

PAGINAÇÃO
Simões & Linhares, Lda.

EXECUÇÃO GRÁFICA
Simões & Linhares, Lda.

ISBN
978-989-8074-39-3

DEPÓSITO LEGAL
281657/08

OBRA PUBLICADA COM O APOIO DE:



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**WHAT MATTERS IN LEGISLATORS' INFORMATION USE
FOR FINANCIAL REPORTING?
– THE CASE OF JAPAN**

Introduction

Financial management reform for the public sector, which transforms from a cash based to a modernized accrual based system has diffused around the world. According to the OECD/World Bank survey (2003), many OECD countries already adopted accrual based accounting in financial reporting. The reform has been driven by the New Public Management (NPM) movement. The instruments of NPM are introducing the business management methods accompanied with a market mechanism which could make government much more result oriented and customers focused, into the public sector. Therefore, the transformation into an accrual based system adopted in the business world is crucial to implement NPM reform. Financial statements in accrual basis “can form the basis for a close link between resource allocation and performance management”, “(w)hen coupled with a system of decentralized financial management” (Pollitt and Bouckaert, 2004). Without accrual based accounting, it is hard to make link between cost and performance.

The contemporary movement reached Japan in the 1990s. The Economic Strategy Council which was chaired by a business executive, the ad hoc committee in the Cabinet, recommended the government in 1999 to introduce an accrual based financial statements. In response to the recommendation, in 2000 a working group in the Ministry of Finance (MOF) firstly prepared the tentative balance sheet of the central government. Likewise a research committee on fiscal analysis for the local government in the Ministry of Internal Affairs and Communications published a reporting model of the balance sheet for the local government. The Economic and Fiscal Council, which was established by the Reform Act for Government Ministries in 2001, chaired by the Prime Minister himself, announced to forward to introduce an accrual based approach into the public financial management in the Fundamental Policy of Economic and Fiscal and Structural Reform for the FY 2003. It was the big policy change, because for the first time the government officially acknowledged the accrual based approach in public sector reform. Since 2005, the Central and

most Local Governments (correctly prefecture level) have prepared the consolidated financial statements including the Special Accounts and the related entities like public enterprises, other than the financial statements for the General Account¹.

Especially in 2006, the Tokyo Metropolitan Government introduced an accrual based accounting using double-entry bookkeeping into the financial management. It is noteworthy that all other governments including the central government have adopted a cash basis in a day-by-day operations and just have prepared financial statements through adjusting to accrual basis at the end of the fiscal year, while like other governments, Metropolitan Government also reports budgets and fiscal accounts to the Assembly and the public on a cash basis for which fiscal regulation prescribes. Accordingly the current situation in Japan has got into the new stage in financial management reform. The aim at enhancing transparency or strengthening accountability has been accomplished by reporting financial statements which show the financial performance and the financial position other than cash flow. In practice, NPM is seeking efficiency and it supposes that accrual based financial management is superior to cash based approach in establishing a link between performance and budget allocations in terms of cost performance.

In a democratic government, decision making in resource allocation shall be done by politicians, the representatives of the citizens, although the efficiency in operational management like service delivery might be improved through a market mechanism such as market testing. In other words, ensuring the allocation efficiency in strategic management is entrusted to politicians whether parliamentary system or president system. From this perspective, it is necessary to examine to what extent the newly produced financial information actually has impacted on politicians' decision makings in resource management. Once new accrual based reporting is introduced, the focus moves to the use and its outcomes. Of course standard setting bodies for public sector accounting recognize the legislative institutions and citizens as a primary user group of financial reporting in the public sector. For example, GASB (1987) mentions that three groups of primary users are the citizenry, legislative and oversight bodies, investors and creditors. The Concept Statement describes "financial reporting is used in making economic, social, and political decisions and in assessing accountability" and "information in financial reports must have these basic characteristics: understandability, reliability, relevance, timeliness, consistency, and comparability". It is presumed that financial reporting having the basic character shall be effective for communicating to the users, as a result, they will promote to use the information.

