

**ACCOUNTING AND TRANSITION:
A STUDY OF RUSSIAN LOCAL GOVERNMENT ACCOUNTING**

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Dedicated to Natasha and Ivan ...

PREFACE

The purpose of the thesis is to provide an understanding of accounting in a process of societal transition. Russian economy, politics and society have since 1985 entered into a phase of dramatic transformation. The rhetoric of ideology has emphasized that the former planned economy should be replaced by economic mechanisms *à la* Western market economy; the political monopoly of one ruling party should be replaced by the pluralism and tolerance of an ongoing debate among people advocating different ideologies; the totalitarian dominance of the system concerning the needs of human beings - by the system defending peoples' liberty, autonomy and freedom. Accounting is commonly recognized as a social construction, and interrelates with its context depicting societal, organizational and institutional processes. Entering the new state of economy, politics and society could have meant changing the context and, thus, ways of handling accounting.

Even though a new ideology is important for initiating the transformation, for transition to succeed, the wishful rhetoric of the central reformers should be materialized in the behavior of the particular organization and the individual. The hope is that the thesis will provide the reader with an understanding as to why, and how accounting interrelates with societal transition in respect to particular types of organizations, i.e. local government. I also hope that this thesis will be of interest, not only to those concerned about knowing more about local government accounting in Russia, but also to those who want to know more about local government itself - its tasks, functions, organization, political situation, the relations between central government, and local government organizations such as counties and municipalities.

The subject matter is approached in the thesis from a variety of perspectives. Accounting is considered as a set of three closely interrelated phenomena (or "texts"), i.e. accounting norms, accounting practice and accounting use. In order to offer an understanding of accounting in transition, each "text" is analyzed in its particular "context". The thesis is structured in four parts. In the first part, changes in accounting norms are considered from a broad historical perspective. In parts two and three respectively accounting practice and use are approached from the perspective of a particular local government organization, chosen for this study, i.e. Leningrad *oblast'* county

administration. The last part concludes the thesis analyzing links between local government accounting and transition in society.

Three years of intensive work have allowed me to materialize my ideas on paper and to get more and deeper knowledge concerning accounting, local government and Russian transition. However, it would be highly inappropriate to give credit only to myself for completing this work. There are many other people who have contributed in the preparation of this thesis and without them this thesis would be no more than a dream.

I would like to devote a very special vote of thanks to professor Frode Mellemvik, Bodø Graduate School of Business, who has been my supervisor. I owe a special debt to him for his continuous follow-up of my writing progress as well as many valuable advises, inspiration and readiness to support. Thank you for all this!

I am also grateful to two members of the doctoral supervisory committee, professor Trond Bjørnenak, Agder University College, and professor Kjell Grønhaug, Norwegian School of Economics and Business Administration, who have devoted much time to improving this thesis by offering valuable comments and ideas.

Major parts of this thesis would seem impossible without the empirical data I have collected. Many thanks in this respect are devoted to the library personnel of Bodø Regional University who provided me with relevant literature from libraries around the world. I am also thankful to two representatives of the Leningrad county administration, Gennady Gritsko and Magomet Mersaliev, who assisted me in finding relevant empirical material as well as allowing me to share contacts with members of their personal network.

Discussions with colleagues were an essential part of writing this dissertation. Many thanks to my colleagues at Bodø Graduate School of Business who have commented upon the earlier version of the proposal for this Ph.D. research. I am also grateful to individuals who commented on earlier versions of the thesis's chapters when presented as independent papers at the 15th Nordic Ph.D. conference on Business Studies at the University of Tampere, Finland (August 1999), FIBE XVII conference at Norwegian School of Economics and Business Administration, Bergen, Norway (January 2000) and the 23rd European Accounting Association Congress, in Munich, Germany (Mars 2000).

As this dissertation has involved collection of primary data from Russia, it would have hardly been possible without financial support. I would like to thank the Norwegian Ministry of Foreign Affairs, Center for International University Cooperation (SIU), Økonomisk Forskningsfond at Bodø Graduate School of Business and the Central Research Fund at Bodø University for providing me with financial resources enabling me to travel to Russia.

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CONTENT

CHAPTER 1. INTRODUCTION	1
1.1. MAIN CONCEPTS OF THE STUDY	3
1.1.1. LOCAL GOVERNMENT.....	3
1.1.2. ACCOUNTING IN LOCAL GOVERNMENT.....	5
1.1.3. TRANSITION AND CHANGE	9
1.2. MAIN PERSPECTIVES OF THE STUDY	9
1.2.1. THE HISTORICAL PERSPECTIVE	11
1.2.2. THE TECHNICAL PERSPECTIVE	12
1.2.3. THE USER PERSPECTIVE.....	13
1.3. PURPOSE OF THE STUDY AND RESEARCH OBJECTIVES	13
1.3.1. PURPOSE OF THE STUDY, OBJECTIVES AND THE RESEARCH MODEL	16
1.4. A COMMENT ON METHODOLOGY AND RESEARCH METHOD.....	18
1.4.1. PARADIGMS, PERSPECTIVES AND CHOICE OF METHOD	19
1.4.2. A SUMMARY CONCERNING THE METHOD	22
1.5. LAYOUT OF THE STUDY	24
PART 1. THE HISTORICAL PERSPECTIVE ON ACCOUNTING IN TRANSITION ..	25
CHAPTER 2. THE RUSSIAN TRANSITION: WHAT HAVE SHIFTS IN THE DOMINATING IDEOLOGY DONE TO LOCAL GOVERNMENT?	26
2.1. INTRODUCTION	26
2.2. THEORETICAL FRAME OF REFERENCE	27
2.2.1. IDEOLOGY.....	27
2.2.2. LOCAL GOVERNMENT AND ACCOUNTING.....	29
2.2.4. REFORMS AND CHANGES: UNDERSTANDING THE CONNECTION	31
2.3. METHOD	34

2.3.1. DATA COLLECTION	35
2.3.2. DATA	36
2.4. IDEOLOGICAL SHIFTS AND CHANGING CONTEXTS: RUSSIAN REVOLUTIONS AND REFORMS	36
2.4.1. THE PERIOD OF TSAR AUTOCRACY (1700 - 1917).....	37
2.4.2. THE SOVIET PERIOD OF RUSSIAN HISTORY (1917 - 1985).....	44
2.4.3. PERESTROIKA AND MARKET REFORMS (1985 - 1999).....	50
2.5. ANALYSIS: IDEOLOGICAL TRANSITION AND REFORMATION OF LOCAL GOVERNMENT IN RUSSIA.....	54
2.5.1. IDEOLOGY AND PUBLIC SECTOR REFORMS.....	54
2.5.2. IDEOLOGY, REFORMS AND LOCAL GOVERNMENT: CONTINUITY AND CHANGE.....	56
2.6. DISCUSSION.....	59
2.6.1. IDEOLOGICAL HETEROGENEITY AND IDEOLOGICAL SHIFTS.....	59
2.6.2. IDEOLOGY AND LOCAL GOVERNMENTS: CONTINUITY AND CHANGE.....	62
2.7. CONCLUSION.....	64
CHAPTER 3. DEVELOPMENT IN RUSSIAN LOCAL GOVERNMENT ACCOUNTING NORMS – PROGRESS OR ILLUSIONS?.....	66
3.1. INTRODUCTION	66
3.2. ACCOUNTING NORMS	67
3.3. A COMMENT ON THE METHOD: COLLECTING ACCOUNTING NORMS	69
3.4. NORMS OF ACCOUNTING IN RUSSIAN LOCAL GOVERNMENT	70
3.4.1. NORMS OF ACCOUNTING: THE PERIOD OF TSAR AUTOCRACY.....	70
3.4.2. NORMS OF ACCOUNTING: THE SOVIET PERIOD.....	74
3.4.3. CHANGES IN NORMS: PERESTROIKA AND MARKET REFORMS	80
3.5. ANALYSIS: IDEOLOGICAL SHIFT AND ACCOUNTING NORMS.....	83
3.6. DISCUSSION AND CONCLUSION	88

PART 2. THE TECHNICAL PERSPECTIVE ON ACCOUNTING IN TRANSITION.... 92

CHAPTER 4. CURRENT ACCOUNTING PRACTICE IN LENINGRAD COUNTY

ADMINISTRATION: MORE SEDIMENT THAN INNOVATION? 93

4.1. INTRODUCTION	93
4.2. METHOD: ETHNOGRAPHIC AND INTERPRETATIVE ANALYSIS.....	94
4.2.1. THE RESEARCH CONTEXT.....	95
4.2.2. DATA COLLECTION	95
4.2.3. INTERPRETATION AND ANALYSIS OF DATA	99
4.3. THE ACCOUNTING TECHNICAL SYSTEM IN A RUSSIAN LOCAL GOVERNMENT ORGANIZATION – THE CASE OF LENINGRAD COUNTY.....	100
4.3.1. OBJECTIVES OF FINANCIAL REPORTING.....	102
4.3.2. ACCOUNTING POSTULATES AND PRINCIPLES.....	103
4.3.3. THE TECHNICAL SYSTEM OF ACCOUNTING: ACCOUNTING REGISTERS AND REPORTS	106
4.3.4. ACCOUNTING REPORTS	109
4.3.5. SUMMARY	114
4.4. A “BREAKDOWN”: ANALYZING RUSSIAN LOCAL GOVERNMENT ACCOUNTING BASED ON WESTERN ACCOUNTING TRADITIONS	115
4.4.1. ACCOUNTING TRADITION IN THE WEST.....	115
4.4.2. APPLYING THE IDEAS OF THE WESTERN ACCOUNTING TRADITION	123
4.4.3. A “BREAKDOWN”: WHERE DOES THE WESTERN TRADITION FAIL TO PROVIDE UNDERSTANDING?	126
4.5. SEARCHING FOR AND APPLYING AN ALTERNATIVE ACCOUNTING THEORY – “THE BALANCE SCHOOL”	128
4.5.1. THE APPEARANCE AND INFLUENCE OF THE BALANCE SCHOOL	129
4.5.2. THE BALANCE SCHOOL OF ACCOUNTING – AN ALTERNATIVE THEORY?	131
4.5.3. A “RESOLUTION”: APPLYING “BALANCE SCHOOL” ACCOUNTING THEORY.....	133

4.6. DISCUSSION AND CONCLUSIONS	136
PART 3. THE USER PERSPECTIVE IN RELATION TO ACCOUNTING IN TRANSITION.....	140
CHAPTER 5. RELATIONS BETWEEN THE NEED FOR ACCOUNTING INFORMATION AND THE REPORTS AVAILABLE: A MIXTURE OF MEANINGS AND IDEAS	141
5.1. INTRODUCTION	141
5.2. THEORETICAL FRAME OF REFERENCE	143
5.2.1. APPROACHING USE OF ACCOUNTING INFORMATION	143
5.2.2. A MODEL: USE OF ACCOUNTING INFORMATION IN A LOCAL GOVERNMENT.....	146
5.3. METHOD.....	149
5.3.1. RESEARCH DESIGN AND DATA.....	149
5.3.2. QUESTIONNAIRE AND INTERVIEWS	152
5.3.3. DATA PRESENTATION AND ANALYSIS	154
5.4. RESULTS OF THE QUESTIONNAIRE.....	155
5.4.1. RESPONDENTS	155
5.4.2. GENERALLY REPORTED ACCOUNTING INFORMATION	156
5.4.3. GENERAL NEEDS FOR ACCOUNTING INFORMATION	157
5.4.4. MATCH BETWEEN REPORTS AND NEEDS: THE STATEMENT OF BUDGET IMPLEMENTATION	158
5.4.5. EDUCATION PROMOTES NEW NEEDS AND CRITIQUE OF THE PRESENT REPORTING PRACTICES	161
5.4.6. RESULTS OF QUESTIONNAIRE: AN ANALYSIS	162
5.5. RESULTS OF INTERVIEWS	165
5.5.1. INTERVIEW 1: ADVISER TO A TOP POLITICIAN IN THE REPRESENTATIVE COUNCIL OF LENINGRAD OBLAST' COUNTY ADMINISTRATION.....	165

5.5.2. INTERVIEW 2: MAYOR OF ONE CITY MUNICIPALITY IN LENINGRAD OBLAST'	167
5.5.3. INTERVIEW 3: ADMINISTRATIVE OFFICER, SECTOR OF BUDGETING, THE ECONOMIC DEPARTMENT OF LENINGRAD OBLAST' COUNTY ADMINISTRATION	170
5.5.4. RESULTS OF INTERVIEWS: AN ANALYSIS	172
5.6 DISCUSSION AND CONCLUSIONS	174
PART 4. ACCOUNTING, CHANGES AND TRANSITION	178
CHAPTER 6. THE RUSSIAN TRANSFORMATION: HOW CAN WE UNDERSTAND ACCOUNTING IN TRANSITION?	179
6.1. UNDERSTANDING ACCOUNTING	180
6.2. UNDERSTANDING ACCOUNTING CONTINUITY	183
6.2.1. CHANGES: SEDIMENTS AND LEARNING	184
6.2.2. ACCOUNTING HAS NOT BEEN QUESTIONED	185
6.2.3. A HIERARCHICAL LEARNING PROCESS	186
6.2.4. THE BELIEF IN THE TRUTH	188
6.3. UNDERSTANDING TRANSITION AND ACCOUNTING DEVELOPMENT	190
6.4. PROPOSAL FOR FURTHER RESEARCH	193
6.4.1. STUDYING PARTICULAR ACCOUNTING HISTORICAL PERIODS	194
6.4.2. STUDYING ACCOUNTING PRACTICE: A SEARCH FOR INNOVATIONS?	194
6.4.3. ADDRESSING ACCOUNTING USE	195
6.4.4. COMPARATIVE STUDIES	196
6.4.5. THE PUBLIC SECTOR - REFORMS IN WEST AND EAST	196
ATTACHMENTS	199
ATTACHMENT 1. OVERVIEW OF SOME ACCOUNTING NORMS WHICH HAVE BEEN STUDIED	200
ATTACHMENT 2. FINANCIAL STATEMENTS FOR ZEMSTVOS (IN USE DURING THE 1890's)	202

ATTACHMENT 3. MAJOR FINANCIAL STATEMENTS FOR LOCAL SOVIETS (DURING THE 1940'S)	205
ATTACHMENT 4. STATEMENT OF INCOME AND EXPENDITURE (IN USE SINCE 1996).....	207
ATTACHMENT 5. DESCRIPTION OF LENINGRAD <i>OBLAST'</i> AND ITS GOVERNMENT.	208
ATTACHMENT 6. CHART OF ACCOUNTS FOR ACCOUNTING OF <i>OBLAST'</i> BUDGET IMPLEMENTATION.	212
ATTACHMENT 7. BALANCE OF BUDGET IMPLEMENTATION.	215
ATTACHMENT 8. REGISTRATION TECHNIQUES AND PREPARATION OF REPORTS: AN EXAMPLE	217
ATTACHMENT 9A. A QUESTIONNAIRE: LOCAL GOVERNMENT ACCOUNTING AND REPORTING IN RUSSIA (ENGLISH VERSION).....	224
ATTACHMENT 9B. A QUESTIONNAIRE: LOCAL GOVERNMENT ACCOUNTING AND REPORTING IN RUSSIA (RUSSIAN VERSION).....	231
ATTACHMENT 10. THE STANDARD AND THE MODIFIED STATEMENT OF BUDGET IMPLEMENTATION	236
ATTACHMENT 11. THE INTERVIEW GUIDE.....	239
ATTACHMENT 12. "ITEM-NON-RESPONSE" TABLE.....	240
REFERENCES	241

CHAPTER 1. INTRODUCTION

Since *perestroika* began in the middle of the 1980's, the Russian society and economy have entered into a process of transition. The idea was that the old system which was mainly built on the ideological enthusiasm and hard bureaucratic control exercised by the state should be changed. Gorbachev was the first person to take responsibility for the process of reformation by initiating his *perestroika*. The original idea of *perestroika* did not imply destroying the existing economic and political system. However, the result of reformation was a complete transition in which the old plan-economy was abolished, and Russia entered its new free-market era.

During the transformation process, Russian society experienced changes towards a more democratic society, reflected during Gorbachev's *glasnost* and *democratizatsia* period. However, as time passed, there were needs for changes, also in the ways in which the Russian state was organized, and new norms of self-organization in local government were introduced. Thus, *perestroika* led not only to changes in economy but also in the governmental structure.

Such changes in the governmental structure and economy affected the organization of the public sector. During the Soviet era, all civilian services and industrial production were publicly controlled due to state ownership of the means of production and a high degree of centralization of the state. Introduction of reforms and especially the process of privatization put industrial production and production of some public services under market influence. At the same time, decentralization of the state delegated production of some public services to local government. The administration of Russian counties and municipalities is now responsible for most services which are supposed to be provided in accordance with the demands of the local population. They can also be characterized by more autonomy from decisions of the central authorities (Jacobsen, 1998). Thus, *perestroika* and the reforms of the 90's changed the institutional context of local government, shifting its dependence on the central authorities to dependence on other institutions, e. g. banks, private investors, tax-payers, etc. (Bourmistrov, 1998). Transition in Russian society and economy changed local government; not only its structures, tasks and functions, but also the nature of financial activities.

Accounting activities of one or another kind are an important and natural part of all organizations - private and public. In short, accounting is about

how an organization manages its financial and non-financial resources and what kind of tools and systems are applied by the organization in doing so. Such tools and systems are very often considered in their contexts, e.g. historical (Hopwood, 1987), organizational (Flamholtz, 1983) and institutional (Bergevörn *et al.*, 1995). The changing context of accounting might influence the nature of accounting processes and even what is regarded as accounting. Therefore, because of the transition in Russian society, economy and politics have affected governmental structure, responsibilities and the degree of local governmental autonomy, i.e. the context of accounting. Such processes may have also influenced accounting in Russian local government organizations.

Inspired by such an expectation, this study will primarily focus on changes in accounting in Russian local government organizations. The transformation of Russian society, economy and politics is a unique societal experiment in natural settings. By exploiting opportunities provided by this experiment, different societal and economic phenomena may be studied. Transition in Russia should be of particular interest for the research community, because it represents a unique opportunity to study changes driven by the process of radical reformation initiated at the central level of government. For a researcher in the field of business administration, it would be natural to want to know more about whether, why and how does accounting change in a country in transition, driven by such a radical transformation.

Contrary to the present day situation, the Soviet period of Russian history might be characterized by relative stability in the development of society, politics and economy. By stability, I mean changes mostly due to exploitation in a society in which exploration in politics and economy was difficult (see e.g. March, 1991). However, *perestroika* and the consequent reforms of the 90's introduced a definite new way of thinking about the world. The transition which followed was unpredictable and painful. Transition, thus, can be seen as a process of trial and error, and is actually exploratory in its nature because the future is unforeseeable. In this sense, this study can contribute to our knowledge about accounting in different and sometimes contradictory contexts.

In general, changes of any kind are difficult phenomena to study because they may involve many concepts, aspects and meanings (e.g. Wipp, 1996) and could be analyzed from different theoretical perspectives. Since any study has to be properly motivated and structured, it is necessary to start this

introductory chapter by presenting arguments for what kind of phenomena are regarded as the primary subject of the study, what kind of perspectives and why these perspectives in particular are chosen to describe and analyze the studied phenomena. Based on this presentation, the purpose of the study, the research objectives and a research model will now be presented. Finally, a comment on the study's methodological issues and methods is given.

1.1. MAIN CONCEPTS OF THE STUDY

There are several concepts involved in this study. These concepts are: local government, accounting and transition. Because these concepts are not self-explanatory, it is necessary to highlight what is meant by the concepts of local government, accounting and transition.

1.1.1. LOCAL GOVERNMENT

Explaining the concept of local government is no easy task, i.e. local government can be differently understood and there can be found fields of research highlighting this phenomenon differently, e.g. organizational and political theories, economics. Even from a semantic point of view, the concept of local government lacks clarity.

The concept of local government is based on the two words "*local*" and "*government*". Whereas the latter word identifies local government as part of the governmental system, the former word shows that the governance is conducted in a given locality (territory, town, etc.). Government and state are two words which are sometimes used together. The state can be defined as an institution (or association) which has a monopolistic power over a given territory by using physical means of compulsion. In the light of this definition, the government is an association of decision-makers who possess such power and make decisions (Dahl, 1989) or, put it in another way, a group of people who are responsible for governing a region, a country or the state (or society)¹. The government and the state can also be considered as a complex organization (e.g. Ahme, 1999). One could say what we actually understand to be government is context dependent. In some societies, government plays an important role in governing most activities, e.g. in a social-democratic state. In others, most activities are placed on the shoulders of private

¹ BBC English Dictionary (1993).

individuals reflecting a governmental policy that is liberalistic. In the extreme case of communist states, all activities are determined by the government at the expense of private interests.

As Stanyer (1980) argued, local government could mean different things in different languages and contexts. Thus, it is difficult to provide a simple definition using simple language. Cultural differences often develop historically over a period and produce different solutions to local governmental systems in different countries. Even the combination of the two words “local” and “government” represents an attempt to make some kind of generalization, i.e. to provide an appropriate meaning. However,

“... though it is not possible to define local government in exact verbal terms it can be characterized in such a way that it can be recognized as such in different times and places” (Stanyer, 1980; p. 9).

Fevolden *et al.* (1994), for example, proposes the following definition of local government: it is a public authority with three distinct features: a) it has responsibility for a geographically segmented area inside the national borders, b) it has responsibility for provision of solutions to one or several public tasks, and c) it is governed by local population through the citizens’ direct participation in decision-making or through the local elections of representatives to a local political council. This definition distinguishes local government organizations from other decentralized organizations of state activities, like different forms of decentralized state administration.

In this thesis, the focus is placed on a Russian county. This choice is made for several reasons. Firstly, municipalities have just been formed in Russia - the law regulating municipality formation was only approved by the Russian parliament in 1995 and put into practice during 1996 and 1997. Even today, municipalities have not formed their identities yet. Thus, the study potential is perhaps limited as regards accounting in municipalities. Counties, on the other hand, are easier to access and their development was not so turbulent and unpredictable as those of municipalities. Secondly, the role of counties is important in governing the transition and creating the future of the democratic order in the Russian Federation (Ravnum, 1998; The Economist, 1998). They are placed in the middle of the governmental hierarchy, between the central state and local municipalities. They constitute both the practical force for implementing the policies initiated by the central government and, at the same time, act as assistants to newly created municipalities in solving problems of local and regional development. They might, thus, be regarded as bridges

between the central government and municipalities assuring that Federal policies are implemented in the regions and municipalities achieving the same level in economic and political development guided by the demands of their local populations. Such consideration shows, however, that objectives for county operations are somewhat conflicting and implementation of them can represent dilemmas which are not so easily solved. For example, municipalities often demand more autonomy and, consequently, less equity between regions in a county, but the county government, as a representative of the state, should guarantee to all citizens, in all counties, the same living standards, i.e. secure equity (Bourmistrov, 1998). These are not easily solved dilemmas, but the contradictions are interesting and important to study for both practical reasons and for the opportunity of making a theoretical contribution.

1.1.2. ACCOUNTING IN LOCAL GOVERNMENT

In general, the term accounting is used to combine different concepts concerning the representation of economic phenomena through numbers, i.e. the reporting of economic historical data and different calculation practices such as management accounting, cost accounting, financial accounting, budgeting, management control, financial management. There are, as far as I know, no interpretation-free distinctions between these terms. Moreover, all these concepts are very often interrelated so closely that it is sometimes impossible to draw a clear line of distinction between them².

Accounting is much about monitoring and regulating economic activities in an economic unit. Economic information is, thus, sometimes placed in particular focus in the organization. Accounting is considered to have functions directed at assisting organizational principals and top managers in gathering and processing such information for the purpose of planning, decision-making, control and evaluation. Accounting reports, thus, can be seen as the main tools of any accounting systems. In this thesis, the concept of

² This has important implications. Because there is no clear distinction in the literature between these concepts, some of the research literature referred to in this study uses other concepts than purely accounting.

accounting in local government is further applied, described and discussed, both from a theoretical and a Russian empirical perspective.

Because it is not a purpose of this thesis to try to define the borders of distinction between the above mentioned various accounting concepts, the concept of accounting is selected for further address on a broader basis. However, the major focus of this study will be placed on the reporting of historical economic data rather than on the calculation practices. The idea of the study is to consider accounting norms given at the central state level and accounting practices in local government. Though such norms probably influence the calculation practices in local government organizations, they mainly focus on how to prepare and present historical accounts, and not on how to make detailed calculations regarding activities in local governments. In this sense, *regulated* accounting practices (like financial accounting) are a major concern of this thesis rather than *non-regulated* accounting practices (like management accounting). However, it should be noted that such a distinction between management and financial accounting is problematic in local government. Studies have shown that financial accounting also functions as management accounting in local government organizations (Olsen, 1997; Høgheim, 1990). Therefore, when studying accounting in local government, a wide conceptual understanding of accounting is necessary.

In general, accounting in a public organization is different from accounting in a private organization (see e.g. Mauland & Mellemvik, 1996; Flamholtz, 1983; Hofstede, 1981). Private and public organizations can be considered from how organizations gain legitimacy from the environment (Brunsson, 1985 and 1989): through *action*, by doing things which the environment accepts as valuable, and secondly, through *reflection*, by representing ideas and interests which can be found in the organizational environment. In this perspective, accounting can also be discussed with references to users of information generated by the accounting system. In research literature one often refers to external and internal users. In private enterprises, accounting is often divided into managerial and financial, placing focus on internal and external users of information respectively. Accounting is important for an enterprise because it shows the profit, both to external and internal users and thus assists in the process of legitimation through reflection of actions. The budget, on the other hand, is a kind of strategic document for a company and, thus, it is meant for internal use and not for external

exposure. Moreover, some private enterprises even disregard the budget as a useful management tool (Wallander, 1999).

On the other hand, in public sector organizations such as local government, budgets are of extreme importance. The budget provides finances and accounting is considered as a control instrument of budget policy implementation. The budget is, thus, open to discussion, both for internal and external parties. In this way, the budget assists in legitimation through reflection. Budgeting can be seen as an important element in democratic governance where the wishes of individuals (e.g. electorate) as well as resources are converted into

“... collective action by discovering and implementing policy coalitions ...” (March & Olsen, 1995; p. 12).

In the case of local government, local politicians make decisions through the budget discussions on, for instance, how to obtain and allocate financial resources in the interests of the local population, while the local administration has the responsibility to put such decisions into action. However, studies show that accounting has traditionally not been seen as of particular interest for politicians, because it has been regarded more as a control mechanism for implementation of decisions taken (see e.g. Høgheim *et al.*, 1989). In this sense, the accounting processes in local government are regulated in a very detailed way compared to private enterprises in order to make the control function of accounting easier. It means that accounting indeed is context dependent.