However, in contrast to many studies on *needs* of financial reporting, as Pollitt (2006) indicated, there are few empirical researches on the *uses* of the information for politicians and citizens. Most of the previous research studied on the needs of users such as creditors, investors, financial directors, and auditors. The exceptions are Bogt (2004) and Askim (2006). Both scholars investigate to what extent politicians use performance information in policy making. Askim (2006) also examines the relationship between use

¹ The government accounts in Japanese Central and Local Governments are divided into the General Account and the Special Accounts. The former is the account for basic public services funded by taxes; the latter are the accounts for other services funded by taxes and fees.

of performance information and individual attributes using bi-variate analyses, then he showed that politicians made relatively higher use of performance information. This is contrasting to Bogt (2004) who analyzed the relation between amount and relevance of the performance information and found politicians did not have much use it.

Despite the innovative studies, neither of the research controls the individual character or attributes, and they just consider some part (budgets and annual reports) of financial information. In resource allocation it is also necessary to consider performance and financial information in terms of cost performance. Further in order to evaluate the impact of accruals, we have to measure the differences in usefulness and uses of information between the traditional cash and accrual based reporting.

This article therefore focuses on politicians' uses of financial reporting in policy making. The next section develops a theoretical model representing to what extent and how politicians use the financial information in terms of costs and benefits after reviewing the previous studies. The second section explains the data and method in examining the model. The results of empirical analyses and discussion in case of Japan are presented in the third section. Finally, the conclusions and future research issues are drawn.

1. Theory and Model

1.1. Literature Review

The studies on usefulness and use of financial reporting in the public sector might be separated into normative and descriptive approaches. The former is found in the concept statements or financial reporting standards by GASB, FASAB and IPSASB. For example, IPSASB (2000) speculates the objectives of financial reporting are:

“to provide information about the financial position, performance and cash flows of an entity that is useful to a wide range of users in making and evaluating decisions about the allocation of resources.”

The latter approach appears in empirical studies by Boyett and Groux (1978), Jones *et al.* (1985), Daniels and Daniels (1991), Brusca (1997) and Paulson (2006). Although most studies have focused on the needs of the primary users of financial reporting, Paulson (2006) analyzes to what extent the politicians and non-politicians in the central government use the accounting information in cash and accrual bases. The reason why politicians less use the accrual based information is interpreted by having the scarce time and their difficulties to understand the accrual accounting information. The objectives of government entities are however not to make a profit like companies but to improve the public interests and welfare. As a result, non-financial information may be reported alongside the financial reporting in order to make decision in evaluating the value for money or cost performance. GASB itself acknowledges that financial reporting is only one source of information needed by users.

As in financial reporting, there have been little theoretical or empirical studies on the actual relevance or usefulness of non-financial information to the users. Reed (1986)

and Schrader (1995) have conducted the empirical research whether non-financial information does impact users' decisions on resource allocations. Especially, Reck (2001) evaluated the impact of adding non-financial information to financial information on allocation decisions, adopting a principal-agent theory. In the model, agents are department heads or managers and principals are government budget officials. Financial and non-financial information should be relevant in assessing their performance, since the financial measures focus on the inputs to agents while non-financial measures focus on the outputs or outcomes by agents. By contrast to the theoretical hypothesis, the findings show that non-financial information had no impact when financial information was available. In the similar vein, using a rational communication model, Bogt (2004) showed that politicians made little use of performance information, while they preferred rich, verbal information to written information. The limited use was explained by the complexities and uncertainties of politicians' tasks and their environments in which they have a stronger preference for rich information than a formal performance or financial information. According to the communication model by Daft and Lengel (1984), Daft and Macintosh (1978), managers prefer simple, standard information in low uncertainty, although they prefer rich, flexible information in highly uncertain situations. On the other hand, Askim (2006) presented a contrasted figure that politicians in local government use performance information at all stages of policy making and their usage is relatively high compared to other information sources such as citizens, interested groups, media.

Yet, antecedent research has several limitations in decision points, types of information, users as decision makers, and the focused issues. A large part of studies analyzed the specific phases in management or budgetary cycle; basic measures surveyed are either financial information or non-financial information; in case of financial reporting, there are quite few in comparing the impacts by accrual and cash based information; primary users are budget officials, investors and creditors, not politicians; the interested issues are to what extent or whether the information impact on decisions and how to use the information. As many authors indicated, politicians as representatives of the citizens have a varied types of information needs on decisions through management cycle, their interests expand to compliance with budgets and regulations, financial positions and performance, and efficiency and effectiveness. Also since they are institutionally expected to play a key role in democratic control against administration, it is crucial to examine why and when politicians use or do not use the information on decisions of resource allocation, execution and evaluation, in addition which factors matter in using the information.