In order to study accounting in its context there is a need for making descriptions of what the context of accounting represents. There are different ways of doing this. For example, Bergevärm *et al.* (1995) have shown that accounting can be represented in a context of two interrelated systems, i.e. systems of norms and action representing correspondingly accounting standards and accounting practices (see e.g. Nobes, 1991; Hopwood and Page, 1987; Watts and Zimmerman, 1979). The action system comprises the instrumental activities of accounting at the level of a single organization (e.g. transaction registration, reporting and use) and is supposed to reflect organizational actions. The norm system of accounting, in turn, represents the institutional environment of the action system (Bergevärm *et al.*, 1995). This sub-system should “... specify how to measure and report actions” (Mellempvik & Monsen, 1993; p. 2). Thus, the elaboration of accounting norms is a main activity of the accounting norm system.

Mellemvik & Olson (1996) subdivide the system of action further into two sub-systems, i.e. accounting in practice and use (see Figure 1.1). This model recognizes that much of accounting processes in organizations is regulated by norm-giving institutions representing the norm systems, e.g. central authorities or professional standard setting bodies. The regulated organization, however, represents the practice system. Due to different reasons and through different mechanisms, norms and rules from the regulating authorities are applied in the organizations. For instance, accounting in practice for most local government organizations in Western countries is linked to a norm system, i.e. instrumental activities such as budgeting and accounting are influenced by the norm systems. Furthermore, because accounting represents a purposive activity, the accounting reports which are produced by any organization are meant for use by accounting users. Figure 1.1 indicates that the norm system is meant to influence the practical procedures, and that practice will determine how information can be used. In practice, however, the presented relationships are not as straightforward as the arrows indicate. For instance, in some cases accounting in practice and use might be so closely interrelated that they became “blurred” and applied in organizations as “accounting talk” (Ahrens, 1997). Sometimes, the systems of practice and use can influence the norm system (see e.g. Mellemvik & Olson, 1996; Bergevärn *et al.*, 1995). This indicates that the relations between the norm system and system of practice and use are more interactive and this is indicated by a feedback dot in Figure 1.1.

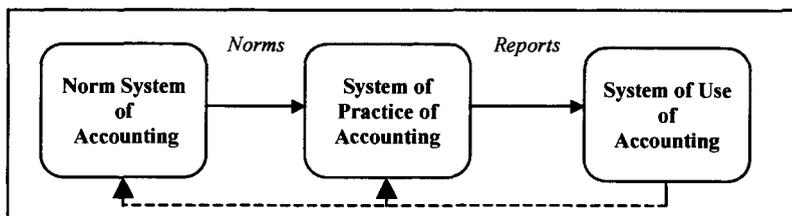


Figure 1.1. The connections between systems of norm, practice and use of accounting (Adopted from Mellemvik & Olson (1996)).

In this thesis, the framework indicated in Figure 1.1 is adopted to study accounting in change in Russian local government. In as much as it introduces a clear logic for descriptions of accounting context, this framework also

allows discussion about how accounting functions in relation to systems of norms, practice and use.

1.1.3. TRANSITION AND CHANGE

In this thesis, the concept of transition is distinguished from the concept of change. These concepts are seen as operating at different levels of society and having different characteristics in relation to “speed” and “strength”. While transition can be associated with the transformation of the whole society from a macro perspective, change is conceptualized from a micro perspective connected to organization and can be understood as “the way life of an organization goes”. While transition is initiated by the shift in a dominating societal ideology, organizational change can be seen as a consequence of the continuous interplay between the organization and its environment. And while transition stands for the revolutionary pattern of societal development, i.e. radical and relatively fast changes in respect to politics and economy in society, we can also talk about change as a pattern of more evolutionary organizational development.

In a society in transition, a link between transition and changes might be expected. If new societal ideology comes about to dominate or change society, it should somehow be materialized into and, consequently, change individual and organizational practices (March & Olsen, 1995; Brunsson, 1982). An ideology is very often associated with a set of beliefs, ideas, dreams, visions about things which should be done in the future (Brunsson, 1982). The transition can turn these visions into objects and actions at the level of a particular individual or/and organization. In order for this to happen, organizations and individual actors should be involved in the materialization process. In this sense, the links between transition and changes are the processes contributing to materialization of new societal ideologies into organizational or/and individual practices. In respect to this study, accounting in transition can, thus, be seen as a process of how new dominating societal ideology is materialized into accounting norms, practices and uses.

1.2. MAIN PERSPECTIVES OF THE STUDY

Changes are difficult phenomena to study because they involve many aspects and meanings and can be analyzed from different theoretical

perspectives. Many different and interesting perspectives can be chosen and every one of them will cast light on the studied phenomenon in different contexts. I choose to focus on three perspectives in order to examine accounting in transition in Russian local government. These are historical, technical and user perspectives (Figure 1.2).

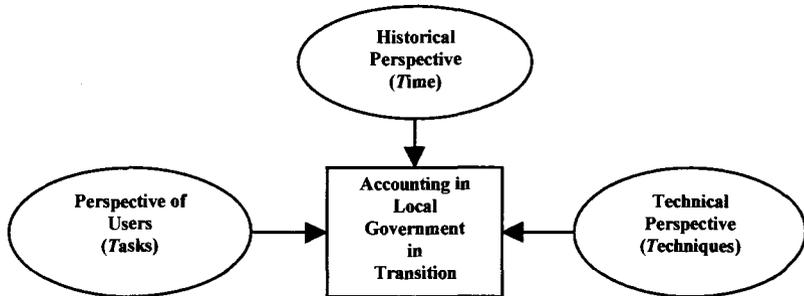


Figure 1.2. Three perspectives of the study.

These perspectives allow considering major concepts of the study as well as relations between these concepts in different dimensions. These perspectives were selected for two reasons. Firstly, these perspectives allow examination of accounting from different standpoints. Each perspective is related to different aspects on accounting in organization and elaborates one part of accounting seen in the context of either norms, practice or use. From the historical perspective, one is interested in finding out how the Russian public sector was reformed over *time*, especially whether and how dramatic shifts in societal ideologies changed local governments and accounting *norms* for local government. From the technical perspective, the accounting system is studied along a *practice* dimension, i.e. how and what kind of local reports and statements are prepared and what accounting *techniques* are used. Finally, the study of local accounting systems would be incomplete without reference to users and their *use* of accounting information. One of many intended *tasks* of local accounting systems is to generate and produce financial information useful for control and decision-making purposes. From the user perspective, this study will illuminate users' needs for financial information and their use of present accounting reports.

Secondly, each perspective has its own motivation and asks research questions, and employs different research methods. Consequently, each uses different kinds of theories in order to explore the nature of accounting in change. By moving from one perspective to another, the researcher shifts “theoretical glasses” in order to look at the studied phenomenon from different angles and points of reference. In this sense, the perspectives might be understood as “labels” and each label represents one of many ways to look at and study accounting in transition.

The main perspectives are presented in Table 1.1. Let us briefly discuss these perspectives in more details.

Table 1.1. Summary of four perspectives which can be used to study accounting in local government during transition.

Perspectives	Historical	Technical	Users'
Context in which the phenomena/ changes are considered	Time	Techniques	Tasks
Empirical dimension of accounting	Norms	Norms/Practice	Users' needs for accounting information
Time scope	Broad	Limited	Narrow
Aspects of accounting	Accounting regulation, norms, instructions and standards	Accounting technical system, how accounts are prepared and reported	What are users' needs for information and how are these needs satisfied today

1.2.1. THE HISTORICAL PERSPECTIVE

In the historical perspective the focus is placed on to what extent and how dramatic shifts in societal ideologies changed local government and accounting norms (regulation and standards) for local governments along a broad time dimension. The rise of “new public management” reforms in the West has had an impact on the development of new accounting techniques in many Western countries which should be applied e.g. in local government (Lapsley, 1999; Olson *et al.*, 1998). Naturally, it is expected that dramatic ideological shifts in Russia have had an impact on norms of accounting in

local government. Thanks to the rich Russian history, the researcher has a unique opportunity to study such interrelations.

The historical perspective for the study of Russian local government and its accounting in transition was chosen for a particular reason. It has been argued that particularly historical studies may stimulate exploration of new research ideas and, thus, give a better understanding of organizational and societal phenomena (March, 1999; Hopwood, 1987). As regards accounting, history has considerable relevance for understanding present accounting practices and development of theoretical foundations for accounting practices (Miller & O'Leary, 1987; Parker, 1981).

However, despite the benefits associated with rich descriptions, historical studies do not offer the researcher possibilities to enter a particular organization in which the action took place in the past and, thus, to access the accounting action system. Thus, the focus is placed instead on changes in accounting norms. Though it will not give a full picture of accounting, the description of norms is important for two reasons. First of all, even though action is not fully controlled by norms, the intention behind the preparation of accounting norms is that they are followed by organizations (Mellemvik & Olson, 1996). Secondly, when considering changes in accounting, changes in norms are strongly associated with changes in the environment of the accounting system, e.g. prevailing ideology (Bergevärn *et al.*, 1995). In this sense, the purpose of the study from the historical perspective is both to describe and analyze changes in accounting standards and norms in order to provide an understanding of accounting in transition.

1.2.2. THE TECHNICAL PERSPECTIVE

Accounting is performed in a particular organization through the technical accounting system. In this system internal and external transactions are identified, registered, measured, systematized, classified and reported. Thus, by the technical perspective of studying accounting in change is meant descriptions of the technical systems and techniques with respect to how transactions in local governments should be and are handled. In this perspective the technical parts of the accounting system are studied, and such a study requires direct access of the researcher to accounting in practice and, thus, limits the time scope of the study for examination of the present day accounting system.

The purpose of the study from the technical perspective is to describe and analyze accounting techniques used in local government in Russia. Firstly, the study from this perspective aims at providing a description of what are ways of registering, measuring and communicating accounting information in Russian local government today. Secondly, the described ways of handling accounting will be analyzed based on the application of Western and Eastern accounting theories. Because dramatic reforms in Russia at the beginning of the 90's basically had an idea of building up a Western-like economy and society, it is also natural to compare technical accounting solutions in use in Russian local government to solutions in local government in the West.

1.2.3. THE USER PERSPECTIVE

According to the decision-usefulness approach to accounting, it is users who make accounting activities meaningful. Thus, any study of accounting would seem to be incomplete without reference to users and their use of accounting information. The study from the user perspective concerns users' needs for accounting information and their use of accounting reports. Moreover, it allows examination of how politicians and administration officers provide meaning to accounting information in order to manage local economy and welfare. In this sense, the purpose of the study from the user perspective is to describe and analyze how accounting is used in Russian local government.

Local government today has a larger degree of autonomy than before. It has the opportunity to develop locally designed accounting systems in cases where accounting information disclosed in a local government does not satisfy local users' needs for such information. To improve the local economy and financial situation, local politicians and administration may need a new system of accounting to improve financial control. It has happened in other local government organizations before (Mellemvik & Olson, 1996; Mellemvik & Monsen, 1993). From this perspective it is therefore also interesting to make an attempt to find out how local politicians and administrative officers react to alternative accounting information.

1.3. PURPOSE OF THE STUDY AND RESEARCH OBJECTIVES

In this section, the purpose of the study is defined and research objectives are identified. As all studies are comparative (Grønhaug, 1985; Stouffer,

1950), the dimensions of comparison which are further employed in the study can be presented initially. In this sense, the study's purpose and research objectives may be elaborated through using these comparative dimensions.

First of all, any study involves examining both theory and practice. This study aims to make a theoretical analysis regarding descriptions of Russian local government accounting and changes in accounting systems in perspectives of norms, practice and use. Because there is no context-free theorizing (e.g. Neiman & Tinker, 1986), the application of different Western theories to study accounting in Russian local government is essential in order to encourage the research "conversation" and consequently to understand better the studied phenomena (Rorty, 1989). Particularly, one purpose of the historical perspective is to make an analysis of changes in accounting norms. It is done by applying different Western theoretical approaches, explaining how societal and organizational structures are developed. In the technical perspective, different accounting theories are mobilized in order to analyze the present day accounting technical system in Russian local government. The user perspective will also refer to different theoretical approaches to analyze accounting in use. By applying different theories the study seeks to provide a deeper understanding of accounting and changes in accounting systems. These understandings may further contribute to the development of theory, e.g. by showing that particular theory works or does not work under the specified circumstances may improve the general body of the theory (see e.g. Whetten, 1989).

Secondly, the discussion around theory and practice is closely related to the discussion around differences between East and West, i.e. about similarities and differences. Differences in accounting practice are important because they initiate the search for explanations into why these differences are possible and, thus, give stimuli for accounting theory development. We are here talking about former considerable differences between West and East - not only in the ideology and how things were done in practice, but also in the models and theories created to explain and understand the surrounding world. Today, if Russia were to declare a policy of achieving democracy, capitalism and market economy, then probably a good point of departure for reconstructing Russian society would be to use Western theories³. Even in the

³ By Western theories I mean theories developed mainly in the West-European or American context.

situation of fundamental differences in economic issues in the West and the East, some Western theories are also applicable for analysis of society phenomena in Eastern European countries (see e.g. Solnick, 1998; Grosfeld, 1990). For instance, considering Eastern accounting theories alongside Western ones will certainly contribute to better analysis and understanding of accounting technical systems in Russian local government today.

Furthermore, changes in accounting in Russian local government can be considered along a dimension of central vs. local interests, i.e. relations between central and local government. Such consideration is relevant because it may show links between central governmental level and the local level, between the reforms initiated at the top of the societal level and particular changes at the organizational level. The ideas of *perestroika* and consequent reforms were put forward and decided on at the central level of the USSR and the Russian Federation. Though many of these reforms can be understood as responses to problems connected to both central and local levels of the Russian society, the ideological talk and the interpretation of the problems were made by central politicians. Before *perestroika*, the political culture of the Soviet Union was characterized by a strong state regulating all aspects of the society through lots of rules and instructions. The opportunities for local initiative and local opposition were limited. It was a hierarchic way of controlling, in which local government had to follow the norms decided at the central level.

The new reforms implying openness intended to stimulate local initiative and indicated a quite new way of thinking and securing the state welfare production. Though the state should remain strong, the number of rules and instructions should be reduced, and local government should have more responsibility and autonomy. It meant that politicians and civil servants at local level were supposed to adapt to situations that were quite new and different from their previous experience. Thus, this study can make a theoretical contribution by studying the links between reforms instituted at the central level and changes in accounting at the local level.

Finally, any study could include both descriptive and normative elements. A descriptive study concerns descriptions of “how phenomena are” in real life. When formulating prescriptions, on the other hand, the researcher will argue “how things ought to be”. Because we still know little about accounting in Russian local government, the descriptive study will have particular importance in increasing our knowledge about Russian local government and

its accounting in terms of norms, practice and use. However, this study might also be interesting because it might provide some normative insights for accounting practice. Particularly, as Russian local government becomes more independent and autonomous, the importance of accounting has increased (see e.g. Bourmistrov & Mellemvik, 1999c). But, dramatic changes in Russian political, societal and economic life may create problems in the development of accounting systems at the local level. Lack of experience in handling accounting in new conditions of autonomy may require guidance from the research community. There is positive experience in the West to show that researchers can help to improve accounting in a local government organization (e.g. Pauli, 1999; Mellemvik & Olson, 1998; Mellemvik & Monsen, 1993). In this way, this thesis might also be considered in a normative context by identifying problem areas of accounting in Russian local government and possible solutions to them. Particularly, by asking users about their needs for accounting information, the user perspective is close to give such normative insights about e.g. how an accounting system should be developed in order to supply users with the information needed.

1.3.1. PURPOSE OF THE STUDY, OBJECTIVES AND THE RESEARCH MODEL

The purpose of the thesis is to provide an understanding of accounting in transition. We still know little about accounting in transition, i.e. whether, why and how accounting systems change, particularly preconditions, processes and organizational consequences of accounting systems' change (see e.g. Ashton *et al.*, 1991; Hopwood, 1987). Attempts to deal with such issues have been made by researchers applying different perspectives, such as traditional, system, microsociological and radical approaches (Puxty, 1993). It is common for all these perspectives to distinguish, for research purposes, between the phenomenon and its context⁴. Whereas the phenomenon depicts concepts and processes, what we focus on in the study and, thus, are curious about, the context of phenomenon consists of concepts and processes considered outside the phenomenon. It means that we often refer to preconditions as a set of contextual factors initiating the process of change. By processes of change we mean ways the change proceeds, e.g. how new

⁴ This dichotomy could be also expressed in terms of "text" vs. "context" or "figure" vs. "background".

links between the contextual elements and phenomenon are established and old ones disappear. In turn, consequences are often associated with new aspects and characteristics of the phenomenon and its new relations with the contextual elements after the change has been completed. However, such an approach to study change represents just one possibility amongst many others, and some researchers (e.g. Jönsson, 1983) point out that the cause-effect studies of social phenomena are difficult and uncertain. Understanding of change is context-dependent and, consequently, not easily studied.

In this study, accounting is considered as a set of three interrelated phenomena (or “texts”), i.e. accounting norms, accounting practice and accounting use. Each “text” is examined in its particular “context”, i.e. the historical, technical and user perspectives correspondingly. In order to provide an understanding of accounting in transition in terms of historical, technical and user perspectives, the overall purpose is divided into two more or less interlinked sub-purposes. Firstly, we still do not know much about accounting in local government in Russia, even about the local government itself - its tasks, functions, organization, political situation, the relations between the central government and counties and municipalities, etc. Research in this field was and in many instances is still difficult due to lack of information, and perhaps interest from the research community in the West and even the East. Examination of major accounting journals indicate that the majority of scholars prefer research on these subjects applied to private sector accounting. That is why, the first element of the research objective is to contribute to knowledge about changes in accounting norms, practice and use in Russian local government by describing transition, changes in Russian local government and its accounting along the historical, technical and user perspectives.

Secondly, in order to provide an understanding of accounting in transition, the description of changes in accounting norms, practice and use should be analyzed. Particularly, each accounting “text” (i.e. accounting, norms, practice and use) will be analyzed in its “context” (i.e. the historical, technical and use perspectives). For instance, changes in accounting norms will be analyzed using a Russian history perspective with respect to ideological shifts and local governmental reforms and regulations. In the chapter dealing with the technical perspective, changes in accounting practice are analyzed from a perspective of different accounting theories. In the user perspective, accounting information use will be analyzed in terms of how accounting

becomes meaningful to users. In this sense, the second element of the research objective is to analyze the descriptions concerning accounting norms, practice and use in Russian local government organizations.

Taking all of the above mentioned into account, this thesis is about providing an understanding of changes regarding accounting norms, practice and use in Russian local government and whether these changes are, and especially how they are, interrelated with ideological shifts and local governmental reforms.

1.4. A COMMENT ON METHODOLOGY AND RESEARCH METHOD

The choice of method of research design is based on the study's problem formulation and its research questions (see e.g. Andersen *et al.*, 1990), i.e. the research design of any study is connected to the scientific and methodological aspects of the problem formulation. This thesis is meant to describe and analyze accounting norms, practice and use in Russian local government during the transition in order to give an understanding of accounting in transition. Such formulation of the main problem demands clarification of how it is connected to the specific research design which will guide the data collection process.

According to formulated research questions, this study is both descriptive and explorative. As in any descriptive study, this thesis attempts to describe Russian local governmental accounting in a pre-selected frame, i.e. Russian local government accounting norms, practice and use. However, this study also attempts to make an analysis and in this way give an understanding of the nature of relations between ideological shifts and public reforms, on the one side, and changes in local government accounting, on the other side. Because we still do not know much about Russia, and because the nature of relations between ideological shifts and changes in local government accounting are not well-known, this study is also explorative.

In order to provide descriptions and an understanding of Russian local government accounting in transition, three perspectives were chosen, i.e. a historical, a technical and a user perspective. Furthermore, in this section the methodologically grounded arguments are offered as to how such different perspectives can contribute to answering the major research issues.

1.4.1. PARADIGMS, PERSPECTIVES AND CHOICE OF METHOD

The research design of any study in a given field cannot be viewed separately from the scientific paradigm in this field. The challenge is very often to choose the “right” paradigm or school among the many available. The problem is that each school defends the domain of its own paradigm and, thus, there a lot of discussions between scholars arguing that their particular school gives the “correct” and “true” picture of studied phenomena (see e.g. Solomons, 1991; Tinker, 1991; Richadson, 1987).

Accounting research is not an exception to this rule. For instance, accounting has been characterized according to four traditions or paradigms, i.e. functionalism, interpretative school, radical humanism and radical structuralism (see e.g. Hopper & Powell, 1985). It is assumed that

“... there is a real need for ... [researchers] to ground their perspectives in the philosophical traditions from which it derives [Thus] each paradigm needs to be developed in its own terms” (Burrell and Morgan, 1979; p. 397).

It is also argued that

“... in any research it is suggested that individual values, philosophical assumptions, theoretical backing, and research methods should all be related to each other and to the aims of the research” (Hopper & Powell, 1985; p. 430).

Thus, as these quotes indicate, there are arguments to support the selection of the study’s research method by choosing the paradigm a priori and the “best” method advocated in the domain concerned.

Such arguments are, however, based on assumptions that it is possible to make a clear distinction between ontological premises for research along an “objective-subjective” dimension and make a clear choice of the researcher’s view about the nature of the society (Hopper & Powell, 1985; Burrell and Morgan, 1979). While the first dimension argues for objectivism or subjectivism in perceiving the nature of reality, human behavior and knowledge, the second dimension concerns how the researcher considers the nature of the society, i.e. is it dominated by order and stability stressing *regulation*, or is it fundamentally characterized by division of interest and conflicts stressing *radical change*.

However, none of these well-established paradigms seem to fit and capture the complexity of the studied phenomenon and its context. Moreover, the above-expressed view has been criticized in research literature. The division between subjectivism and objectivism has been argued to be unnecessary. For instance, Boland (1989) wrote

“... the point to be made is that neither the subjective nor the objective can stand alone as an area of study and that we need to appreciate the nature of their genuine union ...” (Ibid.: p. 592).

It is because

“... declaring a fundamental distinction between the objective and subjective may help us feel less personally responsible for the grounding of our beliefs, but in the end it only cheats us from exploring other ... ways of understanding ...” (Ibid.: p. 593).

Therefore the separation of research paradigms along a dimension of “subjective” and “objective” may lead to an understanding “trap”.

In Hopper & Powell (1985), the dimension concerning the nature of the society is also problematic. By doing paradigmatic research, the investigator is forced either to adhere to the regulation school or to the radical change school. In this study, it is assumed that Russian society, disturbed in different periods of its history by revolutionary outbreaks, set a course towards stabilization and order in each of these different periods. Both regulatory forces and forces of change seem to be at work in such a transition process. Conflict and divergence of interests co-exist at the same time and in the same space, together with stability and order. Thus, by applying either the regulation school or the radical change school we could have missed opportunities to provide a better understanding of Russian local government accounting in transition.

Instead of choosing a paradigm in Hopper & Powell (1985) terms, this study is rather focused on three accounting “texts”, i.e. accounting norms, practice and use in Russian local governments. These are studied in three respective “contexts”, i.e. the historical, technical and user perspectives. As each paradigm in Hopper & Powell (1985) terms captures only a small piece of the accounting world, it is more and more suggested to bridge these pieces together to avoid fragmentation (see e.g. Quattrone, 2000; Johnson, 1995). My reading of Boland (1989) and other authors suggests to me that what we might need is to employ all the research tools and theories felt needed to create a synergy effect, thus, improving our understanding of societal phenomena. Thence, this thesis does not specify one particular theory or method, but rather uses many of them. Each perspective has its own purpose and employs the particular theories and research method felt necessary in order to capture the different aspects of accounting in transition.

When it comes to the application of different theories, several theories or theoretical approaches will be applied in the different chapters. For instance,

in the historical perspective, reform theory, theories of learning and institutionalization will be used. Western and Eastern accounting theories will be mobilized in the technical perspective in order to provide an analysis and an understanding of the technical accounting system. In the user perspective, approaches focusing on accounting products and processes will be used in order to cast light on accounting in use. The arguments explaining the choice of the particular theory or theoretical approach are given in the corresponding perspective chapter.

The research methods focusing on both explanation and understanding are applied in the thesis, in this way allowing a unity of subjective and objective perspectives regarding accounting. Explanation, on one hand, concerns the determination of the causal relations between possible variables in the case of research in the social relations (Blaug, 1992). By explaining something, the researcher seeks the causes of behavior and phenomena, i.e. naturalistic thinking is adopted. Understanding, on the other hand, represents another alternative. Sometimes creation of causality is not a goal in itself. By wishing to understand, the researcher attempts to seek the meaning of the action, i.e. the social world and social constructions (as, for example, accounting is) must be *understood* from within the social system, rather than *explained* from without (Alvesson & Sköldbberg, 1994).

In this thesis, the idea is to provide an understanding of what has happened with local government accounting in Russia, how it has changed or not changed during the transition. This will be done by applying methods allowing both explanation and understanding. For instance, the historical perspective will attempt to explain how shifts in the dominating ideology affected Russian local government and its accounting norms. However, the study is also much about understanding; because the nature of understanding history is different to naturalistic thinking and not achievable by any method *à la* natural science. Other perspectives can be also seen, combining to a different degree methods allowing both explanation and understanding. While the technical perspective is more concerned with understanding the meaning behind the original construction and survival of the technical accounting system, the user perspective is more concerned with explaining the use of accounting information e.g. contingent upon user characteristics.

Such a choice allowing a combination of different theories and research methods is motivated by two reasons. First of all, these ways of organizing research establish an open system of thought able to move above established

scientific doctrines and to examine the collected data critically (Phillips and Pugh, 1995). Secondly, the way of carrying out research advocated in this study provides an opportunity to capture different aspects of accounting in change rather than just one. It is difficult to comprehend all aspects of accounting in change in a one-perspective study, as it might be limited by the particular paradigm, i.e. either or both research method or/and theory. Moreover, such a study would still only make a partial description of the phenomenon of interest, i.e. it would depict only one “piece” of the whole phenomenon called accounting. Instead of making such an attempt, this study tries to understand accounting in a process of change, by selecting several “pieces” representing different aspects of the accounting world and attempts to link them into a kind of “mosaic” to reconstruct our understanding of the whole. By applying different perspectives, this study casts light on the same phenomenon from different angles and observes the studied phenomenon through the different “colors” of the spectra. In doing so, each perspective is structured around its own problem formulation, employs a relevant theoretical frame of reference and research method in order to understand empirical findings under investigation.

1.4.2. A SUMMARY CONCERNING THE METHOD

This section specifies in general terms the choice of research method in each of the perspectives. Table 1.2 gives a short overview of the perspective in focus, data sources and data collection procedures. However, more detailed description of the method used in each perspective is given later in each of the respective chapters.

Table 1.2. Characteristics of method employed in the three perspectives of the study.

Perspectives	Historical	Technical	Perspective
Aspect of Accounting	Accounting norms and standards	Accounting in practice- techniques	Accounting in use – users and their use of accounting
Time scope	Broad	Limited	Narrow
Data source	Secondary	Primary	Primary
Data collection strategy	Archival and literature research	Case study, qualitative methods	Questionnaire and interviews

Because the historical perspective examines relations between shifts in societal ideologies, changes in local governmental organizations and accounting norms for local government in Russia along a broad time dimension, there is a need to collect data concerning ideologies, reforms, local government and accounting norms for different accounting periods. The historical perspective might also be understood as a case study in which the case is Russia and its history. In this sense, the generalization of results for this historical study is only possible towards Russia and not to other countries in transition. The only data source available for such study is secondary data (Frankfort-Nachmias & Nachmias, 1997; Judd *et al.*, 1991). That is why this perspective primarily utilizes a method of literature search and archival research.

Contrary to the historical perspective, the technical perspective focuses on accounting on a limited time scope, i.e. how accounting activities are performed today through the technical system in a particular organization. The researcher needs to have direct access to an organization, i.e. particular local government, in order to observe its accounting practice and, thus, to collect primary data. A case study strategy is a good alternative in such a situation as it allows to study in depth the contemporary phenomenon in a present real-life context (Yin, 1989; Grønhaug, 1985). In this sense, the generalization of study results from the technical perspective is only possible in relation to the local government organization studied. However, by studying accounting practice in one local government organization in depth we can find out more about the technical parts of an unknown accounting system. To describe and to interpret this accounting technical system, qualitative research methods are used as they permit accessing the meaning of performed accountant activities. The choice of the organization for a case study and the particular qualitative method is given in the respective chapter.

As regards the user perspective, the idea is to study users and their use of accounting information available in Russian local government. The primary data is the only available data source, as there is no secondary data on the subject matter of interest. Two possibilities are open for data collection strategy in this perspective. The first possibility is to ask users to reconstruct their experience as a user by employing a questionnaire technique. By doing so, it is possible to collect data in order to know more about users' needs for accounting information and their use of available information. However, users might also be in-depth interviewed in order to access users' direct experience

in particular decision-making situations. Interviews allow examining how politicians and administration officers use accounting information in order to manage local economy and welfare. In the user perspective, these two data collection strategies are combined. While the questionnaire technique allows obtaining data with a higher variability of responses about e.g. users' characteristics and use purposes, in-depth interviews provide the possibility of connecting use of accounting information to its context e.g. particular decision-making situation.

1.5. LAYOUT OF THE STUDY

In summary, the purpose of the thesis is to describe and analyze, and in this way to provide an understanding of changes in accounting in Russian local government during transition. This will be done, firstly by describing Russian transition and accounting norms, practice and use in Russian local government and, secondly, by examining whether, why and how local accounting systems change.

In order to handle the research aim, the thesis is structurally separated into four parts representing the above mentioned perspectives and a concluding chapter. Part One is about the history of Russian local government and consists of two chapters. Chapter 2 describes the historical transition: public sector reforms and changes in local governmental institutions in three periods, i.e. the *tsar's* autocracy period, the Soviet period and the market reform period. Chapter 3, in turn, is devoted to an examination of changes in local government accounting norms in the chosen historical periods.

Part Two presents a technical perspective on accounting in transition. Chapter 4 examines accounting technology in one local government organization within the Russian Federation, i.e. Leningrad *oblast's* county government.

Part Three is about use and users of accounting information. Chapter 5 examines users and their use of accounting information in Leningrad *oblast'* county and *oblast'* municipal governmental organizations.

Chapter 6 concludes the thesis and specifies suggestions for further research.

PART 1. THE HISTORICAL PERSPECTIVE ON ACCOUNTING IN TRANSITION

“What do I think about restructuring? We’ve been restructuring about once every five years for as long as I can remember. And every time things get worse instead of better. I don’t see why it should be any different this time. Restructuring means that things get worse.” (72-year-old Russian woman, quotation in Perrotta, 1998).

“What experience and history teach is this – that people and governments never have learned anything from history, or acted on principles deduced from it” (Hegel, 1830).

This part is about the historical perspective on Russian local government accounting in transition. It focuses on how transition in ideologies and public sector reforms have changed local government institutions and accounting norms for local governments. It demonstrates that dramatic ideological shifts have a rather mixed impact of development in local government institutions and their accounting norms, as regards both *change* and *continuity*.

This perspective consists of two chapters. Chapter 2 aims to investigate connections between ideological shifts in three major periods of Russian history (i.e. periods of *tsar* autocracy, the soviet period and the market reform period) and changes in local government, i.e. its structures and relations to the wider environment. It argues that one reason for dramatic shifts in ideology is overexploitation of “core” ideology by the Russian central actors. Shifts in “core” ideology seem to bring about changes in the institutional environment of local governments and establish a different number of external principals and a new nature of financial relations between the local government and its environment. However, there is also an element of continuity, i.e. the formal inner political-administrative structure in local government for all the periods in question is practically unchanged.

Chapter 3 aims at describing and analyzing changes in Russian local government accounting norms in the same historical periods. Analysis made in the chapter demonstrates that ideological shifts also have mixed impact on development in local government accounting norms. On the one hand, ideological shifts reconstituted “economic” domain and changed technical ways of handling accounts in the accounting technical system. But, at the same time, the Russian central government, which controlled the accounting norm system, has not completely reorganized accounting in local government. In this sense, the ideological shifts have deposited “sediments”, which in the Russian case are strongly associated with a statement of income and expenditures.

CHAPTER 2. THE RUSSIAN TRANSITION: WHAT HAVE SHIFTS IN THE DOMINATING IDEOLOGY DONE TO LOCAL GOVERNMENT?

2.1. INTRODUCTION

During the last decades, many Western countries have begun to reform their public sectors inspired by the ideology of efficiency, business management and public accountability. The major notion of so-called “new public management” reforms seems to be about elimination of inefficient public bureaucracies by making service production by governmental organizations more like business (see e.g. Boston *et al.*, 1996; Hood, 1995; Osborn & Gaebler, 1993). Such a shift in public sector ideology has not only resulted in structural and organizational changes (e.g. privatization, modernization, managerialization), but also generally in ways of thinking about the public sector administration (Naschold, 1996).

Thus, the discussion about links between central political reforms, on the one side, and changes in organizations and other social constructions, like accounting, on the other side, has been important and these links were examined in the light of institutional theory in the context of Western countries (e.g. Mellembvik & Olson, 1996; Bergevärn *et al.*, 1995; Brunsson & Olsen, 1993; Olson, 1993; Czarniawska & Joerges, 1987). However, if the social research is about increased knowledge concerning preconditions for interactions between different social phenomena, processes and consequences of such interactions, one way to do so is to consider these interactions in a different context from the Western one.

The destiny of Russia in world history has been to become a country known for its societal revolutions. Throughout the centuries, Russia has experienced dramatic changes in governing societal ideology, e.g. from the state governed by the Russian *tsar*’ with the ideology of unlimited monarchic autocracy to a socialist state with the ideology of communism but condemned reality of totalitarianism, to the society recently influenced by ideas of *perestroika* (e.g. openness, liberalization) and economic transition to the market. Such shifting ideologies resulted in many public sector reforms in Russia, even during periods with the same dominating ideology. These reforms, introduced by powerful central actors which were appreciated by the history as “great reformers”, were intended to be materialized at the level of simple organizations, i.e. to change organizational behavior. No doubt,

Russian history gives a unique opportunity for researchers to study interrelations between shifting societal ideologies realized through the public sector reforms, on the one side, and changes in local government organizations and their accounting, on the other side.

In order to contribute to a better understanding of relations between reforms introduced by the central politicians and changes in local governments and their accounting, this chapter intends to examine whether, why and how changed societal ideologies in Russia affected Russian local government institutions. The next chapter examines in detail changes in local government accounting norms.

In order to do so, a brief summary of the chapter's theoretical frame of reference is firstly given. Secondly, the method of research is commented upon. This section is followed by a description of the process of ideological shifts, public sector reformation and changes in local government institutions. Finally, such data is analyzed and it is particularly shown that a historical transition had a mixed impact on Russian local government institutions. In the course of their 120 year history, Russian local government institutions have experienced both continuity and change. Such findings are analyzed in the light of the chosen frame of the reference.

2.2. THEORETICAL FRAME OF REFERENCE

The purpose of the present section is to elaborate a theoretical frame of reference by examining Western research literature. As this chapter concerns relations between shifts in ideology and changes in local government institutions, the first aim is to give an understanding of the phenomenon of ideology. Secondly, to describe and study links between shifts in ideology and changes in local government, there is a need to clarify what elements and structures of local government as an institution are important to focus on in the study. Finally, theories of how to understand processes linking ideological shifts and reforms, on the one side, and changes in local governmental institutional structures, on the other side, are presented.

2.2.1. IDEOLOGY

The concept of ideology is probably one of the most difficult and conceptually unexplored social phenomena. In a common sense, ideology is a set of beliefs, ideas, dreams, visions, memories, e.g. ideology is generally

associated with political beliefs. What distinguishes ideology from any other kind of beliefs and ideas is that ideology is more about things which should be done in the future, how they should be materialized into practice (March & Olsen, 1995; Brunsson, 1982). In this sense, ideology might be regarded as a set of human "... images which can take form of pictures and sounds" (Czarniawska & Joerges, 1998; p. 204). By becoming that, ideology is not abstracted from the real world vision, but rather an expression of desires, opinions, needs, the realization of which might come. New ideology often emerges to challenge existing political and economic systems, laws, institutions, authority (Dahl, 1966). It means that even though any ideology can be seen as a symbolic reflection of beliefs and views on the world around us, it also comprises some intentional expressions.

This study focuses on dominating societal ideologies, i.e. ideas, beliefs, dreams and visions on how the whole society, politics and economy should be organized and function. In this emphasis the societal ideology is distinguished from organizational or even individual ideology. It is recognized in the literature that societal ideology in a particular country might derive its origin and shape from many sources: culture, political beliefs, class interests, historical continuities (Mishra, 1989). The dominating societal ideologies, for instance, can be associated with ideas about what functions the central state (and public sector) should perform. For example, what we might call typical "Western" ideology is often a synthesis of beliefs in self-help, liberty, freedom, economically and politically independent individuals who can take care of their own destiny, in which the state only intervenes on a limited number of occasions. Some cultures recognize a more active role of the state in providing welfare and basic needs. Finally, in socialist countries dominated by collectivist ideology, the state provides almost all needs and services, limiting in this way individual liberty and freedom.

By giving such a brief conceptualization to the concept of ideology, it is interesting to ask - How and why does an ideology come into existence at all? Ideologies might be seen as playing important societal functions. In a Marxist tradition, for example, an ideology is seen as a solution formulated by power-holding actors to historically formed conflicts and contradictions between different class interests which are difficult to solve in practice (Larrain, 1979). In a more general perspective, an ideology can be seen as responses to problems at both local and top levels of society and which emerge through different processes being spread around. The ideology might, at the very

beginning, be a product of one mind or group of people. Ideologies, thus, might be discovered (Bruner, 1961). Ideology is materialized when it turns into objects and actions, i.e.

“... their materialization causes change: unknown objects appear, known objects change their appearance, practices become transformed” (Czarniawska & Joerges, 1998; p. 204).

However, for ideology to become materialized and dominating, it is not enough just to make a discovery. Societal ideology is recognized as *communicated images* which are intersubjective creations. Others should be involved in order to materialize the ideology. It is because “... everything that can be “seen” by more than one person acquires “objectivity” (Ibid.: p.216). In this sense, ideology exists only when at least many are aware of it, when there are many enough to support this ideology. Thus, any given societal ideology is the property of a wider community than one individual.

In this sense, if societal ideology comes about, to change or to dominate in the world, e.g. for communism to replace capitalism, it should somehow be materialized into and, consequently, change individual, organizational and societal practices.

2.2.2. LOCAL GOVERNMENT AND ACCOUNTING

It is impossible to study all aspects of such complex social phenomena in relation to local government institutions. There is a need to limit descriptions and analysis of changes in local government to some important dimensions. As this thesis aims at a better understanding of *accounting* in Russian local government in transition, these dimensions should include relevant elements which portray local government from an accounting point of view.

Relations are important to accounting because they depict lines of responsibility, power and accounting information flows. Accounting is much about giving accounts by some actors for some actions to someone. The intended function of accounting is to mediate to uncertainty reduction in these principal-agent relations in order to improve accountability, stewardship, control and decision making (Mellempvik *et al.*, 1988). Thus, accounting reflects relationships between different parties with different interests. According to Ijiri (1975) these parties could be described as the principal (*accountor*) and agent (*accountee*). The principal makes decisions and controls their implementation which are made by the agent. An agent, thus,

has to legitimate his/her actions through e.g. accounting reports to the principal.

Jönsson (1988) characterizes organization with respect to its accounting along two dimensions of *inner* and *outer* relations. While inner relations are constrained by the boundaries of the organization, the outer relations are about demand on the accounting of the organization set by its environment. Because local government can certainly be seen as an organization surrounded by the wider environment, its inner relations are instituted between internal organizational actors, while outer relations involve local government and its wider environment.

Let us expand on this point briefly. Inner relations are depicted in a formal organizational structure and lines of responsibility between internal principals and agents within an organization. The traditional way of organizing local government is based on the principle of distinguishing between *policy* and *administration*. Political bodies produce talk and decisions, but administration should produce action, i.e. local governmental services. Thus, political assemblies are often regarded as an internal principal, but administration as an agent of politicians.

Furthermore, there can be many complex ways of structuring inner relations as there can be many inner principals and agents (e.g. Bourmistrov & Mellempvik, 1999a). Literature recognizes different ways of structurally formalizing internal lines of responsibility, e.g. vertical, horizontal and mixed (matrix) forms of organizing (Dawson, 1995). In local government, organizing service production has traditionally been based on the principle of functional division favoring hierarchical (bureaucratic) structures. In the West, however, new forms of internal organization of local authorities found favor, e.g. horizontal organizing principle (Stanayer, 1980) and organizing around local “programs” (Olson, 1990; Jönsson, 1983). Recently and particularly with the rise of new public management reform, some local governmental services were even more radically reorganized e.g. through privatization and the establishment of responsibility centers. Certainly, these different ways of structuring responsibilities require different ways of accounting reporting. No doubt, the internal formal organizational structure (further used as *formal structure*) which depicts the internal principal-agent relations is the first important element for studying changes in local government accounting in that it shows intended lines of responsibility within the organization.

However, ways of thinking about relations between principal and agent are not only limited to inner relations in a local government but can be also applied for analysis of “outer” (external) relations. Local government has to legitimize its decisions and actions to other powerful actors and principals in the environment such as the electorate, the central state and different financial institutions. Such legitimization is important as all these outside parties provide financial resources to the local government. The electorate by paying relevant taxes expects public services of good quality. The central government is an important principal and also imposes limitations on local governmental tasks and finances (Marshall, 1994; Page & Goldsmith, 1987). Having the possibility of being involved in transactions with different financial institutions, local government also has to be responsible for e.g. loan repayment. In this sense, the outer principal-agent relationship is the second important element for understanding accounting in change because it depicts how and where local government obtains its financial resources. Thus, the second element is about who provides finances and, in this sense, defines financial relations.

2.2.4. REFORMS AND CHANGES: UNDERSTANDING THE CONNECTION

The purpose of this section is to highlight different theoretical approaches which illuminate processes behind changes in local governmental formal structures and financial relations related to shifts in societal ideology. There are many different theoretical views which can be adopted for this purpose. On the one side, changes in local governmental structures and financial relations can be seen as a “top-down” reform process. Along another perspective, the process of change can be seen as a process of learning. Finally, and based on institutional theory, the change can be considered from a perspective of institutionalization processes.

Reform approach

One way towards understanding the processes through which ideology might affect local governmental formal structure and financial relations is to think about reforms. A reform is “... a conscious attempt by a specific actor or set of actors to transform ... reality” (Dente & Kjellberg, 1988; p. 9). In doing

so, the initiators of reforms (i.e. the reformers) are governed by intentions and ideas of introducing change or consequently to transform current reality. Any ideology-driven reform can be characterized as being governed by simple ideas, normative, one-sided and future-oriented (Brunsson & Olsen, 1993).

Reform is commonly associated with a predictable and controllable process of change in which the initiator of reform will try to achieve his intentions through rational planning and implementation processes (Lane, 1995). However, several studies have shown that this rational paradigm is not fully empirically supported. Reforms are more than just a rationalistic process of implementation, change and instrumental action. Reforms can be associated with *routines* rather than interruptions because they help to achieve stability e.g. by making people aware of what might have happened (Brunsson & Olsen, 1993). Political reforms are also about *legitimation*, especially when politicians address a symbolic representation of reality instead of changing it (Czarniawska-Joerges; 1987). Reforms can allow *learning* through a trial-and-error process as well as fulfilling different educational functions for both reformers and reformees (Olson, 1993; Czarniawska-Joerges; 1987). Hence, consequences of reforms might be different to those that the rationalistic paradigm might propose. Reforms in society contribute to the reshuffling of power, re-legitimation, re-socialization (Czarniawska-Joerges, 1993). Paradoxically, many of the mostly debated issues have never resulted in any great changes, but many really big changes in society take place without a prior discussion (Edelman, 1971).

Reform, thus, can be considered as a process which can contribute to change in local government formal structures and financial relations. It is often the case that shifts in ideology are followed by reform, argued for and decided at the central level of government. Though many reforms can be understood as responses to problems connected to both central and local levels of society, the ideological talk and the interpretation of these problems are usually made by politicians at the central level. For instance, local governmental structures and financial relations can be changed through a central reform e.g. by approving in parliament a new central act of law.

The learning approach

Learning is often referred to as a process by which knowledge is obtained (Huber, 1991). If a norm, rule or procedure is interpreted as a piece of

knowledge or memorized/recorded experience, then development in this norm can be viewed from a learning perspective. The ideas of Levitt & March (1988) are useful for the interpretation of how learning takes place, i.e. learning is history dependent and is a process in which past experience is evaluated and in this way new knowledge is acquired through

“... encoding inferences from history into routines that guide behavior ... [In this process routines] ... are independent of the individual actors ... and are capable of surviving considerable turnover in individual actors” (Ibid.: p.320).

For these authors, learning takes place through two processes, i.e. learning from one's own experience and learning from the experience of others. When it comes to learning from the experience of others, this process is often seen as a process of diffusion or contagion (see e.g. March, 1988), i.e. a concept borrowed from epidemiology.

Separately, one can learn from one's own experience through processes of exploration and exploitation (March, 1991). While exploration is connected to the creation of new knowledge through experimentation and the search for new possibilities, exploitation is based on already existent knowledge in the organization, i.e. exploiting old “certainties”. In terms presented by Levitt & March (1988), exploration is about consequent “trial-and-error experimentation” and “organizational search”.

Development in local governmental structures and financial relations might be analyzed from learning perspectives. When an ideology changes, new governmental and financial structures might be explored, old structures might be further exploited or solutions from others can be copied.

Institutional approach

The institutional theory considers organizations to be essentially embedded in the wider social environment (Scott & Meyer, 1994; Meyer & Scott, 1983). First of all, it is regarded that, organizational routines, structures and action patterns should be considered as direct results of routines, structures and patterns built into the wider environment rather than locally constructed. Secondly, and much as a consequence of such dependence on the wider social environment, organizational forms and patterns which are produced locally can be characterized as rather loosely coupled. These propositional insights can be usefully adapted to study the effects of changing

ideology on local governments and their accounting norms. Changes in public ideologies might legitimate one sort of routines, structures and action patterns more than others, promoting in turn loosely coupled organizational structures.

In highlighting the processes concerning development of norms regulating formal structures as regards institutional arguments, the regulative approach to institutions is useful (Scott, 1995). If local governmental activities can be regarded in terms of a “myth structure” of the rationalized society (Meyer & Rowan, 1977), they would be subject to strong institutionalization processes. Meyer *et al.* (1994) defines the institutionalization process as a

“... process by which a given ... pattern of activities come to be normatively and cognitively held in place, and practically taken for granted as lawful (whenever as a matter of formal law, custom, or knowledge)”.

Changing ideology can elaborate new patterns of rationalization and articulates a new pattern of local governmental activities and structures which should be regarded as rational (Meyer, 1983). Organizations have to incorporate these patterns if they are to gain legitimacy and ensure survival (Meyer & Rowan, 1977). In this sense, these new patterns of activity become lawful, i.e. a new set of norms emerges.

Institutional rules and norms are diffused, adapted, enforced and controlled through different mechanisms. Scott (1994) distinguishes formally designed and centralized vs. informally administrated and decentralized mechanisms. DiMaggio & Powell (1983) spell out coercive, mimetic and normative ways of institutionalization. Under the *coercive* process, the organization is forced by coercion mechanisms to adapt external norms into its own system. Under the *mimetic* process the routines are adapted more or less intentionally, e.g. guided by the desire to adapt the best available practice, and in this way reduce the uncertainty of ones’ own exploration. When it comes to the *normative* process, diffusion of rules occurs e.g. by educational institutions and through professionalization involving the elaboration of networks.

2.3. METHOD

In order to achieve the aims of this study, i.e. to examine whether, why and how changed societal ideologies in Russia affected Russian local government institutions, the frame of reference was used to construct, structure and analyze the empirical descriptions.

2.3.1. DATA COLLECTION

Because the nature of the chapter concerns history, secondary data is probably the only data available for the purpose of the study (Frankfort-Nachmias & Nachmias, 1997). When the researcher has limited access to the past through e.g. the memories of people who have witnessed historical events, secondary data analysis is used to make research on social phenomena (Judd *et al.*, 1991). The search for research literature, textbooks, records, documents and instructions related to the study's concepts like ideologies, reforms, characteristics of local government was conducted in archives and libraries. However, because this study also deals with the events of recent history, the secondary data was supplied by discussions with qualified Russian researchers and the personnel of Leningrad *oblast'* local government whenever possible during my regular trips to Russia, i.e. two to three times a year. Such discussions helped to establish confidence in baseline concepts and their definitions and, based on that, to select secondary data for three historical periods, i.e. the *tsar* autocracy, the Soviet period and the period of market reforms.

The secondary data analysis is not, however, unproblematic. Like research method, archival research has its drawbacks. First of all, it is difficult to access the relevant data - even though many sources and studies are available. Some data was relatively easily accessible, for example, recent laws about local government. However, to obtain most of the data, it was necessary to work in archives and libraries without any prior knowledge of whether data could be obtained or not. Many Russian and Western libraries and archives were used. Western libraries and archives were easier to deal with because of the possibility to conduct an aimed-oriented search and to access material e.g. through the Internet. Finally, many libraries around the world supplied me with relevant documents and literature.

Secondly, even having accessed relevant documents and literature, the problems of interpretation of such data arises. The conclusions pointed out in books and earlier research might be biased (Judd *et al.*, 1991). Because the researcher cannot establish control over data collection, he/she might confront the problem of accessing with unreliable and invalid data (Webb *et al.*, 1981). In order to overcome some of these difficulties, several and somewhat different types of data sources were selected to cover the same issues and concepts in the periods relevant for the study.

2.3.2. DATA

In order to study phenomena of interest, these phenomena have to be accessible in the empirical research. Based on a theoretical discussion in section 2.2, data was collected reflecting societal ideology in different time periods of Russian history and norms related to Russian local government and its accounting. Analysis of norms for Russian local government accounting during each historical period is given in Chapter 3.

Because an ideology is defined as a set of ideas, beliefs, dreams and visions, it was important in this chapter to describe ideas and beliefs formulated and argued for by the central actors of the Russian society, like *tsars*, soviet leaders and central Russian politicians. However, in addition, it was important to find the links between their visions and ideas, on the one side, and changes in local government, on the other. For this purpose, descriptions of societal reforms and mechanisms employed by central politicians are also given.

Changing ideologies and reforms had been à priori seen as having effects on local governmental formal structure and its financial relations to the institutions in the wider environment. In order to analyze the relationships between changing ideology and local government, the characteristics of local government in each historical period were visualized, based on local governmental norms and descriptions available in textbooks. In doing so, the inner lines of accountability/responsibility were first of all characterized through describing e.g. elements of formal political/administrative structure and inner principal-agent relations. It helped to draw the picture of how the local political and administrative institutions were organized and how these inner institutions were interrelated with each other. Secondly, a description of relations of local government to its wider environment was given in order to depict the nature of financial operations of local government in each of the corresponding periods as well as relations to outer “powerful” institutions, e.g. the state and financial institutions. In the following sections the description of the ideological shifts and changes in local government is given.

2.4. IDEOLOGICAL SHIFTS AND CHANGING CONTEXTS: RUSSIAN REVOLUTIONS AND REFORMS

The purpose of the present section is to examine three important subject matters. First of all, dominating societal ideologies during major periods of

Russian history will be described. Secondly, the section examines how these dominating ideologies were reflected under the reformation of the Russian public/governmental sector and, particularly, local governmental institutions. Finally, it is shown how shifts in ideology and reformation processes changed the formal inner structure of Russian local government and the nature of its financial relations with the broader environment.

The point of departure is to distinguish three major periods of Russian history, i.e. the period of *tsars'* autocracy (1700 - 1917), the Soviet period (1917 - 1985) and the period of *perestroika* and market reforms (from 1985 till the present day). Even though different and sometimes conflicting reforms were introduced within each period, these periods can be characterized by one dominating societal ideology. It means that the transition from one to another period brought dramatic and significant shifts in the societal ideology.

Let us start our examination of the transition process and its effects on local governmental institutions by pointing out that local self-government was present in ancient Russia in terms of "tribute gathering mechanisms" represented e.g. by the peoples' assembly (*veche*) (Pushkarev, 1988; Yaney, 1973). Further evolution proceeded from this model to a system of countryside provinces inspired by Germanic models (Humes, 1991; Yaney, 1973). Ivan the Terrible, for example, was the first person to introduce in the middle of 1500's a scheme allowing the replacement of certain central agents (*voevodas*) by locally elected officials (Riasanovsky, 1969). However, such decentralization was incomplete. The processes of uniting Russian lands under the authority of one ruler which started in the fourteenth century required strict subordination of localities to the center.

2.4.1. THE PERIOD OF TSAR AUTOCRACY (1700 - 1917)

Let us now turn to the beginning of the eighteenth century. Russia was a poorly developed country in comparison with well-developed countries like England, France, Holland and Sweden. The major intention of Russian *tsars'* was to modernize and make Russia into a great power in Europe and to do so they reformed the Russian governmental system. However, different *tsars* had different interpretations of how modern Russia should look, what individual freedom people should enjoy, and how local affairs should be managed.