1.2. Model

From this perspective, this paper aims at specifying which factors determine the use and usefulness of financial reporting, considering the impact of non-financial information, types of information and individual character of politicians. In order to examine the mechanism of decision making, we identify the utility of the politician on decision as follows:

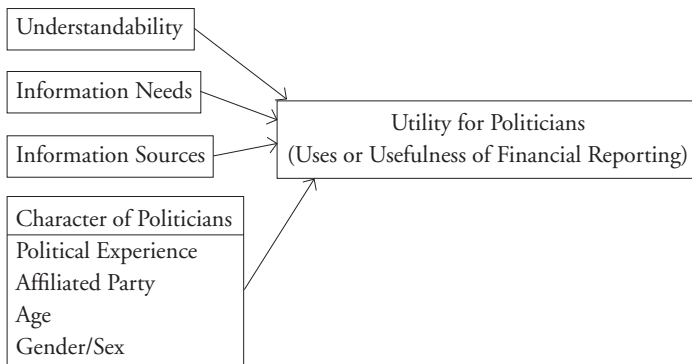
$$U_{ij} = U_i(B_j, C_j)$$

where

- U_{ij} means the utility of politician i in adopting information system j ;
- B_j means the benefits in case of information system j ;
- C_j means the costs in case of information system j .

Here C_j might be regarded as a negative benefit, therefore, we presume that B_j and C_j are composed of variables of understandability, information needs, information source, and individual character or attributes (see Figure 1). The understandability as an explanatory factor of the utility is derived from the normative decision theory. In practice, accounting standards such as GASB place understandability on the first element among characteristics of information in financial reporting, for the communication between government and users to be effective. The factors of information needs and information source are used to consider the politicians' environments in which they are interested in not only financial issues but also outcomes or consequences of public services. Politicians have different sources other than formal reporting by the government like financial reporting. Since the objectives of government activities are to improve public welfare, politicians are always seeking to grasp the people's needs through direct contact to citizens or their network. They are representatives of the citizens or voters. Consequently, information needs and sources for politicians might determine the level of their utility for financial reporting. The third group of factors is the individual character of politicians composed of political experience, political belief, age and gender/sex. It is assumed that as many studied postulated, the utility would depend on the character of politicians.

Figure 1 – Model for Uses and Usefulness of Financial Reporting



The specifications lead to the following assumptions. Firstly if the information provided by the financial reporting is well understandable for politicians, the value of the information will increase while the costs of reading and using might be lower. In this case, net benefits or the utility will become larger. Therefore it is hypothesized that:

H1: The more the financial reporting understandable for politicians, the higher the usefulness of the information on their decisions.

In the similar vein, when the contents of the financial reporting are met with the information needs of politicians, the value of the benefits will be increased given fixed

costs. Some politicians however might be less interested in financial performance or position compared to the quality of services and effectiveness or compliance with regulations. In this case, they have a weak preference for financial information. Consequently it is hypothesized that:

H2: As the financial reporting becomes satisfied with the information needs of politicians, it is likely the usefulness becomes large.

On the other hands, as discussed earlier, politicians have a lot of information sources other than formal reporting. Especially the politicians who are influential or in party are able to easily access to the senior department officials: they are advantageous in getting information for decision making in comparison with minority groups or opposition party. In other words, formal documents like a financial reporting might contribute to “satisfy the needs of users who have limited power, or resources to obtain information” (GASB, 1987, § 3). Accordingly it is hypothesized that:

H3: The more politicians rate financial reporting an important source, the higher they use the information.

Yet, the formal documents provide politicians with information for general purposes, while as Public Choice (Buchanan and Tullock, 1962) showed, most of them prefer the information for a specific purpose such as planning or program for development in the local constituency to the total figure of the government. Communication theory also indicated politicians have a preference for rich or qualitative information to formal or quantitative information, because they are placed in an uncertain environment. As a result it is hypothesized that:

H4: When politicians seek to maximize their utility in the uncertain environment, they are less interested in the financial reporting, rather want the qualitative and specific information in their constituency.