This period's ideology can be characterized by the presence of the dominating idea of unlimited central power concentrated in the hands of one person, i.e. the sovereign (*tsar*), whose power was unquestioned. As late as in

1905, after the First Russian Revolution, the power of the Russian *tsar* was finally limited. The *tsars'* reforms of that period were mainly motivated by the desire to introduce and materialize into Russian society the ideas of lawfulness (*zakonnost'*), openness and pluralism (*glasnost'*), in the beginning of this period of history, and the ideas of *liberty* and *civilian freedom*, much later (Yaney, 1973). In doing so, Russian rulers tried out different reform mechanisms, i.e. coercion, decentralization and centralization.

Unlimited autocracy helped to modernize Russia

Peter the Great was inspired by the West in reforming the Russian governmental system. The major intention of his reforms was to improve the country's economy, to create the military fleet and a great army in order to eliminate the threat from Russia's nearest neighbors and to bring progress to the poorly developed country (Valovoy, 1997). In attempting to introduce *zakonnost'*, economic growth and well-being, he sought reform as "progress through coercion" (Anisimov, 1993). Coercive methods of reformation demanded strict subordination to the central power and, thus, his reforms finished the formation of absolute monarchy in Russia (Valovoy, 1997). In this sense, he mainly reformed the central administration. In searching for models, Peter the Great was inspired by the Swedish collegial administration and copied it into a Russian context (Peterson, 1979). He also introduced the territorial-administrative division of fifty provinces and their subdivisions of districts. The district heads and councils in provinces were permitted to be elected by the gentry (Humes, 1991). However, introduction of the Swedish model into the Russian context was to prove unrealistic and did not give the intended results (Peterson, 1979; Riasanovsky, 1969).

Decentralization and pluralism questioned autocracy

Reforms of the next great reformer, Catherine II, were also inspired by introduction of the ideologies of *zakonnost'* and *glasnost'* (Yaney, 1973). She, however, sought a way of materializing such ideas through decentralization of responsibility for some central decision-making to the local level's collegial institutions. Different local governmental colleges were created in provinces (*gubernias*) and districts (*uezds*), which were comprised of elected representatives mostly from the local gentry. However, the

provincial governor was appointed by the ruler and acted as a servant of the central administration and the monarch in his province. However, even though Catherine was more successful in systemizing local institutions (Humes, 1991), local institutions did not possess autonomy for local action (Yaney, 1973). Political and financial autonomy could have questioned appropriateness of the absolute power of the monarch. Locally elected bodies were not governed by principles of independence and responsibility, but rather had learned to depend on directions and instructions from higher authority.

Bureaucratic centralization led to stagnation

The period of 1800 – 1850 was characterized by expansion in the central bureaucracy, i.e. ministerial government during the reigns of Alexander I and Nikolay I. These *tsars* believed that *tsar* power was a living law and that Russia would die without the autocracy. They attempted to improve and strengthen the central governmental system. Materialization of the idea of *zakonnost'*, for instance, meant for them introduction of the ministerial system under the rulers' direct control. As a result, several ministries were established at the central level and all local governmental executive organs in *gubernias* were strictly subordinated to the ministries and their agencies. The governor became an agent of the Ministry of Internal Affairs and functioned as an executive director (Yaney, 1973). The results, however, were a complex and ineffective bureaucratic system, corruption, economic stagnation, lack of innovation and resistance to change at both central and local levels (Lincoln, 1990).

Period of “great reforms” and revolutions

The period of 1850 – 1917 is usually called the period of Great Reforms. These reforms also helped Russia to make a transition from a feudal to a capitalist market economy. Defeat of Russia in the Crimean war, serfdom and economic backwardness, “underground” activities and revolutionary movements, ineffective bureaucracy, difficult economic and financial situations of the state made all classes of the society aware that new reforms were needed (Volovoy, 1997; Lincoln, 1990; Emmons & Vucinich, 1982). At the beginning of the reforms, Alexander II referred to the same ideas as

before, e.g. publicity (*glasnost'*), legality (*zakonnost'*). However, completely new ideas appeared, i.e. to give the population the right of self-government (*samoupravlenie*). It meant the involvement of

“...the rural population in the process [of government] without relinquishing political authority or reducing the *tsar's* political power” (Pearson, 1989; p. 19).

A new *glasnost'* experiment was introduced which

“... allowed reformers to consult the ... [society] ... while allowing the government to retain full authority over making policy” (Lincoln, 1990; p. 45).

Censorship limited *glasnost'* to “reasonable limits” in which autocratic authority was not to be questioned. In this sense, the ideas of *civilian freedom* and *individual liberty* were also recognized and argued for at the central level (Lincoln, 1990). The important step forward was recognition that *zakonnost'* would function only when *glasnost'* existed.

After 1861 several major laws were introduced. The Liberation Statute (1861) abandoned serfdom. The *Zemstvo* Statute (1864) set up local governmental bodies (*zemstvos*) at provincial and district level as local councils which had to represent a three-tier electoral system and a council-elected executive body (Humes, 1991). The major idea of governmental transformation was to completely replace colleges by bureaucratic agencies and separate elective local institutions (*zemstvos*) from bureaucratic ones, i.e. to make the distinction between central ministries and their local agencies and local self-government bodies.

Zemstvos were gradually introduced in 34 *gubernias* and 359 *uezds*. During several years after the introduction of the *Zemstvo* Statute public services like education and health care improved considerably (Emmons & Vucinich, 1982). Many thousands of schools and hospitals were built and made available for the public.

However, after the assassination of Alexander II, steps were taken towards the reorganization of *zemstvo* institutions (Pushkarev, 1988). The *zemstvo* counterreform of 1890's proposed more central control over *zemstvo* financial resources. One particular reason for the counterreform was the fact that many *zemstvos* institutions had fallen into heavy debt (Emmons & Vucinich, 1982). The Statute for Strengthening the Guard (1881) gave governors power to directly control the activities of *zemstvos*. The second Statute on *Zemstvo* Institutions (1890) introduced new election procedures and increased the power of the governor (Emmons & Vucinich, 1982). Such reformation during the period of 1889 - 1905 resulted in a very complex governmental structure

at the local level reflecting elected bodies, different standing committees and central ministerial agents (see e.g. Yaney, 1973; p. 326).

During all these years the unlimited autocracy of the ruler was still the dominating belief. However, not until 1905, did the autocratic regime completely lose the confidence of the people. Russia lost the Russian-Japanese war. There were considerable revolutionary outbreaks, famines and the state almost went bankrupt (Yaney, 1973). To stop the First Russian Revolution, the Manifesto of 17th October (1905) was issued which not only granted civilian freedom, but also introduced the State (National) *Duma* and a national electoral law. This document limited the authority of the *tsar*, by making the *Duma* a national decision-making body (Hosking, 1973). Even though there were signs of attempts from the newly emerged institution to reform the local governmental system, nothing substantial happened between 1905 and 1917 (Humes, 1991; Riasanovsky, 1969).

Characteristics of Zemstvo local governments

The *Zemstvo* Statute (1864) established *zemstvos* as local governmental authorities in which three principal classes of Russian society were represented, i.e. nobility, peasantry and merchantry. The local population could manage the local affairs through their elected representatives in the local assembly (*sobranie*) (Emmons & Vucinich, 1982). Article 1 of the *Zemstvo* Statute, for example, stated that the major *zemstvo* activity is the management of affairs relating to "... the local economic welfare and needs of each *gubernia* and each *uezd*" (my translation)⁵. Article 2, lists several functional areas for any *zemstvo*. Some of them were 1) management of local property, capital and funds; 2) management of roads, buildings and locally owned structures; 3) planning, allocation and collection of local taxes and other income; 4) looking after the development of local industry; 5) making expenditures on charity, food provision, responsibility for the communication system, the postal service, education and public health; 6) presentation to the central government information and petitions regarding local wants and needs, and 7) election of executive bodies. By performing its functions,

⁵ See e.g. *Polozhenie o Gubernskikh i Uezdnykh Zemskikh Uchrezhdeniyakh*. In N. Maksimova (1866) *Zemskiya Uchrezhdenia*. Tipografia Shuman & Glushkova, Moscow.

according to Article 6 of the statute, “*zemstvo* institutions ... [should] ... act independently” (my translation).

The formal inner political/administrative structure is described in Chapter 2 of the statute. The major governmental body was the local assembly (*sobranie*) which usually consisted of 40 to 50 representatives, elected for the period of 3 years. *Uezd* *zemstvos* were responsible for the district’s affairs while *gubernia zemstvo* had to manage affairs for the whole province. Each assembly elected 3 to 6 executive officers into the executive body (*uprava*) from the assembly’s members (art. 46). The local assembly was prescribed to hold its meeting once a year (art. 76). While the local assembly had decision-making power, the executive board was responsible for management of *zemstvo* affairs between the council’s meetings and governed in its actions by local statutes, state legislation and decisions of the assemblies (art. 65). It means that the assembly was a principal, and the executive body was an agent. As an agent, the executive body had to make a compilation of *zemstvo* budgets and provide annual financial reports to the local assembly.

There were links between *gubernia zemstvo*, *uezd zemstvos* and the representatives of the state (the governor) (see also Figure 2.1). From each *uezd* assembly delegates were to be elected into *gubernia* assembly (*gubernskoe sobranie*) (art. 51). In this sense, cases affecting the province as a whole could be handled more or less in the interests of the district governments.

The governor, as the *tsar*’s agent, played the role of guardian and mediator (e.g. arts. 90-97). He was appointed by the *tsar*. As guardian of the state interests, he was to guarantee that decisions and actions taken by local assemblies did not violate central laws and enactments of the *tsar*. He had the right to stop the execution of any resolution passed by the local assembly which contradicted the state laws. The legislation emphasized that the executive board should only be accountable to the assembly and, thus, the governor could not directly affect the work of the executive board. As a mediator, the governor should present to the central government information regarding local welfare and needs received from *zemstvos*’ representatives. In this sense, he could mediate local interests to the central government.

In producing public services, *zemstvos* were relatively independent of the central level, i.e. they had their own revenue and financial sources. The emerging market economy made *zemstvos* dependent on market infrastructure, e.g. taxes from private trade and merchant enterprises, taxes on

land and real estate, loans from banks and contributions from private persons (Navrotskiy, 1913). However, despite relative financial autonomy in determining the volume and directions of public services, the *zemstvo* institutions lacked political autonomy, i.e. the *tsar's* autocracy was not allowed to be formally questioned and supported by the governor's role of the *tsar's* provincial agent. *Zemstvo* institutions were created as outposts of the central government because the *tsar* believed that they could execute some state tasks more efficiently and in this way carry out certain state interests.

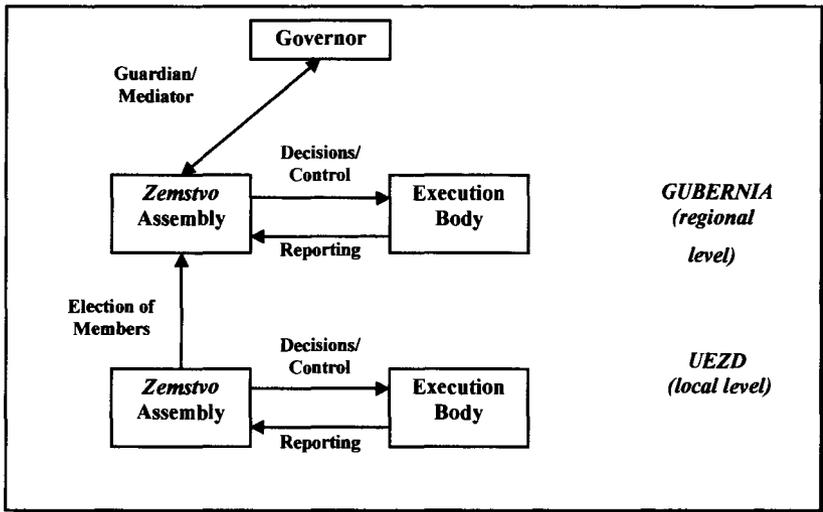


Figure 2.1. Simplified structure and relationships between provincial and district *zemsvo* institutions and the governor.

Summary

During this period of Russian history the central level tried to maintain its power and to improve conditions in the country. Different ideas were formulated (e.g. *zakonnost'* and *glasnost'*) and were sought materialized through different reform mechanisms, like coercion, decentralization and centralization. However, the use of a central authoritarian system in applying

these reform mechanisms did not bring about desired results. As among others Linkoln, (1990; p.16) pointed out,

“... unable to convince their officials to act in a lawful manner, Russia’s autocrats had tried ... to force them to do so. In that, they had violated the letter and spirit of *zakonnost’* ...”.

That might explain why it was attempted to explore new ideas, i.e. self-government (*samoupravlenie*) and give the population civilian freedom and liberty. As a result, local governments were established with the power to take care of local affairs. The introduction of *zemstvo* institutions was clearly an important innovation for Russia because the problems of the welfare state had been solved by *zemstvo* institutions.

2.4.2. THE SOVIET PERIOD OF RUSSIAN HISTORY (1917 - 1985)

In November 1917, workers, peasants, soldiers and sailors led by the Bolsheviks carried out a revolution in Russia and took control of government. The idea of the revolution was to replace the government of capitalists and landowners with a *dictatorship of the proletariat*. The ideology of Marx, Engels and Lenin of a class conflict between the capitalist and working class formed the foundation of the workers’ revolt against their exploiters. It also meant that the capitalist government would be substituted with a new type of government. It would be

“... government of the people and for the people ...[with] ... the awareness and active participation of the mass of the population” (Chkhikvadze, 1972: p. 8).

The governmental system of “soviets” was advocated by Lenin as a type of government which should be used if the socialist revolution were to succeed. The revolutionary movement of 1905 had produced a prototype of the soviet government. To lead workers during strikes and organize strike movements, workers of St. Petersburg created the soviet⁶ of Workers’ Deputies (Pushkarev, 1988). This was not the invention of any political party, i.e. the working masses created them as natural governmental bodies suited for the purposes of that time. This body consisted of 500 members and its major function was to make decisions. Execution of these decisions was devoted to the inner group called the executive committee (Humes, 1991). This type of government existed at that time alongside the *tsarist* government (Chkhikvadze, 1972), i.e. an “underground” government.

⁶ Soviet is translated from Russian as “council”.

Development in the Soviet period of Russian history has been dominated by Marxist/Leninist ideology, e.g. propagating class conflict, collectivism, egalitarianism (equality), “monism” in respect to political and ideological pluralism (Mishra, 1989). During this period, leaders of the Communist party attempted to change the Soviet Union without questioning this dominating belief. However, different leaders had different ideas about how the whole soviet system had to operate. In order to implement these ideas the Soviet leaders tried out, as their authoritative predecessors, different reform mechanisms, i.e. coercion, decentralization and centralization. In the following sections, we shall examine these ideas and consequences of reforms on local governments in the Soviet Union.

War communism and centralization (1917 - 1953)

Even though the Second All-Russia Congress of Soviets (1917) proclaimed transfer of authority in Russia to soviets in all *gubernias*’ and *uezds*’, civil war, foreign intervention and economic problems delayed the implementation of local governmental jurisdictional reform (Humes, 1991). To win the war there were needs for coercive mechanisms and special arrangements which characterized major policies of *war communism*, i.e. full nationalization of industry and its activity being moved over to the soviets, requisition of food surplus and universal labor service.

In the late 20’s, after Stalin took over as Soviet leader, the policies of *industrialization* (creation of large enterprises in major industries) and *collectivization* (creation of large collective enterprises in agriculture) were introduced (Skocpol, 1979), i.e. implemented “through coercion and terror”. In this coercive process, the local Soviets became part of the central hierarchical administration.

Though the transformation of 30’s reflected the introduction of constitutional rights for the rural population to take part in the governance and granted on paper more democracy and sophistication to the organs of state power (New Soviet Constitution, 1936), such constitutional changes were more of a rhetorical character. The totalitarian regime and centralized planning system demanded central control of industry and politics in order to provide organizational predictability and rationality. The major consequence of such policies was the fact that the local soviets had lost some of their responsibilities, e.g. the responsibility for housing, schools, health service

were transferred directly to big state enterprises. It could be argued that such centralist principles helped the Soviet Union to rebuild the country's industry and economy after the Second World War. However, centralization also resulted in Soviet governmental organizations at all levels lacking autonomy.

Reforming local governments in the 50's - good ideas, but bad execution?

From his coming to power in 1953 Khrushchev as the new Soviet leader attempted to revitalize local soviets by creating new governmental agencies for running state enterprises at the provincial level (so called *sovnarkhoses*). Condemning Stalin's terror, this period was characterized by central rhetoric calling for responsibility, concern for human beings, struggle against bureaucratism and power arbitrariness (*proizvol*) of the former highly centralized and authoritarian system. Consequently, some new laws were approved during the period of 1957-58 replacing old ones from the 1920's and 30's. The Stalinist system of coercion through instructions was intended to be substituted by reintroducing the principle of *zakonnost'* interpreted as regulation by law. And the way to *zakonnost'* was seen to be through decentralization, focusing on creation of the welfare state and the production of consumer goods neglected by Stalin's system (Cattell, 1965). Citizen participation in the state administration was encouraged by giving e.g. more tasks to local Soviets and the dissolution of central ministries (Ross, 1987). His reform also reduced planning and accounting procedures (e.g. reduced the number of planning indicators, documents and accounting reports in enterprises and Soviets) (Zaleski, 1967).

However, in reality implementation of decentralization was difficult because of the lack of co-ordination which led to confusion, rivalry, and localism (Cattell, 1965). When the system has well established competence, it is difficult to change it promptly.

Brezhnev centralization supported by ideas of scientific management

Brezhnev's reforms from the 1960's can be seen as a response to co-ordination problems experienced in the Khrushchev transformation. Brezhnev and his advisers continued reformation of planning but rather emphasized centralization of the state system of administrative control (Ryavec, 1975). The state apparatus was, thus, strengthened and ministries were reintroduced.

Such administrative reforms were supported by new ideology of scientific and technological revolution based on “scientific organization of labor” and “scientific organization of management” (Ross, 1987).

During that time, new legislation was adopted, aimed at strengthening the role of soviets at the local level, e.g. by giving to soviets coordination of local enterprises and institutions on their territories. However, the result of these reforms was not as intended, i.e. there was still an absence of local initiative and a domination of the top-down system. As Hill (1983: p. 29) pointed out that

“...in spite of ...trying to encourage the Soviets to accept responsibility, to exercise their powers and rights, and display initiative, ... nothing in practice ... [happened] that would guarantee local government and autonomy from stiflingly close party supervision over the detail of its functioning: quite the reverse”.

Let us now turn to examination of major characteristics of local soviets.

Characteristics of local soviets

The basic principles of the Soviet governmental system were direct participatory democracy, combination of legislative and executive powers, democratic centralism and multisubordination. The basic normative source of these principles was Constitutions of the Soviet Union⁷ in which all these principles were explicitly or implicitly stated.

Soviet government had four tiers of governmental hierarchy, i.e. the republic, the province (e.g. *oblast'*), the region/district (*rayon*) and the municipality (e.g. *selsovet*) (Humes, 1991). The Soviet government was seen as a form of direct involvement of the mass in governance of the state, i.e. direct democracy and elections in which the proletariat could ensure its interests (Chkhikvadze, 1972). Thus, not a territorial unit but a production unit (factory, collective farm, etc.) was advocated as electoral unit.

Local government was meant to be totally integrated in the central governmental system to ensure socialistic democracy (Zlomanov & Umanskiy, 1984). Particularly, the principle of “democratic centralism” was

⁷ There were several Constitutions of the Soviet Union: in 1918, 1924, 1936, 1977 and the last edition in 1988.

advocated by the Soviet Constitution as a principle ensuring “democracy”, in that deputies could be elected democratically into local government and “centralism”, in that local government could function as integrated parts of the national governmental system. It meant that soviets on lower levels were subordinated and accountable to soviets at higher levels.

In accordance with this perception of socialistic democracy, local governments had legislative and economic functions which allowed them to make decisions and discussions on questions of local importance, and most local and regional soviets were relatively big organizations (Andreev & Olsson, 1995; Jacobs, 1983). Deputies were elected into the representative council from the population. Further, from the list of elected deputies, the members of the executive committee were later elected. The executive committee (*ispolkom*) had the function of executing decisions made by the council through its functional departments responsible for water, electricity, heating supply, organization of trade and public catering, shops, kiosks; they were also authorized to pay full pensions and benefits to citizens, and supervise health service and schools’ activities. In the implementation of some functions, these departments had to coordinate their activities with enterprises. This principle of the soviet’s organization was formed by Lenin who was motivated by Marx’s recommendation based on the principles of the “Paris Commune” as a “working co-operation” in which one authority both made the laws and was responsible for their implementation (Kutaphin & Fadeev, 1997).

However, Soviet Union’s centralized political and economic systems made local governments dependent on higher level government, central ministries, centrally controlled enterprises, and especially the Communist Party. Such a situation has been characterized as a multisubordination of the local soviets (Ross, 1987; Jacobs, 1983), i.e. subordination to the local agencies of the Communist Party, to the ministerial agencies and to decisions of the higher level Soviet (Figure 2.3). Communist ideology played a very important part in the governance of the state and organization of the society representing Soviet society as coherent and without conflict. This party was the core of the political system, all state and public organizations, and had a function of defining the general perspectives of society development, internal and external politics. In this respect, any local soviet was subordinated to local committees of the Communist Party.

Every local governmental council was dependent on and tied up by the Party's five year plans of economic development, developed through the central ministries. The budgets of local government were in reality decided by *Gosplan*⁸. In practice this was done through the executive committees of local governments, and the representative councils only had to approve them. This resulted in a complex hierarchical structure of local soviets with complex lines of responsibilities. For instance, *ispolkom* at lower level was not just accountable to local representatives in the soviet at the same level but also to *ispolkom* at the higher level. Department of education of district *ispolkom*, consequently, had to be accountable to this *ispolkom* and to the education department of regional *ispolkom* at the higher level.

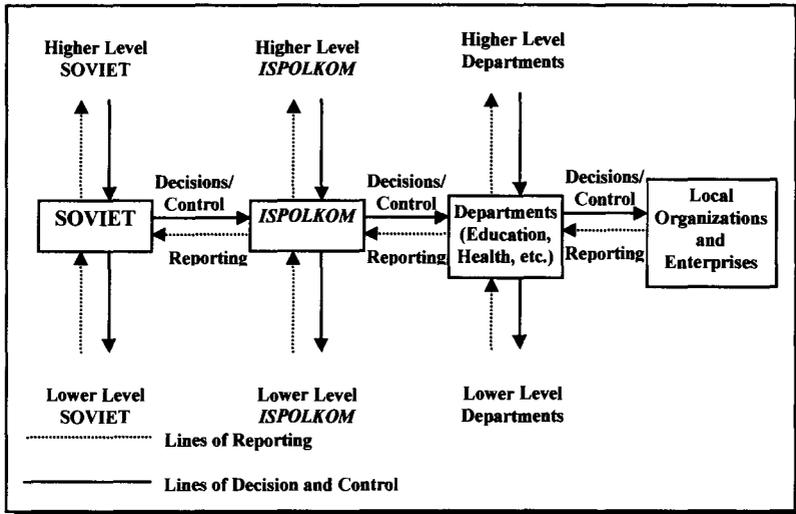


Figure 2.3. The simplified scheme of the soviet local governmental structure and accountability relations (Local party agencies and non-local enterprises are not shown. Adapted from Ross (1987)).

As a consequence, local soviets were characterized more as registration and consultation bodies than bodies with real decision-making and control

⁸ The Central Ministry of all union central planning.

power (Jacobsen, 1998; Andreev & Olsson, 1995). The local budgets were just adaptations of the five year plans under the system of central planning, and therefore reflected both the lack of budgetary power and the lack of local financial resources of local governments (Mitchneck, 1995). Even if the political system allowed a debate about local issues, the number of solutions to local problems was limited and controlled by the local committee of the Communist Party and higher level soviets. The leading role of the Party in Soviet society demanded strict submission of local governments to the Party. Thus, the local autonomy of the local soviets was substantially limited.

Summary

Conclusively, the central government did not make or manage to make any substantial local governmental reforms leaving local soviets in the position they had enjoyed many decades earlier (Humes, 1991; Hill, 1983). The October Socialist Revolution argued for the people's state. In reality, central policies were determined by a political party elite in the context of unitary social ideology and an authoritarian political system. The previous dictatorship of the proletariat was later substituted by dictatorship of party elite and national plans. Hayek (1944; p. 53) wrote that

“... planning leads to dictatorship because dictatorship is the most effective instrument of coercion and the enforcement of ideals, and as such essential if central planning on a large scale to be possible”.

It is not surprising then that all new soviet reforms were closely associated with the ideas of the new party leader. All reforms intended to revitalize the local soviet, making them responsible and initiative. Coercion, decentralization and centralization mechanisms were exploited by the reformers. However, it was difficult to encourage responsibility and initiative in local soviets, without changing the principles the whole Soviet system was built on, i.e. democratic centralism, planned economy and multisubordination.

2.4.3. PERESTROIKA AND MARKET REFORMS (1985 - 1999)

During the 70's, the Soviet Union entered the so-called period of stagnation (*zastoi*), i.e. economic development slowed down and all aspects of political and social life were concentrated in the hands of the party elite. In the beginning of the 1980's, the deceleration of Soviet economy was enormous. In the middle of the 80's Gorbachev, as the new party leader,

tried to deal with economic, political and societal problems of that time by introducing *perestroika*⁹ reform, aiming at achieving increased economic growth. The reform ideology included *glasnost* (openness, e.g. allowing public debate and access to public information), *demokratia* (democracy, e.g. creation of a democratic society, participation of people in political decision-making) and *zakon i kontroll* (law and control, e.g. to make people more law-oriented, to fight corruption and privileges). Focusing on the latter in effect meant starting dismantling of institutional structures of Soviet Union. For example, aiming to reduce the degree of centralization in politics, article No. 6 of the Soviet Constitution providing "... the leading and guiding role of the Communist Party in the Soviet society" was abandoned (Constitution of the USSR, 1988; p.7). From now on, there were, thus, allowed many political parties and pressure groups.

As a consequence of the above-mentioned focus, the Soviet Union central government instituted two major policies in 1989 aiming at increasing responsibility and authority for local governments (local soviets) over their territorial jurisdictions (see e.g. Mitchneck, 1995). The policy of *samofinansirovanie* (self-financing) stated that local governments within the Soviet Union were allowed to finance expenditures from local taxes making them more independent of grants from higher levels of government. The policy of *samoupravlenie* (self-government) argued for increased responsibility of the local soviets for production of services in the interests of the local population.

Gorbachev's policy of *democratizatsia* and *glasnost* played down the role of the Communist Party (Andreev & Olsson, 1995). The reduction of central political control implied that local governments also faced more financial independence. This process resulted in an approval of the law¹⁰ in 1990 declaring new financial relations between the national level of the Soviet Union and Soviet republics, in which republics received more independence in the determination of their budgets and in the financial relations to other units of the Soviet Union.