The transformation from cash to accrual based information is a component of financial management reform (Pollitt and Bouckaert, 2004). The change provides users with more informative and rich information through statement of financial position (balance sheet) and cash flow statement. When the switching costs from cash to accrual based reporting are huge, even though the benefits of adopting accrual based accounting are larger than those of cash basis, politicians prefer traditional cash based reporting to accrual based reporting because of path dependency theory (Nelson and Winter, 1982; Pierson, 2000). In fact, as found in UK’s parliamentary discussions on introducing resource accounting and budgeting (NAO, 1996), it takes significant costs and effort for politicians to understand the concept of accrual based reporting. Hence it is hypothesized that:

H5: Politicians do not have a stronger preference for accrual based information than cash based information.

2. Data and Method

In order to test the hypotheses from the theoretical model for politicians in Japan, the questionnaire was sent to all Parliamentarians (721) in the Central Government and Councilors (125) in the Metropolitan Government in 2006. As mentioned earlier, the survey for politicians of central and local governments aims to examine whether

the political system will affect politicians' uses or needs for financial reporting in their decision making. The postal mail included a questionnaire about the information use, needs, source (in case of Metropolitan Government), understandability and attributes. The names and addresses of members of the Diet and of the Metropolitan Assembly were obtained from the directory published and the Web respectively.

Responses were received from 81 Parliamentarians (11%) and 35 Councilors (28%). The response rates seem to be not higher. However, as shown in the Annex, in case of Central Government, the respondents are generally representative of member of the Diet. The response rate in survey by Jones *et al.* (1985), which is the most cited research, was about 10%. In addition, the 2006 Government Accounting Standards Board survey initiated by the Financial Accounting Foundation (FAF) received 21% of the questions. Consequently, the quality of survey stands comparison with the previous studies. The variables in the model are operationalized as shown in Table 1.

Table 1 – Operationalization of Variables

DEPENDENT VARIABLES: utilization of financial reporting (budgets, budget supplements, account, account supplements*, audit report, financial statements)
1) Usefulness of financial reporting** (very useful=1, somewhat useful=2, neutral=3, little useful=4, not useful=5)
2) Use of financial reporting** (completely read=1, read summary=2, read only interesting part=3, little read=4, not read=5)
INDEPENDENT VARIABLES
1) Understandability of financial information** (easy=1, neutral=2, difficult=3)
2) Information needs for finance ($=\sum I(F_i)/\sum I(NF_j)$; $i=1,\dots,9$, $j=1,\dots,5$)
I(F): importance of financial issues***(important=1, somewhat important=2, neutral =3, little important=4, unimportant=5)
I(NF): importance of non-financial issues***(important=1, somewhat important=2, neutral=3, little important=4, unimportant=5)
3) Financial reporting as information sources (important=1, somewhat important=2, neutral=3, little important=4, unimportant=5)
4) Political experience (number of elections): one=1, two=2, three=3, four=4, five and more=5)
5) Affiliated party (majority=1, opposition=0)
6) Age (less than 35=1, 35-44=2, 45-54=3, 55-64=4, 65 or older=5)
7) Gender/Sex (male=1, female=0)

* In case of Metropolitan Assembly member (Councilor).

** Total amounts of rating on financial reporting.

*** Financial issues=(1)financial position, (2)financial performance, (3)primary balance, (4)difference from budget, (5)funding and expenditure by program, (6)expense by objective, (7)expense by character or function, (8)service cost, (9)future financial performance and position.

Non-financial issues=(1)compliance with regulation, (2)benefit and pay, (3)cost and performance, (4)quality of service, (5)beneficiaries.

3. Results and Discussions

3.1. Descriptive and regression analyses

It is presumed in financial management reform that providing politicians with more adequate information will result in improving decision making on resources. Accrual based financial information is the crucial element of the reform. At the same time, as presumed in hypotheses 4 and 5, there are some arguments and empirical studies in which politicians less use the formal reporting from the government. Table 2 shows to what extent politicians actually use or read the financial information in their parliamentary or assembly activities. At a glance, we can find the contrasting figure in using between Parliamentarians and Councilors. The Councilors in the Metropolitan Assembly read much higher the financial information, while the Parliamentarians in the Diet little use. Yet in case of Councilors, the use of accrual-based information remains lower (17.6%) compared to cash-based information. Politicians might recognize that financial information is useful in decision making even though less using, when they could find critical information from these documents such as key issues in the constituency. For example, opposition party might be more interested in audit report that includes some mismanagements or inefficient programs for the administration, because it gives offensive subjects to the opposition. In practice, as shown in Table 3, a significant part of Parliamentarians and Councilors have rated the financial reporting 'very useful'. However, the usefulness of accrual-based reporting for both members was rated lower than that of cash based information. Accordingly, the hypothesis 5 was generally supported.