During this political restructuring process, the central planning system was still powerful and important, and democratization processes in society were

⁹ *Perestroika* can be translated as "reconstruction" or "transformation".

¹⁰ The title of the law is "On the general principles of local self-government and local economy in USSR".

not supported by much decentralization in economy. This lack of decentralization was especially noticeable when the Soviet Union experienced a tremendous economic crisis at the beginning of the 1990's. This crisis questioned not only the appropriateness of the old economic and political mechanisms, but also the existence of the Soviet Union which was dissolved in the beginning of 1991. At this point in time Yeltsin entered the Russian public arena, arguing that a complete change for the better implied the introduction of market economy.

Reforms of the 90's

Since 1991 Russia entered into an even more radical "reconstruction". The idea was to build a democratic society based on *democratic order*, *citizens' liberties* and *market economy*. As a consequence, *deregulation* of national economy, *liberalization* of prices and *privatization* of state ownership started. Decentralization of the state power was also seen as an important reform mechanism allowing more autonomy but also delegation of increased responsibility to local governments.

After the disintegration of the USSR, separatist tendencies were also present in the subjects of the Russian Federation, especially in some republics. Such tendencies were driven, for example, by the inability of Russian central ministries and the central government to handle regional issues (Lapidus, 1989). Governments of the subjects of the Russian Federation "pushed" the central government for reallocation of functions and authority between the levels by threatening that they would cut off revenue submission to the higher level (Wallich, 1994; Mitchnec, 1995). Therefore, the central authorities were forced to give more independence to republics and regions in order to secure some centralization and position of the state.

The Russian central government already defined in the new law¹¹ (1991) the legal rights of local government in the Russian Federation and allowed local government organizations some autonomy. Important terms like municipal ownership and local budgets were defined and *ispolkom* was renamed "local administration". However, while local self-governance was declared, supportive financial, fiscal and organizational rights were not provided (Wallich, 1994).

¹¹ See the law "On self-government in the Russian Federation".

The old governmental system of soviets actually existed right up until 1993, even after the dissolution of the Communist Party and the USSR. The new governmental structure in the subjects of the Russian Federation was introduced by the president's decree¹² in 1993. This decree introduced organizational principles for subjects of the Russian Federation for the period of the stage-by-stage constitutional reform. This decree emphasized that local governments at regional level (territories, regions, cities of federal importance, and some other local organizations) should have local autonomy. These local government organizations should have representative councils and administration. The representative councils should reflect the population and be elected by the citizens (art. 1). According to the decree, the representative body is responsible for decision-making and control (art. 6), while the administration has to prepare the budget and implement the budget decisions made and execute all other decisions by the representative council (art. 10). The number of deputies in these representative councils had to be reduced from 200-250 to no more than 50, and 40% of the deputies elected into the representative council were allowed to work on a "staff paid" basis (art. 2).

Local governmental autonomy and local government's rights concerning self-government were further developed under the Constitution of the Russian Federation (1993). In 1995 a new Federal Law¹³ gave local governments more autonomy, and stated their responsibility to produce service within the limits of their local budgets (art. 5 and 36). Autonomy was also interpreted in the law as the right of local governments to finance their operations by taking loans and making transactions in the financial market (art. 36). The law introduced the term of municipalities and defined that local government had the responsibility of producing services for the citizens within its area (art. 1 and 6). The structure of the particular local government is a matter for the local population and is not regulated by the law (art. 14). One main principle is, however, emphasized, i.e. representative councils should be the principal, but administration should perform the role of the agent (art. 15). Further, the

¹² The title of the decree is "On the basic principles of organization of state power in subjects of the Russian Federation".

¹³ The title of the law is "On the general principles of organizations of local self-government in the Russian Federation". It is often referred to as the Municipal Code of the Russian Federation.

law described the relations between the different types of local government within the Russian Federation (arts. 4, 5, 10).

2.5. ANALYSIS: IDEOLOGICAL TRANSITION AND REFORMATION OF LOCAL GOVERNMENT IN RUSSIA

In this section, a summary is given as to what we might learn from history regarding ideological shifts, reform processes and the development of local governmental institutions. Firstly, the links between ideology and reforms are examined. Secondly, because the historical descriptions indicate that shifts in ideology seemed to affect understanding of Russian local government, the relations between shifts in ideology and changes in local government are discussed.

2.5.1. IDEOLOGY AND PUBLIC SECTOR REFORMS

Ideology is defined as a set of beliefs, visions and ideas. Different periods of Russian history are compared in Table 2.1. The descriptions above indicate that, at any point in time, two different but more or less integrated sets of ideas, beliefs and visions co-exist. On the one hand, there is a set of ideas which is articulated by central actors in the society on e.g. the societal and economic order, who should govern the society, etc. It is possible to call this set a “core” of ideology, because this set of ideas does not change during the particular historical period. This “core” of ideology might be understood in the Marxist tradition as a solution to conflicts and historically formed contradictions between different interests of societal classes which are difficult to solve in practice (Larrain, 1979). In this sense, the “core” of ideology often finds its realization in a set of unquestioned, taken-for-granted and, thus, strongly institutionalized beliefs. Russian history reveals at least three such sets, i.e. the unlimited autocracy of the *tsar*, the ideology of communism/socialism and e.g. the market order (see Table 2.1).

On the other hand, there is another set of ideas which can be differently understood if compared to the set of ideas in the “core” of ideology. This set of ideas can be called a “myth” and represents a central actors’ theory for understanding the world (Hedberg & Jönsson, 1978). It might be seen as a solution which is formed in response to logical conflicts of central actors, rather than to “real” historical contradictions (Lèvi-Strauss, 1974). *Zakonnost’* (lawfulness), *glasnost’* (openness), *samoupravlenie* (self-

Table 2.1. “Core” ideologies, “myths” and reforms under different regimes.

Period	“Core” of ideology	Initiator of reforms	The “Myth”	Reform mechanism	Forces/conditions
The Tsar’s Autocracy (1700-1917)	Unlimited autocracy of the ruler	Peter the Great, 1699-1725	<i>Zakonnost’</i>	Progress through coercion	Economic growth, better <i>tsar’s</i> control over revenues and army support
		Catherine II, 1762-1796	<i>Zakonnost’ Glasnost</i>	Decentralization, limited censorship	Better central control over the country; gentry participation in governance
		Alexander I, Nikolay I, 1800-1850	<i>Zakonnost’</i>	Bureaucratization, strong censorship	Lack of central financial resources
		Alexander II, Alexander III, Nikolay II, 1850-1917	<i>Zakonnost’, glasnost, samoupravlenie</i> , liberty, civilian freedom	Decentralization of power, creation of autonomous local institutions, National <i>Duma</i>	Defeat in Crimea, Russian-Japanese wars, lack of state finances, unrest and revolutions, expectations of reforms in society
The Soviet Period (1917 – 1985)	Communism, central planning, democratic centralism, Communist party leadership	Lenin, Stalin, 1917-1953	Dictatorship of proletariat	Nationalization, industrialization, collectivization	October Socialist Revolution, Civil War
		Khrushchev, 1953-1964	<i>Zakonnost’, effectiveness, socialistic democracy</i>	Decentralization, planning reform	Need for welfare state creation; transformation to communism
		Brezhnev, 1964-1982	Effectiveness	Ministerial Centralization Planning reform	Lack of coordination in decentralized system
Perestroika (1985-1990)	Democratic centralism, central planning	Gorbachev, 1985-1991	<i>Zakon i kontrol’, glasnost’, demokratia, samoupravlenie</i>	Decentralization through giving more autonomy and political liberty	<i>Zastoy</i> (deceleration of growth in economy); strong Party control
The Market Reform Period (1990 – ...)	Market order, democracy	Yeltsin, 1991-2000	Autonomy, independence <i>samoupravlenie</i> , liberty, freedom	Privatization, deregulation, liberalization, decentralization	Economic crises, dissolution of USSR, calls for independence

government), *efficiency* – all these beliefs were directly or indirectly expressed by the central actors. They can also be understood as institutionalized norms (Meyer *et al.*, 1994) which were constructed from interpretations and translations by the central actors of universal human values and societal “ideals” like liberty, freedom, law obedience, decency, control, autonomy, etc. These ideas are pursued but not achieved; some “myths” are continuously repeated in different periods, but some of these ideas disappeared in order to emerge again decades, and even centuries later.

Any societal phenomena can be approached from perspectives of a genuine union between natural and rational understandings (see example in Boland & Pondy, 1983). By applying natural understanding, the “myth” is symbolic and guided by the logic of representation through producing certain meanings and specific articulations (Coward & Ellis, 1977). These interpretations, and thus the “myth” itself, gains acceptance among societal members’ because it makes sense of their experience (Yaney, 1973).

By applying a rational understanding, the “myth” also has an instrumental character. In central rhetoric, these ideals were stressed, continuously repeated and many times reemphasized as responses to political, financial, societal crises. These “myths” were attempted realized through societal reforms. Thus, a reform comes at the same time as a new “myth” emerges, or interpretations of old “myths” change. Because all Russian reforms were introduced at the central level of government, “myths” and reforms are strongly associated with shifts in central governmental actors (*tsars*’, party leaders and presidents), i.e. a “myth” generator or “myth” interpreter. This can be seen as a consequence of traditional Russian belief in a strong central government. As a result, the debate around the solutions to problems at central level was sometimes limited. During the *tsar* time period, the ruler possessed knowledge of what was the “best” way of reforming. In the Soviet period such decisions were at the hands of the Communist Party and its leader. In the beginning of the 90’s, the Russian president was the person in position to formulate the “myth”.

2.5.2. IDEOLOGY, REFORMS AND LOCAL GOVERNMENT: CONTINUITY AND CHANGE

The ideological changes and reforms seemed to have affected local government. Table 2.2 summarizes ideology in different periods as well as inner and outer principal-agent relations and financial relations.

Table 2.2. Contextual characteristics of accounting in local government under different regimes.

<i>Period</i>	<i>Dominating ideology</i>	<i>Principal</i>	<i>Agent</i>	<i>Financial relations</i>
The Tsar's Autocracy	Unlimited autocracy of the ruler	OUTER: State (the governor) INNER: Local assembly	Executive body (<i>Uprava</i>)	Dependent on institutions of market economy
The Soviet Period	Democratic centralism/ Communist Party leadership	OUTER: Different central institutions: Communist Party, central ministries, etc. INNER: Soviet of people deputies	Executive committee (<i>Ispolkom</i>)	Dependent on the state and state enterprises in a plan economy
The Market Reform Period	Market order, democracy, autonomy, independence, responsibility	OUTER: State INNER: Legislative council, the governor	Local administration	Dependent on institutions of market economy

First of all, external (outer) local governmental relations seem to vary according to different historical periods. Ideological shifts and consequential reforms very often dismantled old, and created new institutions through the emerging regimes. By referring to principal and agent, the table shows that ideological shifts seemed to affect the external relations, i.e. by shifting the number and nature of principals outside the local government. For *zemstvos*, there were two main principals for the local executive body. The local assembly, as inner principal for the local executive body (*uprava*), had to share influence with the state representative (i.e. the governor), who monitored and control local governmental talk and actions on behalf of the *tsar*, i.e. external principal. Possessing relative financial independence of the state in producing local public services, local assemblies in *zemstvos* were constrained by central autocrats in the sphere of political activity. The dominating ideology of autocracy did not allow formal political activities to take place at both local and central levels, but reforms conducted since 1864 allowed decentralization of public services production to the local level. In this production, local government derived its financial resources from institutions and market economy enterprises.

During the Soviet period, despite a local council of deputies being declared in central laws as the main principal for local administration (*ispolkom*), the principal-agent relationship for local soviets was characterized by external multisubordination, i.e. there was a whole network

of local representatives of central state principals, e.g. ministries, higher level soviets and local party committees. These institutions made decisions affecting the action of local administration of that time, i.e. *ispolkom*. Ideological principles of democratic centralism, party leadership and a centralized system of planning made the subordination of local *ispolkom* to the local council very formal. Hence, councils of local Soviets were more characterized as hearing and ceremonial institutions, i.e. their decision-making was more ritual than factual with regard to determining effects on local policies. Local government derived its resources from the population and state enterprises according to the state plan. The production of local services in the centralized governmental system was also more dependent on central directives, institutions and allocation of resources rather than on local requirements and opportunities.

As regards market reforms, the ideas of market order, autonomy and independence made changes in the principal-agent relations for Russian local government. On the one side, the legislative council became main internal principals for the locally elected governor and the local administration. Production of public services was to be carried out in the interests of the local population. Local governmental solutions to local problems are now no longer constrained by the centrally defined directives. The state now has rather more a monitoring function, e.g. to secure that guarantees of the Russian Constitution are not violated. The former dependence of local governments on state finances was, however, substituted through the process of economic “emancipation” of local government by their dependence on private sector financial institutions and the nascent market infrastructure. Making local government independent of the state and responsible for its own economy and finance made it sensitive to lack of financial resources in the underdeveloped market economy.

In summary, ideological shifts have changed the understanding of principal-agent relations in local government, i.e. the power structures influencing lines of legitimization. Ideological transition affected economic infrastructure and, consequently, economic relations of local government with its environment. However, if we examine Table 2.2 closer, we can see that there is also an element of continuity which is not affected by shifts in dominating ideology. This element is the formal local governmental inner political/administrative structure. During the *tsar*’, Soviet and market reform periods, the formal structure consisted of a local council of elected deputies

(in historically ascending order assembly, council and legislative council) and executive organs (*uprava*, *ispolkom* and local administration). The names of local governmental bodies shifted, but local government was always structurally separated in a political part (deputies, characterized by “talk”) and an administrative part (officers, characterized by “action”), which were further hierarchically organized into functional committees and departments.

2.6. DISCUSSION

The purpose of this chapter was to contribute to providing an understanding of whether and how changes in local government are related to shifts in dominating societal ideologies as propagated by central Russian leaders. Firstly, ways of understanding changes in ideology were discussed. Secondly, an analysis will be given of relationships between changing ideology and local government.

2.6.1. IDEOLOGICAL HETEROGENEITY AND IDEOLOGICAL SHIFTS

It has been pointed out that a societal ideology at any time of Russian history can be seen as a heterogeneous set of ideas, i.e. consisting of two sets of values constituting a “core” of ideology and a “myth”. An interplay between these sets results in dynamics of ideological shifts.

When development in a “core” of ideology and a “myth” are considered separately, the dynamics of processes behind their development might be described as application of the “tidal wave” pattern model (Hedberg & Jönsson, 1978; Jönsson & Lundin, 1977). In this model, a new “core” of ideology or “myth” develops “...tidal waves of enthusiasm and depression occur around leading ideas ...” (Jönsson & Lundin, 1977; p. 161). Rising enthusiasm and wishful hopes associated with new sets of ideas initiate vigorous actions from central actors. However, as time passes, the evidence of contradictions between the initial set of ideas, outcomes of actions and experience is accumulated. The more inconsistencies are revealed, the more a critical perspective of the initial set of ideas could be developed. The result is that alternative sets of views and ideas are developed, i.e. the *ghost* “myth”. In the end, such contradictions and inconsistencies result in crisis situations and actors’ confusion and uncertainty concerning the future. The dominating ideology decreases in value and in such a situation actors may accept the

ghost “core” of ideology or “myth” as an alternative point of departure, i.e. a new wave of enthusiasm begins.

In this analysis, the “core” of ideology and “myth” are treated in the same way at the non-aggregated level. However, there is a time difference between these structural elements of ideology, i.e. the “core” of ideology rises and stagnates through longer waves than “myths”. In addition, the consequences of initiated actions are also different, i.e. a revolution for changes in the “core” of ideology and a reform for a “myth”.

Having developed through the same processes, these two structural elements contribute, however, differently to the development of ideology. These two ideological sets continuously interact with each other. The heterogeneity of the ideology, i.e. interplay between the “core” of ideology and the current “myth”, creates the dynamics of ideology development. On the one hand, the “core” of ideology as a strongly institutionalized set of beliefs represents a force of ideological *continuity* within the selected historical period. According to Marxist interpretation of ideology, it provides continuity by filtering and negating historically established social conflicts. This ideological continuity, thus, might be changed only through revolutionary outbreaks, i.e. by dissolving the real societal contradictions and dismantling old institutional structures which gave rise to this ideological “core” (Larrain, 1979).

On the other hand, rising “myths” conform or threaten the “core” of ideology. Some “myths” conform the ideological “core” because their legitimacy is based on existing dominating ideology, e.g. *zakonnost’* of Russian *tsars* and *zakonnost’* of Kruschev. Other “myths” threaten the “core” of ideology, e.g. the October socialist revolution, *perestroika* and market reforms. Waves of conforming or threatening “myths”, through symbolic articulation of ideals, on the one side, and instrumental consequences for institutional structures, on the other side, result in contradictions between both the “core” of ideology and experience. However, ideology changes when the threatening “myth” takes over. In this way the appropriateness of the old ideological “core” is questioned and such uncertainty stimulates the *ghost* “myths” taking over. Finally, the “core” of ideology is de-institutionalized when the threatening “myth” becomes the ideological “core”.

The question might arise, why has Russia experienced two dramatic ideological changes and almost five major reforms¹⁴? Why does ideology development in Russia have a more revolutionary than evolutionary character? Development in ideology might be understood from perspectives of balancing between exploration and exploitation (March, 1991), and learning/unlearning processes (Levitt & March, 1988). When we consider how well Russian central actors kept balance between exploration and exploitation of ideologies, we might conclude that there is a tendency to overexploit both the “core” of ideology and reform mechanisms. As Brunsson (1982; p. 41) wrote:

“... existing ideologies are threatened when their implications contradict observations. If these threats cannot be met by making ideology more ambiguous, inconsistencies arise ...”

The direct result of such inconsistencies is uncertainty and awareness that changes are needed. Ambiguity implies providing space for alternative *ghost* ideas and accepting them or part of them as the ideological “core”. In a situation when ideology is overexploited it is easy to point out inconsistencies and contradictions between ideological articulation and promises, on the one side, and real life experience, on the other. However, it is much harder to make the overexploited “core” of ideology ambiguous.

Because overexploitation leads to a lack of flexibility and a lower propensity to change, the “core” ideology undergoes greater problems each time a new “ghost” myth emerges. A long time ago it was observed that

“... if we want things to stay as they are, things will have to change” (Di Lampedusa).

It even became paradoxical that in order to maintain the status quo there is a need for a change (Czarniawska, 1992). On the other hand, the Russian state did not manage to make incremental changes to maintain the status quo in its core ideology. It is easy to conclude that the more an ideology is overexploited, the easier the ruling ideology can be substituted by another one. Moreover, the longer an ideology is overexploited, the greater the chance for a threatening ideology or “myth” takeover.

¹⁴ These are: 1) The First Russian revolution (1905), 2) The February bourgeois revolution (1917), 3) The October Socialist Revolution (1917), 4) The *Perestroika* reform (1985), and 5) The Market reform (1991).

Central autocratic actors have also overexploited reform mechanisms. Reformers applied different mechanisms and very often the “great” reformers chose the opposite mechanisms from those applied by his/her predecessor. It seems as though central actors who initiated particular reforms and decided what mechanisms to use, “enter” the “reform workshop” and choose one “tool” out of a broad “reform’ inventory”, e.g. tools like decentralization, coercion, centralization, bureaucratization, privatization, nationalization, deregulation, liberalization. They did it depending on their perceptions of the current “myth”. Having started with one tool, the “reformer” began to get used to it. The reformer was reluctant to change the “instrument”, even if it did not do the job right, i.e. the reform tool was overexploited too.

In such a central world of overexploitation, both the learning of new and the unlearning of the old ideologies and reform mechanisms is difficult. Many reforms failed because it was difficult to “unlearn” when the central reformer was used to a “preferred” tool. The reformers’ overexploitation of reforms might, thus, be understood as “competency trap” (Levitt & March, 1988). Politicians are known for their ideological dreams. But as March & Olsen (1995; p. 231) put it:

“... they [politicians] tend to interpret apparent failures not as a sign that they are on the wrong track but as a sign that they should try push harder along the track they are on.”

As for Russia, many ideological dreams and interpretation of the societal problems were formed by the autocratic central actors of the state. They also decided the way of reforming. This is not, however, the problem in itself. What seems to be problematic is that such central overexploitation was possible.

2.6.2. IDEOLOGY AND LOCAL GOVERNMENTS: CONTINUITY AND CHANGE

The effects of shifting ideologies on local government can be characterized as two-fold. On the one hand, changing ideology contributes to changes in the understanding of outer relations between actors within and outside local government, i.e. the nature and number of external principals for the local executive body. Financial relations between local government and its wider economic environment have also changed. On the other hand, changing ideology has not changed inner formal political/administrative structure of local government and forms of organizing local governmental services. The

interrelations between changing ideology and its effects related to accounting in local government are summarized in Figure 2.3.

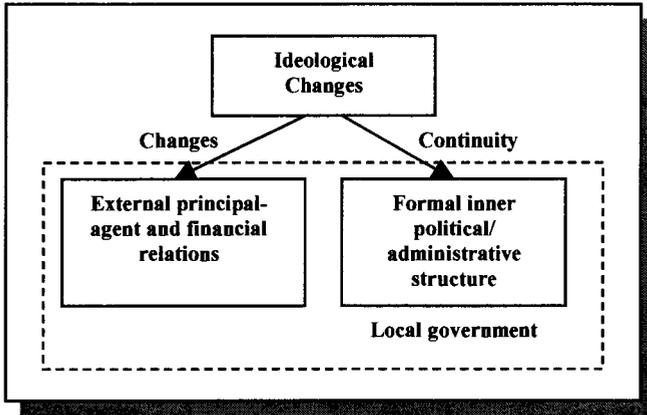


Figure 2.3. Effects of changing ideology on Russian local governments.

On the one hand, changing ideology is closely associated with the number of external outer principals and changing financial relations. These changes, however, can be considered on two levels. First of all, shifts in ideologies are signified by bringing to life new “cores” of ideology with their views of the world, society and government. This means that shifts in this “core” change the principles and foundations of the whole governmental system. A more long-term consequence of changes in “core” ideology is that the old institutions are dismantled and new ones emerge. Rising “myths” and consequent reforms change the institutional and economic environments of local government. In this way myths and reforms seem to contribute to changes in the number of local governmental principals and financial relations.

On the other side, the ideological changes of 1917 and 1991 have not resulted in considerable changes in the formal inner political-administrative structure of local government. In three corresponding historical periods, local government was organized according to the principle of distinguishing between policy and administration. However, what is more interesting, the service production was organized according to vertical (functional) organizational structure. The common trends of organizing observed in many

Western local government organizations (see e.g. Stanayer, 1980) were not observed in Russian local government.

2.7. CONCLUSION

This chapter has aimed to find out how Russian local government has developed in order to understand whether and how changes in these institutions are related to shifts in dominating societal ideologies propagated and defended by Russian central politicians. However, as this chapter sketching the Russian history of local government has demonstrated, ideological changes have a somewhat mixed impact on local governmental institutions which rather establish patterns of change and continuity.

Different comprehension and explanations have been attached to such findings. However, interrelationships between ideology and local government in Russia could, I suggest, be analyzed in a more holistic manner. It is well-known that cultures and traditions are important. What is common between the three periods described in the study, is that local self-government bodies were always introduced in Russia "from above" (by central government), after ideological shifts were completed. In all these periods, local government could be considered as a kind of "outpost" of the central government (Kirkow, 1997). It would appear, then that this pattern of development differs significantly from the Western one. The traditionally strong central government allowed some autonomy in Russian local government organizations rather than the opposite, i.e. traditionally autonomous local government being monitored by the state. A "strong" state very often means "weak" society (Szücs, 1995; Putman, 1993), i.e. the lack of civic "horizontal" traditions is substituted by "vertical" hierarchy of the state. In such a situation local self-government emerges as delegated activity from the state, rather than based on civic traditions. Why was Russian local government not locally organized, but rather constituted from above? Is it because, over the passage of time, Russian people could be characterized as "*homo sovjeticus*" meaning individuals with a lack of responsibility, a desire to control their own destiny and self-esteem (Gerner, 1998). It is very difficult to answer these questions. Perhaps the lack of self-government traditions and particularly the disinterest of the local population in politics and governance of local affairs (see e.g. Shevtsova, 1999) made overexploitation of central ideology by the central institutions much easier. However, time has changed, and local government in Russia has begun to accumulate the necessary

experience of self-government. These new institutions will probably create a counter-balance to the central power and monopoly for initiating change. Whatever the effect may be, the process of changing local government seems to be more evolutionary than revolutionary, and from the perspective of Russian history this may – at least – offer some hope.

CHAPTER 3. DEVELOPMENT IN RUSSIAN LOCAL GOVERNMENT ACCOUNTING NORMS – PROGRESS OR ILLUSIONS?

3.1. INTRODUCTION

One way of seeing accounting is to consider it as a social construction. Accounting as an integrated part of any organization cannot be isolated from its context (e.g. Mellemvik *et al.*, 1988; Hoopwood, 1983). Thus, accounting is not only influenced by e.g. the organization's internal structure, behavior and culture (Anthony & Young, 1988; Emmanuel & Otley, 1985), but is also dependent on the wider social environment (Meyer, 1986). If an ideology is considered to be one important element in the wider social environment, accounting can also be regarded as socially constructed based upon that ideology (Puxty, 1993). Indeed, changes in accounting can be understood in relation to changes in social and economic system which are supported and promoted by the current ideology (Neimark & Thinker, 1986).

In this sense, it is not surprising that the rise of “new public management” reforms has had an impact on development of new accounting techniques in many Western countries and can be applied to e.g. local government. It seems that there is a direct link between new ideology and accounting change. The search for efficiency through a notion of “accountable management” resulted in continuous promotion of different systems of accounting (e.g. Humphrey & Olson, 1995). But, this process of development in many Western countries seems to be more motivated by the ideological enthusiasm of central politicians rather than by critical examination of practical needs at the level of a particular public organization (Lapsley, 1999; Olson *et al.*, 1998). This may be the case because it is difficult to specify outputs, technologies and evaluation criteria for many public organizations. That is why many reforms attempting to improve these outputs, technologies and evaluation criteria seemed to have a mythical and symbolic character (Carruthers, 1995; Hood, 1995).

In this sense, our knowledge of links between ideology and accounting seems to be incomplete. In order to contribute to a better understanding of relations between shifting ideologies and reforms introduced by the central politicians, on the one side, and changes in accounting in local government, on the other side, this chapter examines whether, why and how changed

societal ideologies in Russia affected changes in Russian local government and its accounting.