Table 2 – Use of Financial Reporting*

Type of Report	Parliamentarians (Central)	Councilors (Metropolitan)
Budgets	6.2%	35.3%
Budget Supplements	2.5%	41.1%
Accounts	3.7%	28.1%
Audit Report	8.7%	47.0%
Financial Statements**	3.7%	17.6%

* The percentage of respondents who answered 'completely read'.

** Accrual-based financial reporting, other reporting is cash basis.

Table 3 – Usefulness of Financial Reporting*

Type of Report	Parliamentarians	Councilors
Budgets	30.7%	44.1%
Budget Supplements	20.5%	50.0%
Accounts	32.0%	35.3%
Audit Report	30.4%	38.2%
Financial Statements**	15.2%	17.6%

* The percentage of respondents who answered 'very useful'.

** Accrual-based financial reporting, other reporting is cash basis.

As many authors indicate, documents or information for financial management in the public sector have difficulty to understand or at least require a great effort and time, because these documents use technical term and are prepared in accordance with regulations or law. Therefore, politicians need to learn the rules and procedures and acquire knowledge for public finance. In order to understand accrual-based information, additional effort would be required. Table 4 accords with the findings of previous research: less than 20% of the respondents were ranked as ‘easy to understand’ the financial report except for audit report in the Metro Government. Approximately 40% of councilors rated the audit report ‘easy to understand’. This much higher rating could be explained by communication theory. Since audit report is considered a kind of narrative reporting, the contents include rich information. There needs no special knowledge in accounting or public finance to understand: by contrast to the audit report for the financial statements that contains the technical phrase like ‘a true and fair view’ or ‘properly prepared’ in accordance with GAAP, the audit report in the public sector is composed of the opinion on whether budget executives and accounts were compiled with budgets and regulations, in addition, resources were managed efficiently and effectively. In the government sector, so far audit of financial statements has not been mandated in Japan. It might be therefore said that audit report resembles to annual report and policy paper to which general public also can access. Consequently the hindrance to understanding the audit report is quite low for politicians.

Table 4 – Understandability of Financial Reporting*

Type of Report	Parliamentarians	Councilors
Budgets	11.2%	3.0%
Budget Supplements	6.3%	18.2%
Accounts	15.2%	6.0%
Audit Report	12.5%	39.4%
Financial Statements**	5.0%	15.6%

* The percentage of respondents who answered ‘easy to understand’.

** Accrual-based financial reporting, other reporting is cash basis.

The information sources when politicians use in decision-making are not limited to formal documents by the government. In this regard, financial reporting whether cash or accrual basis is just an important source. Table 5 shows to what extent the sources are important for politicians in decision-making by information type. Factor analysis indicates that the information sources are aggregated into three groups: the first is formal documents composed of financial reporting and performance reports; the second is informal information provided by the institutions consisting of administration, assembly, affiliated party and media; and the third is information by direct communication with general citizens and local supporters. Among three groups, the most important source is the third group, in which 82.3% of politicians rated general public ‘important’ source in their decision making, while in case of financial reporting the highest response was ‘somewhat important’ (44.1%).

Table 5 – Information Sources for Councilors

Source	important	somewhat important	neutral	little important	unimportant
General Public	82.3%*	11.7%	5.8%	0.0%	0.0%
Financial Reporting	32.3%	44.1%*	20.6%	2.9%	0.0%
Performance Reporting	23.5%	58.8%*	11.7%	5.9%	0.0%
Supporters (Local Interest Group)	67.6%*	14.7%	14.7%	2.9%	0.0%
Administration	29.4%	38.2%*	32.3%	0.0%	0.0%
Affiliated Party	75.7%*	21.2%	0.0%	3.0%	0.0%
Assembly	35.3%	38.2%*	20.6%	5.9%	0.0%
Media	26.4%	50.0%*	11.7%	11.7%	0.0%

* Maximum percentage of response among answering items.