This examination is partially based on discussions around findings demonstrated in Chapter 2. The previous chapter was devoted to studying relations between shifting ideologies and Russian local governmental inner relations, as well as external (outer) relations with the wider environment. It was illustrated that shifts in ideology establish a different number of external principals and a new nature of financial relations between local government and its environment. At the same time, the formal inner political-administrative structure in local government for all corresponding periods seems to be practically unchanged. Because ways of organizing inner and outer relations, i.e. formal public-administration structure and the nature of financial relations, are important elements which make up our contextual understanding of accounting (Miller, 1994; Hopwood, 1983; Flamholdz, 1983), it is interesting to study whether the changing context of accounting described in the previous chapter is observable in changes of local government accounting norms? In this chapter, we are going to examine changes in norms of accounting applied in Russian local government during the three corresponding periods of Russian history, i.e. the *tsar* autocracy period, the Soviet period and the market reform period.

In order to collect data about accounting norms, it would seem reasonable to start by discussing what does the concept of accounting norm(s) constitute. Secondly, some short comments about the method are presented. Consequently, the historical development in norms of Russian local government accounting is described. Such descriptions are analyzed and this analysis shows that development in local government accounting norms establish patterns of both continuity and change. These findings are finally discussed.

3.2. ACCOUNTING NORMS

In almost all countries, local governmental functions, structures and rules for local elections are subject to regulation. Accounting procedures are no exception. This means that the choice of, for instance, accounting techniques as well as local governmental tasks is quite limited. There exist constitutional laws concerning what local government should do. There are rules and standards for how instrumental activities of accounting should be applied and results of economic activity reported. Such standards, procedures and rules

specify how financial transactions reflecting organizational actions have to be planned, registered, measured, summarized and reported to users (see e.g. Mellemvik & Olson, 1996).

From a sociological view point, norms are regarded as rules of conduct which specify appropriate behavior in a given range of social context (Giddens, 1993). Norms exist and are followed because they are the results of socialization processes. Norm following provides reasons for action (Raz, 1990), ensures consensus and coordination of action (Mintzberg, 1989), reduces the conflict of interests under information asymmetry (Raz, 1990) and helps to legitimate the individual or particular organization within its environment (Scott & Meyer, 1983).

In this thesis norms are referred as to accounting rules and standards which specify how accounting transactions should be technically registered, measured, summarized and reported in organizations. These norms and rules can be of different kinds, e.g. representational, constitutive and normative rules (Scott, 1994). By referring in this chapter to norms and rules of accounting in local government, it is meant mainly “normative” rules, e.g. explicit prescriptions of how transactions should be technically handled.

Who develops norms for local government accounting? Different institutions can do so. Two distinct institutional agents are recognized, i.e. the state and the profession (Scott, 1995; DiMaggio & Powell, 1983). While the state imposes norms through the process of direct regulation and coercion (making laws, instructions, rules), the profession shapes the reality of accounting by utilizing more cognitive and normative structures. Thus, established norms might emerge as a result of the complex processes in which different actors may make contributions. Participation in developing norms is important because norms are intended to guide action (Bergevörn *et al.*, 1995), i.e. participation in norm development gives, thus, influence. It means that norms might emerge as a result of a dynamic process involving many actors (e.g. Jönsson, 1994) and many institutional sources, e.g. regulatory structures, laws, ideologies, educational institutions, professions, government (Scott, 1987). These actors, institutional sources and particularly norm-creating institutions form a multiple institutional environment for norm-applying institutions. Such a multiple institutional environment is often referred as a norm system (Bergevörn *et al.*, 1995).

Where do local government normative accounting solutions come from? New practices and new norms of accounting in public sector in general and

local government particularly can be intentionally developed (e.g. Mellemvik and Monsen, 1993), i.e. through exploration of new possibilities and exploitation of old certainties (March, 1991). However, it seems that private sector accounting solutions in the West were also diffused into the public sector (Covaleski & Aiken, 1986). Especially with the rise of new public management, the business sector accounting solutions are more and more copied into public organizations (Olson *et al.*, 1998).

3.3. A COMMENT ON THE METHOD: COLLECTING ACCOUNTING NORMS

The arguments favoring history as a method of research are described in Chapter 2. However, because this chapter focuses on changes in accounting norms, this section specifies how accounting norms have been collected and studied.

Norms of accounting are standards instituting e.g. how to identify, measure and report organizational activities with its environment (Mellemvik & Olson, 1996; Mellemvik & Mosen, 1993). In Russia, as in many other countries, the central state was and is still responsible for norm-giving in the field of local government accounting. Thus, the main sources of such state-given normative rules for accounting in local government are official central documents like laws, requirements, instructions and standards. Hence, it was important to find and analyze these norms concerning e.g. issuer of norms and degree of regulation of accounting established in the norm. The search was conducted in archives and libraries on documents, standards and instructions related to accounting norms in Russian local government. Some descriptions of norms were also taken from accounting books and articles.

Some data was relatively easily accessible but to access some it was necessary to work in archives and libraries without any prior knowledge of where data can be obtained. Many Russian and Western libraries and archives were used. However, even having accessed relevant documents and literature, the problems in making interpretations and translations of norms from Russian to English arise. In order to deal with some of these problems, my readings and interpretations of original instructions were compared with interpretations of the same instructions provided in accounting books and articles. Moreover, in the norms' descriptions, the readers are given the opportunity to agree or disagree with my translations by giving references to

Russian original concepts employed in accounting norms alongside their English translation.

The list of studied accounting norms is given in Attachment 1. In searching for changes in accounting norms for different historical periods several dimensions of accounting were important. Firstly, it was important to know the name of the institution which issued the accounting standard or instruction studied, i.e. the institutional source of norms. Secondly, it was important to find the following characteristics of accounting: accounting technology, characteristics of formal bookkeeping system, accounting principles, number, nature and type of accounting statements, accounting concepts employed in norms and statements. The content of each accounting norm was analyzed in these quantitative and qualitative dimensions.

3.4. NORMS OF ACCOUNTING IN RUSSIAN LOCAL GOVERNMENT

In this section norms regulating accounting in local government are examined for three corresponding periods, i.e. the *tsar* autocracy period, the soviet period and the period of market reform. The focus is placed on differences and similarities in major accounting norms for local governmental institutions in these three periods.

3.4.1. NORMS OF ACCOUNTING: THE PERIOD OF TSAR AUTOCRACY

Local government organizations (*zemstvos*) were established in 1864 and it is natural to start by describing the norms used for accounting in *zemstvos*. These norms, together with the *Zemstvo* Statute, were introduced by the state. In formulating accounting norms for *zemstvos* the state could have copied solutions from its own accounting world. That is why it is necessary to also describe briefly the development of norms in accounting for state institutions prior to the *zemstvo* period.

Accounting norms for state institutions before introduction of zemstvos

Before the reorganization of the state institutions conducted by Peter the Great, the Russian state was organized in a hierarchical system of different ministries, called *prikazi*. These ministries were relatively autonomous in

performing their tasks. Each ministry was responsible for the collection of taxes allocated to this ministry as an income source to finance expenditures in order to perform delegated state functions. Each ministry was responsible for bookkeeping which was primitively single-entry (Motyka, 1993). They had to make an annual accounting report listing received income and expenditures made (*smeta*) (Sokolov, 1985). These reports and accounting books were examined by the so-called Ministry of Accounting Affairs (*Prikaz Scheinikh Del*). However, the principles of budgeting were unknown for the *prikaz* system.

Reorganization of the *prikazi* system into collegial administration by Peter the Great demanded new ways of setting up the accounting system. New instructions were issued by the *tsar* in 1719 and 1720 which prescribed new budgeting and accounting procedures for the state institutions. As Peterson (1979) has shown, these norms were a direct copy of the Swedish cameral model of accounting. These norms particularly mentioned the role of the annual budget and new accounting books. The double-entry method of recording appropriations and actuals was advocated as a special balancing technique.

There is a evidence to suggest that these new norms of accounting were only partially introduced into central governmental practice (Sokolov, 1985). As late as in 1781 did Catherine II succeed in making the comprehensive state budget comply with cameral principles (Motyka, 1993). However, central governmental accounting of that time was based on single entry technology copied from Germany (Lieberman & Eidinov, 1995). What is important to notice is that even in 1857, the Statute of Bookkeeping (i.e. main accounting law) prescribed to compile line-item statement of income and expenditures for any governmental departments, agencies and enterprises (Palibin, 1910). This means that before *zemstvos* were introduced, state institutions operated with simple accounting techniques and the major report was the statement of income and expenditures.

Development of accounting norms for zemstvos

In 1864, new *zemstvo* institutions were set up in Russia by the *Zemstvo* Statute. In 1890 some procedures in *zemstvo* institutions were modified. Rules on compilation, approval and implementation of *zemstvos* budgetary estimates (*zemstvos smeti*) were given in attachment to these statutes. In both cases the

budget and accounting norms were set up by the state and were not as detailed as in any central governmental ministry and its agency in order to make central ministerial and local governmental financial systems consistent and uniform (Bilek, 1901). In this sense, the basic norms for *zemstvos* were adapted from the norms regulating accounting and budgeting within central ministries, but some of these procedures were made simpler.

As regards accounting, the state did not regulate it in too much detail and allowed some discretion in the choice of bookkeeping system, annual reports and accounting methods. However, any *zemstvo* had to apply to the state for changes in local procedures. Local executive boards could, for instance, produce any accounting report for presentation to the local assembly complementary, however, to those required by the state.

The major principle of *zemstvo* budgeting and accounting seemed to be the cash principle¹⁵. Even though the Russian concepts of income (*dohodi*) and expenditures (*rashodi*) were used in reports and for registration purposes, these incomes and expenditures items correspondingly represent cash-inflows and cash-outflows for the local budget, due to cash-based accounting. Total annual income and total annual expenditures always had to be balanced, i.e. no deficit or excess of income over expenditures were allowed by the norms. The balancing was very often achieved by fixing particular income sources to finance particular expenditures (Bilek, 1901), i.e. the principle of “appropriation” which is common for cameral accounting (Peterson, 1979).

What kind of reports were considered important in the norms? The norms obliged *zemstvos* to prepare many different statements for budgeting and accounting purposes. The central statements were: 1) statement of income estimates/actuals (*smeta rashodov/ otchet o rashodakh*) followed by 2) statement of expenditure estimates/actuals (*smeta dohodov/ otchet o dohodakh*). The major statements had to be followed by attachments consisting of: a) a general overview over income and expenditures (*perechen' smeti dohodov i rashodov*), b) a statement concerning special capital funds, c) specification of funds to be received from the territory under the jurisdiction of *zemsvo*, d) statements of needs covered by natural obligations, and e) explaining notes to budget calculations. In Attachment 2 prescribed structures of the major statements are shown (e.g. statements 1 and 2).

¹⁵ This principle is stated implicitly in the norms, see e.g. art. 109 in the *Zemstvo Statute* (1964) and reports in Attachment 2. Cash and other liquid assets were registered and reported.

Attachment b) is an exception. During the *tsar* period some elements of natural economy were still present, e.g. peasants had to work a specified number of hours per year for the purpose of road building. It was called the natural obligations of *zemstvos*, and thus these obligations had to be budgeted and accounted for. These natural obligations were expressed in non-monetary terms (e.g. peasant working hours). However, later norms recommended giving monetary equivalents to all natural obligations, e.g. to find out the values for different types of services performed (Bilek, 1901).

Budget and accounting statements had to be approved by local *zemstvo* assemblies (e.g. arts. 112-113 in the *Zemstvo Statute* (1864)). However, the state was also a user of these reports. According to norms, the governor and chief treasury officers had to collect and control both budget and accounting reports (Ibid.: arts. 90-91). Even if *zemstvos* were relatively independent of the state in their disposal of financial resources, they were often limited in the possibilities to increase taxes (Navrotsky, 1913). In this sense, the state directly and indirectly regulated through its norms what kind of information should be presented to the governors and treasury officers for control purposes.

Many *zemstvo* institutions were, according to Yakovlev (1913), dissatisfied with the central accounting norms. It was often argued that centrally given norms were too primitive and did not match the *zemstvos'* needs in accounting, e.g. single-entry bookkeeping, two accounting books, statements which did not show the accurate financial situation of *zemstvos*. As a result, many *zemstvos* began to experiment with accounting and budgeting practices during this period. For example, the Moscow *gubernia* as early as in 1866 introduced 8 accounting books in its formal bookkeeping system instead of the 2 recommended. Novgorod *gubernia zemstvo* introduced in 1875 double entry bookkeeping and diffused this practice in 1888 to all *uezds* local governments on its territory. In some cases, the *zemstvo's* resources were considered and even reported as a combination of different separated funds, i.e. a notion of advanced fund accounting. Some *zemstvos* even began practicing the novelty of that period, i.e. Ezerskiy's triple-entry accounting system (the so-called "Russian system")¹⁶. Such experiments created some information problems for the state (Yakovlev, 1913).

¹⁶ See e.g. *Ubilietynoe Izdanie Literaturnikh Trudov Russkoj Trojnoj Sistemi Schetovodstva i Schetovodnikh Kursov F. V. Ezerskogo* (1899) St. Petersburg, Tipografia Vasil'eva.

The state attempted to formalize different accounting practices. One of the intentions of the Second *Zemstvo* Statute (1890) was to increase control of the *zemstvos'* accounting and formalization of their accounting procedures. The proposals of the new accounting and budgeting standards were sent to all local government organizations. This project, however, did not receive support from local government, i.e. they wanted to keep the accounting systems they had developed (Yakovlev, 1913).

Summary

Zemstvos were made independent institutions from the *tsar's* central ministerial system. The state only monitored local governmental operations and demanded particular information in order to do so. This information requirement was formalized by accounting norms. However, these norms were regarded to be too simple to only be the source of routines for management of local finance. *Zemstvos*, thus, used their autonomy in order to develop their own accounting system inspired by theoretical development and new accounting practice from the private sector. By introducing the accounting norms of 1864 and 1890, it seemed that the state learned more from its own experience than experimentation with the *zemstvos*.

3.4.2. NORMS OF ACCOUNTING: THE SOVIET PERIOD

The purpose of this section is to describe the development in accounting norms of local soviets. Development of accounting in this period can be separated in the following post-revolutionary periods (Motyka, 1993): 1) 1917 – 1930, the period of nationalization, and 2) 1930 – 1990, the period of state centralization and standardization.

Development of accounting norms in the Soviet Union during 1917 – 1930

Accounting was regarded to have national and social importance in the Soviet Union. Lenin stressed the importance of accounting as an instrument in the hands of the dominating class. Under the socialist regime, accounting was supposed to become the most important mechanism of securing the interests of workers and peasants e.g. through allowing peoples' control over production and distribution processes. The rhetoric of socialistic accounting, thus, emphasized its importance as a social control instrument. Simplicity,

folksiness and openness were important intended characteristics of financial information in order for accounting to become socialist (Sokolov, 1985).

However, not until the 30's did this new rhetoric and socialist ideology, through the process of trial-and-error, result in what Western researchers know as Soviet (socialist) accounting. When it concerns changes in the norms of accounting in local soviets, this period requires a special study (partially covered in Chapter 4). However, I would like to comment on what was the general direction in the development of accounting norms.

To introduce new norms of accounting, the national consultant body was created in (1919), i.e. the Soviet Council of Accounting. The primary function of this institution was to make directives concerning how to prepare a statement of income and expenditures (both budget and accounting reports) for all budgetary organizations and nationalized enterprises (Gofman & Kapeliush, 1966). Another regulating body, The Department of Accounting and Reporting within NK RKI (National Commissariat of Workers' and Peasants' Inspection) was created in 1920 in order to develop and recommend for accounting practice the most modern forms of accounting developed by theoreticians and practitioners of accounting. This institution has developed amongst other things the instructions laid down in: "Basic principles of state accounting and reporting". These documents could be seen as a first norm for accounting in a budgetary organization. It was stated e.g. that in these organizations all

"... records are kept not according to commercial accounting, but budgetary accounting, which in the course of economic activity of the organization ... is compared to the budget of the economic unit, i.e. its *smeta* (budgetary estimates) of income and expenditures, according to which cash flow is predicted and funds, appropriate to the organization ... are used" (see reference in Gofman & Kapeliush, 1966; p. 47 (my translation)).

This indirect evidence seems to suggest that it is probable that, during this period, local soviets could have adopted governmental accounting. Another possibility was to adopt accounting norms for *zemstvo* institutions.

The analysis of the first norms concerning local government finances introduced in 1928 suggests that the norm's content looks much like those which the state had prescribed for *zemstvo* institutions for accounting. A simple cash accounting technology and the same report showing income and expenditures were advocated as the norm. However, this norm had also

introduced new elements of accounting compared to those of *zemstvos*, e.g. double-entry bookkeeping technology and a concept of accounting balance¹⁷.

We can understand why the Soviet government did not at that time invent new reports and accounting systems. The ideology of a proletarian dictatorship meant elimination of the old capitalistic world. However, it did not concern the old apparatus responsible for administration in governmental bodies, especially auditing and statistical work (Chikvadze, 1972). Lenin wrote, for instance, that

“this apparatus must not ... be smashed. It must be taken from the control of capitalists; ... it must be subordinated to the proletarian Soviets; [and]... expended ... nation-wide” (Collected Work, Vol. 26, p.106).

It might be the case that old governmental norms and accounting practice diffused into a new context together with members of this old apparatus.

Development of accounting norms for local soviets after the 1930's

The coercion and centralization of the 30's could be understood as a quest for increased productivity in which accounting should play an important role. Towards the end of this process, the establishment of a unitary system of national economic accounting was written into the Soviet Constitution of 1936 (also called “Stalin's Constitution”, art. 14). The NKF (Peoples' Commissariat of Finance) and particularly its department of accounting became responsible for development of norms for the local soviets of that time.

This period was characterized by continuous debate between accountants and statisticians about who should develop norms of budgeting and accounting. During the 50's and 60's regulation of accounting statements was given to TSUNHU of Gosplan USSR (Central Department of National Economic Accounting), i.e. the statistical body. Statisticians, thus, took over the preparation of the balance for the whole national economy. This was one factor which hindered the impact of accounting theory on local governmental

¹⁷ See e.g. Ozol, I. (1928) (ed.) *Polozhenie o Mestnikh Finansakh RSFSR. Kodifitsirovano na 1 aprelia 1928 g. i postateino kommentirovano deistvuiushchimi zakoneniiami i pravitel'stvennymi rasporiazheniami*. “Iskra Revoliutsii”, Moskva.

accounting. But the desired ends were achieved, i.e. statisticians successfully unified reports and charts of accounts (Shavrin, 1950).

In a Soviet planned economy, accounting was meant to function as an instrument for measuring the achievement of the national economic plans. Accounting at the level of local government was meant to monitor, control and register cash inflows, such as taxes and fees, and cash outflows to organizations and institutions performing local governmental functions. In this sense, the cash accounting principle was applied and the main accounting focus was implementation of the budget. The purpose of accounting was comparison of actuals and budgets, i.e. the accounting system can be described as budget accounting. In addition to this, accounting was used to demonstrate that the planned surplus for the year was produced by local government. This surplus would be either “confiscated” by the state at the end of the year or left in the local government organization as financial resources for next year’s budget. In the second case, the surplus amount would be subtracted from next year’s planned income.

Norms on accounting for local soviets

The accounting activities concerning local budget implementation were mainly regulated in three ways. This was done by establishing uniform 1) chart of accounts and bookkeeping system, 2) classification of income and expenditures, and 3) forms and number of statements to be prepared and reported (see e.g. Goloschapov, 1972; Stepanov *et al.*, 1972; Goloschapov, 1952; Shavrin, 1950). It should be noted that norms for accounting were regulated in a very detailed way. Dozens of different kinds of instructions were issued each year which resulted in poor flexibility of accounting methods and too frequent variability of instructions (Kovalev & Sokolov, 1997).

To gain some understanding of accounting norms, instructions were examined which were issued during last decades (see also Attachment 1). First of all, the uniform bookkeeping system and chart of accounts were regulated by particular instructions issued by the Ministry of Finance. The Ministry gave descriptions of accounts, sub-accounts, correspondence of accounts for registration of transaction and the bookkeeping system (e.g. types and number of books) for local soviets. It offered, thus, very detailed

prescriptions of how the accounting system should be operated by application of double-entry technique.

Secondly, the uniform classification of income and expenditures implied a detailed listing of income and expenditure items for both central and local budgets. While the income list showed sources for financial resources of the local budget (taxes, transfers, subsidies, grants, payments, etc.), the list of expenditures showed the direction in which financial resources could be used. By making divisions between sections, chapters, paragraphs and articles, each group of income and expenditures could further be classified into under and under-under groups. This detailed grouping seemed however to focus on the demand of information from the central level. Budget classification could be interpreted as a consequence of democratic centralism, i.e. there should not be conflicts of interests between local budgets and central budgets (Stepanov *et al.*, 1972).

Finally, any local government had to prepare monthly, quarterly and annually reports for the higher level local government. Reports from lower level soviets were consolidated by the higher level soviet and further reported according to the line of the hierarchy. The Ministry of Finance was the final receiver of the consolidated accounting information. In this sense, it is easy to conclude that central norms of that time did not consider the information needs of local soviets and were rather inspired by the needs of the central government.

Annual reports

With regard to annual reporting, local soviets had to prepare many detailed accounting reports. In the 40's, for example, the county soviet had to prepare 7 accounting statements (e.g. implementation of plan concerning numbers of employees), 1 explanatory letter with an attached "Note on the closing balance of cash, payments, materials and fixed assets", and 5 different kinds of conformation notes (Gal'perin *et al.*, 1945). In the 70's, local soviets had to prepare 6 statements, 4 notes, an explanatory letter with 3 other attached notes (Goloschapov, 1972). The major statements however, remained unchanged, i.e. 1) the balance of budget implementation, 2) the statement of income and expenditures (see also Attachment 3).

First of all, the balance of budget implementation was a report showing balances for cash resources in the beginning and at the end of the year, as well

as total actual income and expenditures for the year, and the result of the budget implementation at the end of the year. Balance of budget implementation aimed to give a broad picture of the financial situation within the budget implementation at any date and, thus, all operations concerning inflows of cash reflecting income and outflows of cash reflecting expenditures had to be registered and later reported. The report has both debit (showing resources are placed or/and used as well as short-terms lending from the budget) and credit (credit side of the balance shows sources of the budgetary resources stated in the debit side of balance) sides.

Secondly, the statement of income and expenditures was a line-item statement which ended with the result of the budget implementation (i.e. excess of income over expenditures). The direct translation of the report is "statement of budget implementation", but because the nature of the report is to show income and expenditures it is further referred to as to the statement of income and expenditures. This statement had to be strictly prepared according to the items of the budget classification. Income items were classified into sections (represented by income from enterprises like profit and payments from profit, fees and income from taxes), paragraphs (activities of enterprises or sources of taxes, fees) and articles (ways of payments depending on organization or individuals). Expenditure items were divided into sections (e.g. departmental classification (departments of *ispolkom*)), chapters (functional classification (education, industry, etc.)), paragraphs (expenditures grouped by typical organizations or activities) and articles (economic classification, e.g. operational, capital, etc.). These income and expenditure items correspondingly represent cash-inflows and cash-outflows for the local budget, due to cash-based accounting.

Summary

As it was demonstrated in Chapter 2, the local soviets were bureaucratic organizations with low autonomy and entirely dependent on centrally given financial plans. They were an integrated part of the central governmental machine. In this sense, accounting had the main function of control showing how well national and corresponding local budgets were fulfilled. Guided by uniformity, the state developed statistics-oriented accounting norms. Detailed and control oriented central regulation did not place focus on local governmental needs for the management of local finances, but rather on a lot

of particular details important for central statisticians. The only way to secure that these complex and detailed norms were followed was through the coercive and normative mechanisms. Coercive methods secured the fact of following the norms, whereas normative methods secured that norms were followed to the very last requirement, prescription and detail.

3.4.3. CHANGES IN NORMS: PERESTROIKA AND MARKET REFORMS

After *perestroika* was introduced into a centrally controlled norm system, regulations for accounting were still based on central instructions and orders from the Federal Ministry of Finance. The most important Russian laws were approved in 1991¹⁸. These laws reintroduced basic soviet principles of the budget system for the Russian Federation, for instance, principles about completeness, uniformity, independence and a one year accounting and budget period. The uniformity principle declares that budgets for all local government should use a common classification of revenues and expenditures. The independence principle stated that each local government organization had the right to approve its own budgets. Local authorities received their own revenue resources and the rights to determine directions concerning how such resources would be used and spent. Contrary to Soviet practice, the surplus of the budget implementation should not be transferred to higher authorities. There are other principles that are not clearly stated in the laws, but can be observed in budget statements (for example, the gross principle).

These laws also describe the structure of how expenditures have to be reported. It is stated that budgeted expenditures should be classified into two parts: current (operational) budget and budget of development (capital investment). Such a division should be reflected in the economic classification of expenditures. Expenditures like salary, subsidies, maintenance, purchase of short-term assets and payment of interest on loans are regarded as operational. Capital expenditures were mainly the purchase of

¹⁸ The full titles of these laws are “On the basic budgetary rights and rights of formation and disposal of off-budget funds by representative and executive bodies of the state power in republics of the Russian Federation, autonomous regions, autonomous territories, formations, counties, cities of Moscow and St. Petersburg, bodies of local self-government” and “On the basic principles of budget system and budgeting process”.

fixed assets and construction. If there was a budget deficit, the priority should be placed on covering operational expenditures.

These laws provided the foundation for local governmental budgeting and accounting systems in the Russian Federation. According to these laws, accounting reports should be prepared in the same form as the budget, with additional registration of percentage of implementation on each budget item. These laws also allowed governments to build up off-budget restricted funds for some particular needs, like road building, medical insurance, pension accumulation.

In addition, the new Post-Soviet budgetary classification was introduced in 1994 by order of the Ministry of Finance according to which all local government organizations of the Russian Federation should use a new common classification of income and expenditures¹⁹. The purpose of this instruction seemed to be control and the ability to prepare consolidated budgets and accounts.

Some new important laws were approved in 1996. The Federal law “On accounting” (1996) described some jurisdictional aspects of accounting activities in the organization as well as setting some obligatory accounting procedures irrespective of whether the organization concerned is regarded as private or public. This law was also considered a way towards restructuring ways of regulating accounting by reducing the degree of detailed prescriptions in accounting norms (Kovalev & Sokolov, 1997). However, the law text concerning accounting rules and reporting procedures has devoted more of its attention to private sector organizations than to public ones.

A new budget classification system was also introduced in 1996 in the form of the new law “On budget classification in the Russian Federation”. First of all, these norms dramatically reduced the number of income and expenditure groups. Income items had to be classified only by their sources, without division on chapters, sections, articles, e.g. tax vs. non-tax revenues. Expenditure classification was reduced to functional (e.g. functions of authorities) and economic (e.g. operational vs. capital expenditures). Secondly, these new documents regulating budget classification also introduced rules of how budget deficit had to be financed, i.e. by internal

¹⁹ The full title of the order of Ministry of Finance No. 117 is “On introduction of changes and additions into the classification of revenues and expenditures of budgets of the Russian Federation”.

sources and external to the local government sources, for instance, loans, issuing bonds. These changes were consequently reflected in the statement of income and expenditures (see Attachment 4).