In order to test the hypotheses, Ordinary Least Square (OLS) regressions for uses and usefulness of financial reporting in the Metropolitan Councilors were used in case of cash and accrual-based reporting (financial statements). Findings from the regression analyses in Table 6 lend partial support to the hypotheses. As for hypothesis 1, understandability has a significant impact on usefulness in Models 5 and 6, although there is no significant relationship between understandability and uses. Regarding hypotheses 2 and 3, none of the information needs, affiliated party and individual characteristics such as gender, age and experience has a statistically significant impact on either uses or usefulness of financial reporting. On the contrary, information sources have a significant association with uses and usefulness in Models 2, 3, 5 and 6.

Accordingly financial reporting as an information source has a statistically significant relationship with uses and usefulness, whether cash or accrual-based reporting. As a result, we can say that hypotheses 1, 4 and 5 are generally supported while hypotheses 2 and 3 are rejected. The latter results might be explained by the politicians' attitudes. Politicians as councilors have usually more concern about individual issues in which constituencies are greatly interested rather than government performance as a reporting entity. In fact, as Table 5 shows, politicians rate the information from the public more important than that from financial reporting in their decision-makings.

Table 6 – Regression Results in the Metropolitan Councilors

Variables	Dependent variable = Use			Dependent variable = Usefulness		
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Independent variables						
Understandability	0.207(0.55)			0.794(1.92)	1.077(3.00)**	0.177(2.73)*
Needs	1.877(1.01)			2.678(1.32)		
Sources	1.494(1.30)	1.720(1.98) †	0.498(2.17) †	1.870(1.49)	2.207(1.97) †	0.517(2.55)*
Experience	0.101(0.14)			-0.286(0.36)		
Party	0.467(0.26)			0.497(0.16)		
Age	0.361(0.36)			-0.842(0.78)		
Gender	-0.184(0.07)			-0.449(0.17)		
Adjusted R2	0.199	0.088	0.110	0.381	0.415	0.443
F	0.817	3.922 †	4.714 †	3.647**	11.670**	12.928**

The parentheses show t-value. Models 1 and 4 are the regressions when all variables are adopted.

Models 2 and 5 are the regressions when only significantly related variables are adopted in full set of financial reporting. Models 3 and 6 are the regressions when only significantly related variables are adopted in accrual-based financial reporting.

**p<0.01, *p<0.05, † p<0.10.

3.2. Discussion

The analyses showed the mixed results from the perspective of either decision theory (utility theory) or communication theory. Although understandability and information source on financial issues are significantly associated with usefulness, relative importance of financial information to performance information (information needs) did not have significant impact on uses or usefulness. Besides, politicians recognize that information sources from direct contacting are more important than formal documents including financial reporting in decision making. Accordingly, the analytical results partly support the decision theory and communication theory. It is expected that new developed financial reporting which adopts an accrual basis would provide users with more useful information on decisions. Yet the findings did not indicate that politicians prefer accrual information to cash information in their uses or usefulness. According to a research survey (PwC, 2005), even in the private sector, the respondents attached the relative importance to contextual and non-financial information. This shows that like business sector, general types of reporting for the public sector have a limited value in decision making, because of varied information needs or demands by user group. Therefore, financial reporting has to be placed upon the information set that might be useful for politicians as the user group. The scope and quality of information would depend on the context and contents of decision making, for example on fiscal policy or approving a program appropriation or evaluation of a program or a project. For instance, in case of fiscal policy, the most relevant information will be financial measures, although in case of program evaluation, there needs the performance information such as outcome measures.

As a result, we can obtain three policy implications. First, in order to promote the uses and usefulness of financial reporting, it might be effective that politicians become more interested in financial performance and financial positions of the government as a reporting entity. In other words, this means that politicians do seek to improve public welfare as a whole rather than maximizing the benefits of their constituency. However, it is not easy to change the character of politicians into selfless, as Public Choice indicates their selfishness. Second, the other approach to increase the utility of financial reporting is to make it more understandable. The method is either to enhance readability by adding contextual information and notes to the reporting or to promote the skills or knowledge in accounting and public finance. The former stresses more rich information, while the latter emphasizes learning. Third, in the public sector, performance measures might be expected to have greater importance than financial measures, because the objectives are not to make a profit but to maximize public welfare. This means that financial reporting will contribute to improve usefulness accompanying with performance reporting.

Conclusions

Financial management reform in the public sector aims at improving efficiency and transparency in public finance. Accrual accounting is a crucial element in the reform, because the measurement focus is on the economic resources, not cash. NPM postulates that more flexibility in resource management will improve performance in exchange of strengthening accountability for results. In practice, NPM adopts business management tools like accrual accounting in corporations, where the resource allocation is determined in market mechanism in which goods and services are exchanged by a voluntary transaction through using a signal composed of prices and volumes. However, owing to the specific character of the public sector in which resource allocation is implemented by collective decision making, the role of politicians as the representative of the citizens remains significant. NPM assumes that politics as the principal determine the basic values and missions, in terms of finance, resource allocation on policies, and the implementations can be devolved to managers as agents accompanied by a monitoring system to ensure the basic values without their direct intervention (Aucoin, 1990). Despite this, there are so far few empirical studies on politicians' use of information on resource decisions.

In this regard, this article has examined to what extent politicians in Japan use the financial reporting on their decision making in cash and accrual bases. Besides, we analyzed about what matters in the use and usefulness on decisions. Using the survey data to parliamentarians and councilors, the hypotheses based on communication theory and decision theory were examined. The findings have shown the mixed results. In terms of decision theory, understandability of financial reporting was significantly associated with the usefulness, while few politicians completely read and understand it. NPM presumes that accrual information will promote more rational decision making through providing politicians with appropriate information, which could match the resources consumed against the results. However, we found that politicians neither recognized the accrual information more useful than cash nor greatly used it.

This means that unless politicians will understand an accrual based financial reporting, the intended outcomes through rational resource allocation decisions will not be caused. In fact, at the Finance Committee (held on 2, November, 2006) in the Metropolitan Assembly, a councilor affiliated in the proponents for introducing accrual based accounting mentioned as:

“This double-entry bookkeeping and accrual based accounting itself is greatly difficult to understand, in other words, far from or not familiar with general public including me. Therefore I think that it is necessary to provide understandable financial reporting with the public, when the first accrual based accounts will be published in the next year.”

On the other hand, as in the previous studies, it was shown that politicians used varied sources of information in their decision making other than financial reporting. The direct communication with general public, local interest group and affiliated party was more influential than the formal documents like financial reporting and performance reports, although the more important politicians recognize financial information as the information source, the larger the use and usefulness of financial reporting. The findings generally support the hypothesis based on communication theory. Accordingly, in order to make financial reporting more useful in political decision making, there needs to make a linkage between financial and non-financial information given politicians have the more macro perspective on public finance and accountability.

Future research shall be implemented to explore the relationships between decision making and information uses; how politicians use financial information accompanied with non-financial information. Also in order to generalize the findings, a larger and time series data in addition to those in other countries will be needed other than interviews to politicians, bureaucrats and citizens.

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Annex

Respondents and Population of Parliamentarians in the Diet

1. Age		
Age group	Respondents	Population
younger than 35	5 (6.2%)	34 (4.7%)
35-44	12 (14.8%)	123 (17.0%)
45-54	21 (25.9%)	184 (25.5%)
55-64	32 (39.5%)	252 (34.9%)
65 or older	11 (13.6%)	128 (17.7%)
Total	81 (100.0%)	721 (100.0%)
2. Gender		
Sex	Respondents	Population
Male	66 (81.5%)	646 (89.6%)
Female	15 (18.5%)	75 (10.4%)
Total	81 (100.0%)	721 (100.0%)
3. Experience in MP		
Accumulated election	Respondents	Population
1	32 (39.5%)	200 (28.1%)
2	19 (23.4%)	160 (22.5%)
3	10 (9.9%)	100 (14.1%)
4	12 (12.3%)	78 (10.9%)
5 and more	11 (13.6%)	172 (24.2%)
Total	81 (100.0%)	721 (100.0%)
4. Party		
Party	Respondents	Population
Ruling	47 (58.0%)	463 (64.2%)
Opposition	31 (38.3%)	232 (32.1%)
Independent	3 (3.7%)	26 (3.6%)
Total	81 (100.0%)	721 (100.0%)
5. Affiliated House		
House	Respondents	Population
Lower (Representatives)	57 (70.4%)	480 (66.5%)
Upper (Councilors)	24 (29.4%)	241 (33.4%)
Total	81 (100.0%)	721 (100.0%)