The latest instruction introducing a new chart of accounts for central and local budget implementation was approved on February 17th 1999²⁰. It is the first instruction since 1982 regarding the chart of accounts for budget implementation. It introduces some completely new accounts reflecting the need e.g. to account for raising and repaying loans from financial institutions. Even in this instruction, however, the Ministry of Finance has not changed the technical system of budgetary and major statements which had to be reported by the local governments. Moreover, it still regulates reporting procedures in details, i.e. since 1991, forms of quarter and annual reports for budgetary organizations were changed annually. It is clear that the number of transactions have dramatically increased when local government organizations experienced institutional change during the market reform period. Instead of the certainty of plan economy, any Russian local government organization operates today in conditions of uncertainty due to market economy. Today, facing and reflecting this uncertainty, the Ministry of Finance has two options. First of all, it can try to follow its old habits and attempt to produce detailed norms of how to handle each newly emerged transaction by using a chart of accounts in the interest of the state as the major user. The second alternative is to reduce regulation to the basic concepts, principles and standards, handing over their interpretation to local governmental institutions and thus placing the needs of accounting of local government organizations firmly in focus.

Summary

Perestroika and market reforms changed local government and its institutional environment, also changing the nature and complexity of all transactions which could be performed by local government. Local government experienced more independence and autonomy. Such changes implied that detailed regulation was not needed any more. However, this period could also be said to have been characterized by continuity in local

²⁰ Instruction (N15N) on Accounting of Budget Implementations.

governmental norms' development rather than change. It is a remarkable continuity, because norms did not introduce completely new techniques, charts of accounts, until recently, and types of statements. Some old norms and principles are still in use. Principles built into the technical system are mainly unchanged, but the system of accounts has been adapted to register new transactions.

3.5. ANALYSIS: IDEOLOGICAL SHIFT AND ACCOUNTING NORMS

In this section, accounting norms for local government in different periods are analyzed. Table 3.1 gives an overview of dominating ideology, major statements, contents of accounting norms and sources of norms.

There are several observations that can be made, based on an analysis of Table 3.1. First of all, changing ideology resulted in ways of regulating norms and how norms were developed. Central ministries were important as a source of norms during all periods of Russian history. However, the degree of regulation was different, i.e. *zemstvos* had to conform only to basic norms, while accounting in soviets was very finely regulated by statisticians. Recent development shows that the degree of detailed regulation may be reduced in the future, i.e. future laws and instructions are required to be based on principles, rather than detailed prescriptions. However, there has been no considerable change so far in the governmental sector.

Secondly, the contents of norms have at least changed a little. In the *tsar* period, norms of accounting generally reflected the state's needs for information, but were relatively simple. Changes in the dominating ideology and the context of accounting in local government required development of new norms. The certainty of planned economy and principles of uniformity allowed the central planners to build up a hierarchical and complex system of budget accounting in which all levels of Soviet government were closely interlinked for one purpose, i.e. to secure implementation of national plans. The ideology of market economy and liberty has, however, not yet brought considerable changes in the contents of norms, because principles and techniques of accounting are mainly the same as they were decades ago.

Thirdly, the analysis of central reports prescribed by the centralized norm system shows that there are, however, some difference and similarities between the periods. Changes in dominating ideology were conformed by the norm system through specifying complementary reports which should be produced, e.g. Marxist/Leninist communistic ideology favored the balance of

budget implementation. However, in all periods local government was prescribed by central norms to use a statement of income and expenditure, independent of dominating ideology, i.e. a report showing detailed listing of income and expenditure items.

Table 3.1. Summary: development in accounting norms in local government during different periods of Russian history.

PERIOD	TSAR AUTOCRACY	SOVIET PERIOD	MARKET REFORMS
Dominating ideology	Unlimited autocracy of the ruler	Marxist/Leninist communistic ideology	Market oriented economy, liberty and independence
Sources of norms	Ministry of Foreign Affairs, low degree of regulation	<i>Some changes.</i> Statisticians and Ministry of Finance, high degree of regulation	<i>No considerable change.</i> Ministry of Finance, high degree of regulation?
Contents of norms	Describe single-entry technique, partially inspired by cameral accounting, cash orientation.	<i>Changes.</i> Double-entry techniques, detailed descriptions and chart of accounts, uniformity of accounting, budget accounting, cash oriented.	<i>No considerable changes.</i> Almost the same principles and techniques, but new chart of accounts.
Central reports	<ul style="list-style-type: none"> • <i>Statements of income and expenditures</i> • <i>Statement of special funds</i> 	<i>Some changes.</i> <ul style="list-style-type: none"> • <i>Statement of income and expenditures (statement of budget implementation)</i> • <i>Balance of budget implementation</i> 	<i>No changes.</i> <ul style="list-style-type: none"> • <i>Statement of income and expenditures (statement of budget implementation)</i> • <i>Balance of budget implementation</i>

What we might conclude from the descriptions and Table 3.1 is that dramatic changes in ideology bring about both change and continuity in the norms of local governmental accounting. Firstly, changes in norms are much associated with the technical system of handling accounting in local government (chart of accounts, bookkeeping techniques, ways of balancing accounts). Secondly, continuity of accounting norms is associated with a statement of income and expenditures.

Let us, however, examine how structural elements of this statement can be understood in different periods. In Table 3.2, the analysis of the statement of income and expenditures is summarized, based on descriptions and Attachments 2, 3 and 4. Two observations seem to support the claim for continuity. Firstly, all reports treated income and expenditures in the same way, based much on the cash accounting principle. Secondly, all statements of income and expenditures generally had the same structure, e.g. they are line-itemed reports.

Table 3.2. Summary: changes in the understanding of structural elements in the statement of income and expenditures.

PERIOD	TSAR AUTOCRACY	SOVIET PERIOD	MARKET REFORMS
Income	Gives accounts for income sources like taxes, grants, fees.	<i>No considerable changes.</i> But profit from local enterprises are included as income source.	<i>No considerable changes.</i> But taxes from enterprises are reported (not profit).
Expenditures	Reflects public services produced.	<i>No considerable changes.</i> But includes activities on financing local enterprises.	<i>No considerable changes.</i> But financing of enterprises are excluded from list of functions.
Balancing income and expenditures	Expenditures should be determined firstly, and balanced by income.	<i>Changes.</i> Income should be determined firstly. If not enough income to cover expenditures – the state gives grants.	<i>Changes.</i> Expenditures are determined firstly. If not enough income – can loan from financial institutions.
“Bottom line” handling	Deficit/surplus is not allowed. Income and expenditures should always be balanced (appropriation principle).	<i>Changes.</i> No deficit is allowed, should always report non-negative results of budget implementation. Surplus is distributed by higher level authorities.	<i>Changes.</i> Deficit is allowed. Statement has special section to show how deficit is financed. Surplus, if any, should be used locally.

A more detailed analysis of these statements, especially the income and expenditure sides, shows, however, that the understanding of the reports reflects changes in the context of accounting in local government. Firstly, the main change is about the relationship between local government and

enterprises. This change reflects the impact of ideology on the understanding of financial relations reported in Chapter 2 (e.g. market vs. plan economy) and, consequently, the nature of transaction to be accounted for. In the *tsar* period, the private and public sectors were separated. Private enterprises were, thus, regarded as independent of government organizations, but had to pay taxes. In the Soviet period, there was no private sector, i.e. all enterprises were nationalized and some of them were placed under the leadership of the local soviets. In this sense, profit from local enterprises and part of profits from national enterprises represented one of the important income sources for local governmental activities. Consequently, one function of local government was supervision and control of local enterprises. Changes towards market economy reduced the share of the public sector and increased the share of the private sector. In the new report, local government's income from these private companies are taxes, and reported as tax on their profits.

Secondly, the major change is observed in the ways in which income and expenditures are balanced and how the bottom line of the report is handled. During the *tsar* period, local government was monitored by the state. The accounting system implied a kind of expenditure accounting, i.e. expenditures were determined and listed firstly. They had to be balanced through the appropriation technique by different income sources. If there was not enough income to balance the expenditures, local government had to find private donors, apply to the central government for grants or cut out some expenditures. No deficit or surplus was allowed by the norms.

A dramatic change in ideology changed the understanding of items in the statement of income and expenditures prepared by local soviets. Soviet local government organizations were part of the central government system, i.e. part of the central hierarchy and bureaucratic organizations. The important change was that the accounting system began to imply some kind of income management. Income had to be determined firstly. After that, expenditures were adjusted to income, and budget deficit or surplus was determined by subtracting expenditures from income. There were also detailed rules of how to cover a deficit (e.g. system of transfers), and for what purposes the surplus could be used. When the budget was prepared, it had to be finally balanced. Performance of local governments at the end of the year was measured by the central government in relation to how positive the excess of actual income over expenditures was (i.e. result of budget implementation/surplus) highlighting e.g. how economically local resources were used. This surplus

was distributed between the governmental levels by the state or included as a part of next year's income for the local government. Such a change was conformed by changing the name of the report, i.e. from "statement of income and expenditures" to "statement of budget implementation".

Today, local governmental autonomy is much emphasized. According to the new system, local expenditures have to be determined firstly. After that, local government must find ways to cover these expenditures. If there is no sufficient local income to cover the local expenditures, a deficit situation will be reported. In such a situation the local government has to decide how to cover the deficit, for example, by applying for coverage from Federal authorities, issuing municipal bonds, or/and borrowing in banks. Norms do not prohibit deficits in local budgets and accounts but require that ways of covering the deficit are specified in the report. Surplus distribution is a matter for the local authorities. In this sense, governmental autonomy and independence resulted in local rights to have control over one's own deficit/surplus.

In summary, it seems that dominating ideology has influenced understanding of the structure and bottom line in the statement of income and expenditures. However, considerable changes are not introduced into principles and structure of the statement, but changes only concern technical ways of balancing income and expenditures and handling the bottom line. Such conclusions support the claim that ideological change seemed to introduce continuity into norms of accounting by reemphasizing the statement of income and expenditures, but also changes in these norms by influencing the technical system of handling accounting. Dominating ideology also seemed to have influenced understanding of the report's bottom line, showing dependence on accounting in the context in which it operates.

What this may mean and how to interpret these findings is not easily answered. Why has the statement of income and expenditures survived in norms originating from the period of *tsar* autocracy, the Soviet period and recent reforms? Why have ideological shifts institutionalized this statement? What are the reasons for anchoring this to the "hall of fame" of local governmental accounting? Is it because central ministries had control over norms? Might it be because this statement was initially born by central governmental institutions? Is it because the accounting system is so flexible that though there are no substantial changes in the statement's structure, its

bottom line could be differently interpreted and understood under different ideologies? Let us discuss some of these questions in more detail.

3.6. DISCUSSION AND CONCLUSION

In this chapter I have mainly concerned myself in finding out how accounting norms for Russian local government have been developed, in order to understand whether, and how changes in these norms are related to shifts in dominating societal ideologies propagated and defended by Russian central politicians. The expectation, inspired by development in the West (particularly New Public Management reform), was that emerging new ideologies seem to bring new techniques of accounting into the public sector, and, particularly, local government. However, as this study of local government accounting norms has demonstrated, ideological changes have a rather mixed impact on norms of accounting which rather establish a pattern of both change and continuity.

On the one hand, changes in accounting norms for local government reflect changes in ideology from the perspective of Russian history. It was concluded that technical ways of handling accounting in local government seemed to reflect changes in ideology. New techniques, charts of accounts and some new reports have been introduced. Change also occurred because understandings of elements in the main report of income and expenditures have changed, e.g. “bottom line” handling.

However, continuity in norms’ content, on the other hand, is associated with the structure of the statement of income and expenditures. Local government in Russia has been prescribed to use the statement of income and expenditures irrespective of the dominating ideology. In this sense, any ideological shift leaves “sediments” from the previous periods (Hedberg & Jönsson, 1979; Hopwood, 1987) and in a perspective of long-term Russian history, this accounting “sediment” is the statement of income and expenditures.

We can gain understanding of why accounting norms have changed. Chapter 2 demonstrates that ideological shifts in the wider social environment of local government did legitimate changes in outer principal-agent relations, i.e. lines of external accountability complementary to the formal inner local structure. Shifts in ideology have also changed financial relations, i.e. the nature of transactions performed. Ideological shifts, thus, reconstituted the context of local government accounting. New ways of rationalization in

different periods implied e.g. a new technical system of accounting and ways of balancing income and expenditures. Indeed, as Hopwood & Miller (1994) have indicated, the accounting *technologies* are very much dependent on accounting *rationales*. The technical ways of translating economic events into accounting numbers (i.e. how to count) are interrelated with ways of setting out ends and objectives for using these technologies (i.e. why to count). For instance, in this way, different centrally installed ideologies required different ways of balancing income and expenditures for local government. In the *Tsar* period, this balancing technology was needed to prevent local governments diminishing the wealth of the ruler and in this way threatening his autocracy. In the Soviet period, a positive surplus was regarded as an important contribution of the local soviet to the process of socialism construction and building the society of the future. Today, the possibility of reporting local deficit conforms to the ideology of autonomy, responsibility and self-government.

However, the change in accounting norms was far from complete. The continuity in norms of accounting seems to be a very interesting finding, particularly the historical sediment found in the statement of income and expenditure. Why is the statement of income and expenditure strongly institutionalized in Russian local governmental norms? How can we understand such a continuity?

Continuity in the state's prescription to use a statement of income and expenditure can be understood from perspectives of institutional theory. According to institutional theory, organizations are considered as essentially embedded in a wider social environment (Scott & Meyer, 1994). As a result of such embeddedness, any organizational structures and routines should be considered as direct results of structures and routines built into the wider environment rather than locally constructed. As the story told in Chapter 2 indicates, the formal inner structure of local government has not been changed, i.e. the division between policy and administration, and the hierarchical structure of producing services are still the ways of organizing Russian local government today, as they were a century ago.

Hierarchically organized governmental bureaucracies tend to favor line-itemed reports. In these income and expenditure reports the accounting and budgeting numbers are listed for a particular service or department which mirrors the division of labor and roles within the bureaucracies (Wildawsky, 1989). Attempts to introduce new techniques for and ways of reporting

accounts and budgets without rethinking the ways of organizing have many times been reported as failures (see e.g. Jönsson, 1983). In this way the continuity in norms of accounting might be explained by a lack of ideologically legitimated changes in the formal structure of local government and ways of organizing local action.

The continuity in formal inner ways of organizing, structure and use of the same statement indicates that Russian local governmental structures and routines were not loosely coupled. However, the study indicates that accounting in Russian local government is so flexible that it is possible to give different interpretations and meanings to the same report. Under different ideologies, the bottom line in the statement of income and expenditure was given different interpretations by the Russian central state. Accounting, thus, becomes an element of de-coupling and, in this sense, a tool for institutionalizing local government. It also shows that accounting is strongly institutionalized, because it is necessary to give it a meaning matching the requirements of the central state.

The lack of development of completely new accounting reports and models in the historical periods studied might also be explained by difficulties in simultaneously changing both ideologies and accounting norms (Czarniawska-Joerges, 1996). Before a new ideology might be translated into new norms of accounting, the old norms and rules should be de-institutionalized (Røvik, 1996). If change in norms might be considered a vigorous action, then before this action could have taken place, the ideology should have secured a dominating position (Brunsson, 1982; Hedberg & Jönsson, 1977). In a situation of shifting ideology, the development of new comprehensive models will take some time if other solutions of how to handle accounting (supported by the ideology) are not easily available elsewhere.

However, as we might conclude from the lesson of Russian history, no completely new conceptual models have been developed for local governmental accounting even though relatively speaking much time has passed since new ideological breakthroughs occurred. As this chapter shows, the norm system of accounting was always in the hands of central government which overexploited both ideologies and reform mechanisms (see conclusions in Chapter 2). In introducing accounting norms, the norm-giving institutions seemed to learn mainly from its own experience. In conditions of overexploitation learning is difficult, i.e. these central institutions were trapped in their own expertise and, consequently, "blind" to alternative

models. We might ask, however: were there opportunities to break out of this circle of the central norm system's "blindness"? Were there other institutions and models to learn from? The private sector has had impact in the West regarding development in the public sector's techniques of accounting (Covaleski & Aiken, 1986). This effect seems to be rather nullifying in the case of Russia. During the *tsar* period, there were learning opportunities from the private sector, but the norm system did not manage to use them. The Soviet system, as a closed system with a huge public sector, lacked such learning possibilities, i.e. there was no innovative private sector. Today, however, private sector techniques have not yet penetrated into the public sector. Continuity in norms of accounting might, thus, also be explained by a lack of learning from the private sector.

By instituting Russian local government from "above" as "local outposts" of the central government (see conclusions in Chapter 2), accounting was perhaps too important for the central state to allow its modifications to also cover local needs. It seems that norms of accounting in local government emerge for a purpose of controlling and monitoring central "outposts" in the various regions. Particularly, the statement of income and expenditures seemed to play an important role in this monitoring. During the *tsar* period, this statement indicated that income and expenditures were balanced and the wealth of the ruler was not threatened. In the Soviet period, the excess of income over expenditures showed that the central state planned surplus was produced. Today, the allowance for the local deficit might be interpreted as a way for the state to solve its problems, i.e. the state deficit more and more becomes a local problem.

In a famous statement Gaius Petronius (AD 66) once said:

"I was to learn later on in life that we tend to meet any new situation by reorganizing, and a wonderful method it can be for creating the illusion of progress, while producing confusion, inefficiency and demoralization."

The Russian central government, who controlled the accounting norm system, has not completely reorganized or allowed to be reorganized accounting in local government. If we agree with the statement of Gaius Petronius, might such behavior be considered progressive or is it an illusion of progress?

PART 2. THE TECHNICAL PERSPECTIVE ON ACCOUNTING IN TRANSITION

“Experience and theory are not antithetical but mutually reinforcing. Each is a complement to the other. To accept a theory without testing its bases and consequences against observable, real-world phenomena is to be imprisoned by one’s own day dreams. To accept experience without examining it through the prism of theory is to exalt the state of status quo above the quest for discovery” (Zeff, 1972; p. 316).

Part two of the thesis is about the technical perspective to Russian local government accounting in transition. It is devoted to examining accounting technical systems in the present practice of a Russian local government. As is illustrated in Chapter 2, the transition to a Western-like society which began in Russia in the beginning of the 90’s resulted in local governments beginning to operate in new economic and institutional contexts. Chapter 3 demonstrates that accounting norms have changed, at least a little. As accounting norms give prescriptions for accounting practice, we can expect that accounting practice has also changed, at least a little. Thus, the aim behind Chapter 4 is to ascertain whether accounting practice in Russian local government has changed and how can we understand this practice.

Despite changes in accounting practice reflecting new accounting norms, we can expect to find more similarities in Western and Eastern accounting today than 20 years ago. Making a transition towards the West could have meant applying the accounting theoretical solutions of the West. In this sense, current Russian local government accounting practice, or at least its basics, should be understood in the light of Western accounting theories.

Chapter 4 describes and discusses current accounting reporting practice in Leningrad *oblast’* county administration in the light of both Western and Eastern accounting theories. It is argued in the chapter that Russian local government accounting practice, despite the expectations, seems to represent more a historical “sediment” than an innovation of today. Such a conclusion is based on application of Western accounting theoretical ideas. Current practice seems more to reflect an old accounting theory developed in Russia in the beginning of the 20th century and refined by the Soviet theoreticians during the 20’s-30’s (the so called “balance school”) rather than contemporary Western accounting comprehension. Particularly, this “sedimental” practice is visible in the role an accountant plays in the Russian local government studied, i.e. to prepare and report a statement allowing

explicit control over the accountant's own activities, i.e. the "balance of budget implementation".

CHAPTER 4. CURRENT ACCOUNTING PRACTICE IN LENINGRAD COUNTY ADMINISTRATION: MORE SEDIMENT THAN INNOVATION?

4.1. INTRODUCTION

Dramatic reforms which began in Russia at the beginning of the 90's were based on an idea of building up a Western-like market economy and a democratic society. Hence, Russian local government was given more autonomy, independence and responsibilities by new state laws (e.g. Jacobsen, 1998). The reforms, therefore, resulted in local government having to function in new economic and institutional contexts. The nature of principal-agent relationships has changed, e.g. local politicians became the principal for administration, not the central state.

Accounting is a purposeful activity, i.e. it is directed towards specified ends (AAA, 1966). Accounting is about giving accounts for some actions to someone, i.e. it attempts to reflect relations between the principal and the agent. In doing so, accounting activities are guided by objectives of financial reporting, e.g. to reduce uncertainty in order to improve accountability, stewardship, control and decision-making (Mellempvik *et al.*, 1988; AAA, 1977; AICPA, 1974). In this sense, accounting reflects relationships between different parties with different interests, i.e. the *accountor*, *accountee* and *accountant* (Ijiri, 1975). It might be expected, thus, that changes in objectives of financial reporting and accounting practice should depict changes in principal-agent relationships in Russian local government. Moreover, as regards considerable differences between Eastern and Western accounting (see e.g. Bailey, 1995) we can expect to find more similarities in accounting today, 15 years after the transition to Western-like society started.

Guided by such expectations, this chapter studies accounting practice in one Russian local government organization today. One way to look at accounting in practice is to consider the technical accounting system (Mellempvik & Olson, 1996; Bergevärm *et al.*, 1995). By the technical system of accounting is often meant accounting instrumental activities concerning handling transactions of the particular organization with its environment

(external transactions) and within the organization (internal transactions). These transactions have to be identified, registered, measured, systematized, classified and aggregated within accounting registers. To this end, accounting data should be combined into statements and communicated to users.

The purpose of the study from the technical perspective, thus, is to describe and provide an understanding of the technical accounting system and reports in Russian local government. Accounting theories are important and are believed to represent a “skeleton” which holds together the “body” of accounting (Belkaoui, 1993; Hendriksen & van Breda, 1992; Kam, 1990; McDonald, 1972; AAA, 1966). One way to give understanding to the technical accounting system is, thus, to apply accounting theory. Driven by expectations that transition to Western-style economy should result in more similarities in Western and Eastern accounting practices, the application of Western accounting theories should provide much understanding of accounting in Russian local government.

The remaining of the chapter is organized into five sections. The method of research is described, stressing the importance of interpretations and its ethnographic logic of design. In the third section, the technical accounting system and reports prepared by Leningrad *oblast'* administration are described, i.e. the accounting entity which has been studied. After that, the frame of reference consisting of Western accounting theories is given and applied to analyze the accounting technical system and reports. It is argued that some elements of Eastern accounting practice can be explained by Western theories but some cannot. Some elements of practice seem to be “strange” when analyzed from the perspective of Western accounting tradition. In order to explain these elements, a search for alternative accounting theories begins. Indeed, accounting practice in Russian local government today seems more to reflect the old theory developed in Russia and the Soviet Union based on ideas from the so-called “balance school”. The Chapter ends with a discussion and conclusions around these findings.

4.2. METHOD: ETHNOGRAPHIC AND INTERPRETATIVE ANALYSIS

In this section I describe the choice of the study's research settings, data interpretation and model of the analysis.

4.2.1. THE RESEARCH CONTEXT

During the period 1996 – 2000, this study was conducted concerning how accounting regulations were applied in Leningrad *oblast'* administration. Leningrad *oblast'* county and its accounting technical system were, thus, applied as the research settings in this case study. Leningrad county is one of 89 subjects of the Russian Federation. This choice is explained by a desire to know more about accounting practice applied in this local government organization. However, as accounting norms can be differently translated into the practice of each organization (Mellembvik & Olson, 1996), this study does not aim at generalization but rather to provide an understanding of accounting practice in transition in one local government, i.e. Leningrad county.

Leningrad county is situated around the City of St. Petersburg in North-West Russia. The size of the total territory is 85.900 kms² and is populated by 1,7 million inhabitants. The county is divided into 29 territorial-administrative units of municipal local government organizations. A more detailed description of Leningrad county is given in Attachment 5.

4.2.2. DATA COLLECTION

Initial findings showed that it is hard to get any secondary and primary data about accounting in the practice of Russian local government. In order to obtain the necessary information, the “snowball” effect was used, i.e. by contacting persons mentioned by previously contacted informants. This allowed building more personal contacts and network. This network helped me to gain access to departments and officers who could provide the necessary information. For instance, open-ended interviews were made with the chief accountant, officers working in budgetary department and department of finance in the *oblast'* administration. They were particularly asked about the accounting system, e.g. techniques used, the system of recording accounting information and reports prepared.

When gradually introduced into the accounting system and the reports, the system and particularly one of the statements attracted my attention because it was rather unusual seen in relation to my understanding gained from Western accounting textbooks. The report in focus is a “balance of budget implementation”²¹. Even though this report has been mentioned in Western

²¹ Translation from Russian *Balans Ispolneniya Budzeta*.

accounting journals (see e.g. Jaruga & Nowak, 1995), there was no contextual and deep analysis of the report in order to build up a priori understanding. Making sense of and discovering the meaning behind the accounting system and reports prepared in accordance with another accounting tradition became, thus, the particular purpose of this study from the technical perspective.

There are different ways of collecting data concerning the meaning behind accounting practices. Particularly, methods of qualitative research permit acquiring understanding of institutional practices by getting to know the beliefs and values of the persons involved (Frankfort-Nachmias & Nachmias, 1997). However, as Van Maanen (1979; p. 520) expressed

“... the label qualitative methods has no precise meaning in any of the social sciences. It is at best an umbrella covering an array of interpretative techniques which seek to describe, decode, translate, and otherwise come to terms with the meaning not the frequency, of certain more or less naturally occurring phenomena in the social world” (citation in Grønhaug & Kleppe, 1989; p. 29).

Thus, there are many qualitative methods which can be employed in this study.

This study employs methods of research and analysis which can be described as ethnographic approaches to accounting. This choice is for two reasons. First of all, the central point of ethnography is that a culture or *tradition* becomes the central concept and is regarded as a resource which allows the researcher to make sense from observed experience (Letterman, 1998; Agar, 1986). Hence, it is recognized that any particular practice or experience might be interpreted differently because of differences in traditions and the cultural background of the interpreter. When applied to accounting, a concern of accounting ethnography is about

“... meanings and perceptions of those actors who develop and use accounting techniques or systems in particular settings” (Miller, 1994).

In literature, ethnographic research method is associated with a deep analysis of meanings attached to actors' behavior, e.g. through that observer “lives another culture” and addresses “lived experience” of individuals (Jönsson & Macintosh, 1997; Boland & Pondy, 1983). It means that in order to make sense of “alien” accounting practice, “the ethnographer” has to be present within the “alien” culture until the understanding of it emerges.

Secondly, a clear logic of discovering meaning behind construction of alien practice and tradition very often guides ethnographic research. An ethnographic study begins with a piece of observation which brings attention

to the ethnographic problem, e.g. expressed in the phrase “I do not understand this practice!”. For ethnographers, not understanding alien practice is very often explained by disjunction among different traditions and referred to as a state of “breakdown” (Chambers, 2000; Agar, 1986). Throughout the research conduct, the ethnographer tries to resolve “breakdown” by finding alternative understandings of the phenomena (see Figure 4.1).

In order to resolve identified “breakdown”, one search for new “schemas” (Hirsch, 1976). According to psychology, a “schema” for an individual is

“...a cognitive framework, developed through experience, which acts like mental scaffolds: they provide structures for processing and storing new information” (Baron, 1989; p. 185).

For ethnographers, the “schema” is a broader concept including many individuals embedded in a similar tradition, i.e. a construction which organizes experience/practice of individuals in a particular tradition (Agar, 1986). As there can be many different ways to organize experience, there can be many different “schemas”. The breakdown is resolved when a new “schema” fits the alien tradition. The ethnographic process ends when the researchers have demonstrated that one particular resolution is better than the others available. This is referred to as a state of coherence.

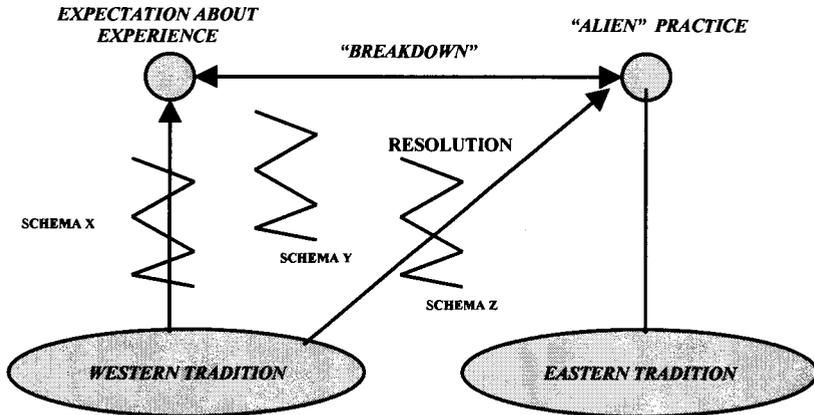


Figure 4.1. The nature and elements of the ethnographic analysis.

In this study, the ethnography is applied more as an analytical tool with ethnographical methodological premises. Even though it was impossible to be continuously present within the studied accounting tradition, I have gained understandings of the accounting technical system in Leningrad *oblast'*. Several visits paid to the administration each year for the last four years have helped to establish good relationships with e.g. the chief accountant who explained details of the accounting technical system and some of the meaning behind this practice. However, not everything was easily understood neither explainable, especially some parts of the accounting system. In these cases, my expectations about accounting practice came into conflict with observed practice constructed under a different accounting tradition. Parts of the accounting system did not make sense at first because of the Western accounting tradition I have learned and borne within me. According to ethnographers, this is called a “breakdown”, i.e. attention to the ethnographic problem as a result of disjunction among Western and Eastern accounting traditions. In order to provide understanding of the technical accounting system, it was, thus, important to rediscover the Eastern accounting tradition and make sense of the “alien” parts of the accounting practice.

To summarize, three stages were important in this study: 1) the breakdown; 2) the resolution, and 3) the coherence (se Figure 4.2). The “breakdown” is the indication of the confusion, i.e. divergence of the Eastern accounting practice from the expectations made of similarity to Western accounting traditions. Because normative accounting theory is believed to be an important way of organizing practical experience of accounting (Belkaoui, 1993; Hendriksen & van Breda, 1992; Kam, 1990; McDonald, 1972; AAA, 1966), different accounting theories can represent different “schemas”.

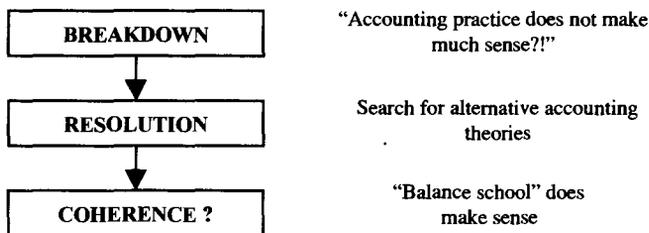


Figure 4.2. Ethnographic process of rediscovering the “strange” tradition.

The search was made for alternative accounting theories to resolve “breakdown”. They were further applied to analyze accounting practice and reports. As there is no context-free theorizing (Neiman and Tinker, 1986; Watts & Zimmerman, 1979), understanding of contexts in which theories were evolving was also important. Particularly, the search was conducted in accounting textbooks and articles published during the soviet period. The accounting tradition constituting the so-called “balance school” was revealed in this way.

When applied to the analysis of the accounting system in Leningrad *oblast*’ administration, this “balance school” which was developed in the beginning of the 20th century in Russia, made a resolution, i.e. rediscovered the meaning behind Eastern accounting practice and its theoretical foundations. However, it is difficult to refer to the state of complete coherence here, because there could be other accounting theories developed during the Soviet period I am not aware of and which can make better resolutions.

4.2.3. INTERPRETATION AND ANALYSIS OF DATA

In order to provide an understanding of the accounting technical system in Russian local government, the accounting system and the reports were subject to a thorough interpretation and analysis process. The interpretation work can be understood in more general terms as “following the steps of hermeneutic cycle”, i.e. the study of any kinds of texts in the hermeneutic tradition. In such studies the focus is placed on a search for deeper meanings behind the constructed texts. Understanding emerges as results of a dialogue between the text, the interpreter and the interpreter’s emerging knowledge of the text (Lee, 1999; Alvesson & Sköldberg, 1994).

When trying to make sense of the accounting system and reports, the officers in the Leningrad *oblast*’ administration were asked about the meanings behind the accounting procedures and how the reports could be interpreted. However, it was not easy to acquire their interpretations, and some of them even refused to comment on the meaning. Many of them have only agreed to check that my interpretations were correct. On the contrary, some Western researchers tried to give their possible interpretations but there was no definitive agreement of opinions about the report. Thus, it was no trivial task trying to gain an understanding of data concerning the accounting system and the report.

My own comprehension is based on the analysis of the descriptions of the accounting system, observations made during my stays in Leningrad county administration and conversations with officers who explained the technical matters. These officers helped me to construct a practical example based particularly on current practice and the new set of norms introduced in 1999. The initial understanding was based on my “a priori” knowledge, i.e. Western accounting theories I have studied.

When analyzing and interpreting, the new instructions, the recorded descriptions of the accounting system and accounting reports were firstly “read” and “reread” in order to find the themes and assumptions behind their construction. Such “readings” were based on an assumption that accounting reports have a particular function to provide useful information to users. Further, the identified concepts and items were articulated. Some concepts and parts of the accounting practice were interpreted. However, an attempt was made to cluster and to impose order on its “alien” themes, i.e. the unexplained aspects according to Western accounting theory features of the report and practice were specified. However, the interpretation process was not one-sided and straightforward. Because “... way of seeing is a way of not seeing” (Malmi, 1999; p. 668), the research process was characterized by a chain of “a-ha” discoveries and, consequently, understanding of ways how the accounting system and reports were misunderstood. My own interpretations were also compared with other independent and additional “texts” which were available during the resolution stage of the study.

In this sense, my own subjective understandings are an integral part of the study. There are ways of increasing the credibility of an interpretative study (see e.g. Lincoln & Guba, 1985). In presenting accounting themes, concepts and categories the intention was to be intersubjective, i.e. allow the readers of the article to disagree with my interpretations. This is done for instance by including the practical example, formal reports, literature references and quotations.

4.3. THE ACCOUNTING TECHNICAL SYSTEM IN A RUSSIAN LOCAL GOVERNMENT ORGANIZATION – THE CASE OF LENINGRAD COUNTY

In this section I will show what the accounting technical system looks like today in one Russian local government organization (i.e. Leningrad *oblast'*) since the new set of accounting norms were introduced in 1999. In

doing so, there is a need for a frame of reference which will help to structure the description. In this section I will follow a so called *conceptual framework of accounting*. It has become commonplace to agree that there is no universal and generally accepted accounting theory (Watts and Zimmerman, 1979; Zeff, 1978). In this world of theoretical disagreement there is a need, however, at least to search for some consensus. The conceptual framework of accounting may represent such a consensus (Belkaoui, 1993; Hendriksen & Van Breda, 1992). It is commonly recognized in the Western world as a basis for evaluation of present accounting practice and is used to develop new and better accounting principles, techniques and reports (see for instance Belkaoui, 1993; Hendriksen & van Breda, 1992; Kam, 1990; McDonald, 1972). The primary purpose of this framework is to contribute to the development and interpretation of accounting recommendations, and by doing this how to enhance the quality of accounting reporting. To do so, the conceptual framework of accounting is usually presented as a framework consisting of conceptual accounting terms which are hierarchically linked between each other (Belkaoui, 1993). This hierarchy consists of several elements which are: 1) objectives of financial reporting, 2) fundamental postulates and principles of accounting, 3) the particular accounting methods and techniques, and 4) accounting reports.

On the top level of this hierarchy one can find objectives of financial reporting. Objectives of financial reporting set goals and aims for accounting activity, e.g. to assist users of information in decision-making, control, stewardship and accountability (Mellempvik *et al.*, 1988; AAA, 1977; AICPA, 1974). Information should be useful to users (FASB, 1978). It means that objectives of financial reporting should be users and their information needs driven. Second place is devoted to the fundamental postulates which are assumptions about the accounting environment. The postulates are closely linked to so-called theoretical concepts of accounting which are assumptions about the understanding of the accounting entity (Belkaoui, 1993). In the last case this understanding is important for interpretation of e.g. what should be regarded as a transaction, its evaluation, measurement, etc. In turn, principles are defined as decision rules "... that govern the development of accounting techniques" (Belkaoui, 1993; p. 229). Finally, all such hierarchically dependent elements have to be realized in formulating or evaluating accounting techniques and procedures.

According to this framework, a brief introduction of the objectives of Russian government accounting reporting, accounting postulates and principles will firstly be given. Secondly, accounting methods and techniques will be described. Finally, particular focus will be placed on major accounting reports. The ways in which these elements were identified for accounting in Russian local government are described in the respective section.

4.3.1. OBJECTIVES OF FINANCIAL REPORTING

The norm of 1999 explicitly specifies objectives of accounting reporting in central and local government. This is a kind of innovation because the former laws and instructions did not specify any objectives at all. The following is stated (Instruction, 1999²², p. 1, my translation):

“The main objectives of accounting for implementation of the Federal budget, the budget of subjects of the Russian Federation and the municipal budgets are:

- giving complete and reliable information about ... the budget implementation;
- provision for control of the rightful use of ... budgetary resources;
- provision for compiling of necessary accounting reports for executive and representative (legislative) organs of authority at the respective level;
- provision of necessary information to other internal and external users.”

The following interpretation of this piece of information can be made. First of all, accounting is regarded as a mirror of the budget. And as a mirror, it is supposed to reflect in a complete and reliable manner everything that happens while the budget is being implemented. Secondly, this objective of accounting is the same for central government, governments of subjects of the Russian Federation and municipalities, i.e. a probable previous notion of uniformity in accounting. Thirdly, accounting should operate not for its own sake – it is a purposeful activity which should result in useful accounting information and financial reports. In this sense, the users of accounting information are important and specified in the norm. The primary users of accounting information are the state, politicians and administration. The state needs accounting information for control purposes, e.g. to control the rightful use of budgetary resources by any local government on the territory of the Russian Federation. However, the accounting reports should also be prepared in ways which reflect the needs of local politicians and administration, i.e. to

²² Instruction (N15N, 1991) on Accounting of Budget Implementations.

assist administration and politicians by providing reports necessary in their work. Other external and internal users are also recognized, but they have secondary importance. In this sense, the introductory section to the new instruction clearly shows the purposes of government accounting and who are the users of the accounting information.

4.3.2. ACCOUNTING POSTULATES AND PRINCIPLES

Even though objectives are specified in a relatively detailed manner, the matter is more complicated when it comes to accounting postulates and principles. The problem is that postulates and principles are not mentioned explicitly in the text of the instruction and other norms regulating accounting in Russian local government. It means that thorough research is probably needed to specify all existing postulates and principles. However, the nature of transactions and the manner they are handled in practice indicate that some postulates and principles mentioned in Western textbooks do also exist in Russian local government accounting.

Of course, we can speak about considerable differences between Soviet and Western enterprise accounting (see e.g. Bailey, 1995) and, intuitively, we can expect to find even more in government accounting. In this way we might question why the search was made for Western-style postulates and principles but not for others. In this study it is believed that differences between Western and Eastern accounting arose because there existed two different accounting traditions, i.e. different viewpoints about the same social phenomenon called *accounting*. And in order to discover, explain and understand the same phenomenon in different settings

“... the search for similarities *in the first place* is a wiser strategy than the search for differences” (Chambers, 1980; p. 172, my italic).

Moreover, if Eastern practice is moving closer to Western practice, Western accounting principles, techniques and reports should be easily recognizable in Eastern practice. In this sense, in order to make an introductory description of the accounting technical system in Russian local government, the search for Western-style accounting postulates and principles was conducted. The following postulates and principles were found (see Table 4.1). Let us briefly discuss these postulate and principles.

Postulates

The first postulate which is worth mentioning is a *dual accounting entity postulate*. It means that the county's administration is responsible for accounting activities reflecting transactions within two different accounting entities. The first accounting entity covers the county as *an organization*. It comprises all the county's departments, institutions and organizations which receive financial resources from the county's budget to produce public services in the fields of education, health, transportation, etc. The second accounting entity defines the county as *a territorial-administrative unit* of the Russian Federation. Expressed in this way, this accounting entity is a consolidated entity (i.e. consolidated county) which comprises 1) county itself (i.e. the first accounting entity) and 2) all municipalities on the county's territorial-administrative map (i.e. other independent accounting entities). The *oblast'* (county) administration is, thus, also responsible for consolidation of reports from 29 municipalities and the county itself by summing up relevant and eliminating reciprocal entries in all reports.

Table 4.1. Postulates and principles in Russian local government accounting.

POSTULATES	PRINCIPLES
Dual accounting entity postulate	Cash principle
One year accounting period postulate	Uniformity principle
Current rubles as a unit-of-measure postulate	Gross principle
	Historical cost principle
	Prudence principle

Other postulates, invisible in the government accounting regulation, can be found in more general laws, e.g. the Federal law "On accounting" (1996). The law sets some accounting postulates common for all organizations irrespective of their nature, i.e. private or public. In addition, it regulates some of the legal aspects of accounting and some of the obligatory accounting procedures. The obligatory reports for the private organizations are also introduced in the law, but, as it is stated, the report for public organizations "... is a matter of additional instructions from the Federal Ministry of Finance" (Ibid.: article 13).

In the text of the law we can find the *one year accounting period postulate* and the *current ruble as a unit-of-measure postulate*. As it is stated, the accounting period is a calendar year for all accounting entities (article 14),

e.g. private enterprises, budgetary organizations, *oblast'* government. However, it does not mean that periodic reports should not be prepared, e.g. each month and quarter of the year. At the same time, all economic activities are measured in current rubles (article 8). Even though there is a visible inflation rate, there are no inflation-adjusted accounting models which are recommended for use.

Principles

There are several recognizable principles which govern Russian local government accounting, i.e. the cash principle, the uniformity principle, the historical cost principle and the notion of the prudence principle. The *cash principle* states that in accounting for budget implementation, *cash receipts* and *cash outlays* to departments and organizations which are registered, i.e. transactions are recognized when cash is received or paid. These organizations and departments are also called disposers of financial resources (*rasporiaditeli kreditov*) and represented as local governmental units which are authorized to spend local governmental finance or/and transfer finances to subordinated sub-units. Consequently, it is not the acquisition of financial resources and not the use of these resources which is registered in the accounting for budget implementation. Thus, the long-term assets, liabilities and cost associated with their use are not fully included in the systematic bookkeeping concerning the *oblast's* budget implementation. Rather accounting information connected to acquisition and use is registered within particular organizations receiving finance from the budget, i.e. public enterprises, hospitals, schools, etc. Accounting for these so called "budgetary organizations" (*budgetnie organizatsii*) is regulated by other instructions and they have to prepare other reports than local governments do. However, these organizations have to report to the local government departments who supervise them about how they spent authorized budget money. In this sense, there is a link between budgetary organizations and local governmental departments.

The system of accounting is also based on the so-called *uniformity principle*. This principle dictates a uniform chart of accounts and a uniform classification of income and expenditure items for the central and all local governments. This principle is meant to assure that "... budgets on different levels [i.e. Federation, subject of the Federation and municipality] are

comparable” (Federal law “On budget classification in the Russian federation”, 1996; p. 1). The major intention of the uniformity principle is to make control and the processes of comparison and generalization of accounting information easier for the central authorities, e.g. “... for implementation of uniform social-economic and taxation policies” (Gorbunova, 1996; p. 111). For instance, the uniformity in accounting helps the county administration to consolidate the reports.

The *gross principle* assures that all transactions while the budget is being implemented are recorded gross, according to the items of the budget classification. It is impossible, for instance, to record an income item as a net figure, i.e. to reduce the amount of income in one article by subtracting some expenditure item of that article. The reason for this is control of budgetary allocations (Gorbunova, 1996).

If the above mentioned principles are more or less explicitly mentioned in accounting norms, the *historical cost principle* and *prudence principle* can be deduced from the ways in which transactions are handled in practice, i.e. there are rather indirect indications that these principles might be in order. For instance, short-term assets like securities, currencies, etc. should be recorded at historical price, i.e. price at the date they were purchased. However, the value of the same short-term assets obtained in foreign currency should be adjusted for changes in exchange rates.

In summary, it was possible to identify several postulates/principles which seem to guide Russian local government accounting, even though these are not explicitly mentioned in the accounting norms. And as principles are rules to develop particular accounting techniques, the above-mentioned principles should be realized in the technical system of accounting.

4.3.3. THE TECHNICAL SYSTEM OF ACCOUNTING: ACCOUNTING REGISTERS AND REPORTS

Any transaction connected to the budget implementation for Leningrad *oblast'* should be registered within specific accounting registers of particular accounting books. These books are represented by a general journal, supplementary books and a general ledger (see Figure 4.3).

The general journal is an accounting book in which all transactions are recorded in a chronological and systematic manner. The systematic unit for recording any transaction in the general journal is an account/sub-account. The list of possible accounts and sub-accounts is introduced by the uniform

chart of accounts (see Attachment 6) in which different homogeneous accounts and sub-accounts are grouped into articles, e.g. cash resources, expenditures, budgetary and state loans, etc. Any account and sub-account has its own code of reference. In this sense, any transaction on any given date is recorded in the general journal by making an entry in a double-entry manner on debit and credit sides between two or more mutually corresponding accounts/sub-accounts.

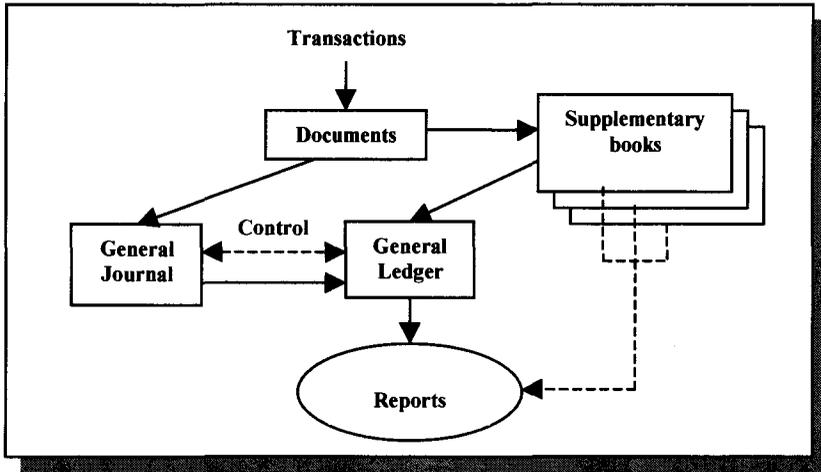


Figure 4.3. The accounting registers for the accounting of budget implementation.

The same transactions are also recorded in one or several supplementary books but in a single-entry manner. The supplementary books are built on another classification principle, i.e. depending on what type of transaction they are meant to summarize. For example, there is the cash receipt supplementary book for detailed recording of cash received as tax and non-tax income, the cash disbursement supplementary book for detailed recording of cash outflows to disposers, the book recording sources of deficit finance for the detailed recording of received loans, etc.

The grouping of registers inside any of the supplementary books is also regulated by the norms. Any transaction to be recorded in these registers should be specified according to the items of the uniform budget

classification²³. Each particular item has its own code which has to be reflected when the accounting entry is made. For instance, in the cash disbursement supplementary book, each entry is grouped *both* according to items of *functional* and *economic* classification of expenditures. Whereas the functional classification groups expenditures according to functions performed by the *oblast'* government (like administration, police protection, fundamental research, health care, housing, etc.), the economic classification makes a distinction between expenditures for *operational*, *capital* and *financial* activities. Operational expenditures are typically represented by cash outflows for salary, acquisition of materials and services, payment of interest on loans. Capital expenditures are cash outflows associated with investment activity, like acquisition of fixed assets and construction. As regards financial expenditures, these are represented by cash outflows for lending purposes to outside parties, e.g. municipalities, state, organizations, etc.

Contrary to classification of expenditures, transactions in the cash receipt book should be recorded *either* as a *tax income* (such as profit tax, individual income tax, VAT, etc.) *or* as a *non-tax income* (like income from sales of property, fees, grants, received interest, etc.). Consequently, no formal distinction is made between cash inflow from operational, capital and financial activities. Moreover, the cash inflow resulting from borrowing is recorded in a separate supplementary book called "the book recording sources of deficit finance" and not in the cash receipt book. Such a special treatment of cash inflow from financial activities might probably explain that if the county borrows money externally, it is presupposed that there is a budget deficit situation.

In addition to the above-mentioned books, there are other books devoted for registration of interest due and paid, reciprocal payments between county and municipalities, books in which all securities are registered, etc.

Accounting data from all supplementary books are further aggregated and summarized on accounts in the general ledger. This is done at the end of each month, quarter and year. It gives an overview of the name of the particular general journal's account, its opening balance, the size of a debit or credit

²³ Last detailed budget classification was firstly approved by the Ministry of Finance in 1994 and later by a Federal Law N115-F3 "On the budget classification in the Russian Federation" (1996).

transaction and the closing balance at the required date. The purpose of this book is to prepare the basis for a comparison between accounting data from supplementary books and accounting entries in the general journal. Through this comparison, the correctness of recording is determined and possible errors in registers can be eliminated.

After the correctness of transactions is determined, the reports are prepared. In the following sections major reports are presented.

4.3.4. ACCOUNTING REPORTS

The instruction of 1999 specifies what kind of primary reports the local government should produce about the economic situation within the *oblast'* local government. Two primary statements containing financial information are prepared by the financial department of Leningrad *oblast'* monthly, quarterly and annually: 1) the statement of budget implementation (or statement of income and expenditures) and 2) the balance of budget implementation. There are other formal reports to be supplied in addition to these two. However, many of these reports have more statistical and jurisdictional rather than economic meanings.

Accounting report: the statement of budget implementation

The statement of budget implementation (or statement of income and expenditures) gives a detailed overview of income and expenditures for the year, surplus or deficit situation and how the deficit is financed. Consequently, accounting data from the supplementary books are used in the preparation of this statement. Thus, in this statement, income and expenditures are listed according to the items of uniform budget classification. In this statement, the Russian concepts of income (*dohodi*) and expenditures (*rashodi*) are used. However, due to cash-based accounting, these income and expenditure items correspondingly represent cash-inflows and cash-outflows.

The formal annual report to the Ministry of Finance is very detailed and consists of more than 300 pages of pure text and numbers. The simplified structure of the report is presented in the Table 4.2. In the report, the income items are listed in the first part. In the second part of the report, all expenditures are listed according to the functional classification alone. After this, the deficit/surplus figure is determined. This deficit figure is followed by

a specification of how it is financed. In the fourth part of the report, expenditure listing is repeated but in this case according to the functional and economic classifications, i.e. the expenditure for execution of the particular function at the same time is decoded in the dimension of the economic classification. Finally, the expenditures are listed according to the items of economic classification only.

Table 4.2. The formal structure of the statement of budget implementation.

Part 1.	Income (tax and non-tax).
Part 2.	Expenditures, functional classification only.
Part 3.	Sources of deficit finance.
Part 4.	Detailed listing of expenditures according to both functional and economic classification.
Part 5.	Expenditures, economic classification only.

Such a big and complicated report is impossible to reproduce in every detail. However, in the search for understanding, it is important to make simplifications and interpretations of the report. Such a simplified structure of the report is given in Table 4.3 which is based on part 1, part 3 and part 5 of the formal report. Shown in such a way this statement reminds us much of cash-flow statements presented in Western textbooks.

What seems to be important in the report is the total income (cash-inflow), the total expenditures (cash-outflows) as well as what is left when total expenditures are subtracted from total income, i.e. excess of income over expenditures or deficit. When the deficit is reported, the sources showing how this is financed should be specified, e.g. by reducing cash funds or borrowing. However, most of the last part is nothing more than net cash-inflow from the financial activities, i.e. cash inflow from borrowing (issuing bonds, taking loans in national and international currencies) minus repayment of loans or repurchase of securities.

There are also three columns in the report respectively showing the budgeted amount for year X, accounting numbers for year X and the degree

of deviation between accounting and budgeted figures for the year. The last figure is calculated in percent showing the degree of budget implementation.

Table 4.3. Statement of budget implementation for Leningrad oblast¹.

Item	Budget for year X	Accounting for year X	% of implementation
Cash inflow - tax income (profit tax, VAT, property tax, excise, etc.)			
Cash inflow - non-tax income (sales of property, fees, unrestricted and ear-marked grants, budgetary funds, etc.)			
(A) Total cash-inflow (income)			
Operational cash-outflows (e.g. salary, salary tax)			
Capital cash-outflows (e.g. investment, construction)			
Financial cash-outflows (e.g. giving loans and handling interest on borrowings)			
(B) Total cash-outflow (expenditures)			
(C=A-B) Net cash inflow/outflow (excess of income over expenditures or deficit)			
Sources of deficit finance (national and international)			
Change of cash in bank accounts:			
_ Beginning of the year			
End of the year			
Net cash flow from international, state and municipal bonds/securities:			
_ Cash inflow			
Cash outflow			
Net cash flow, reclining loans from budgetary organizations:			
_ Cash inflow			
Cash outflow			
Net cash flow, national/foreign bank loans:			
_ Cash inflow			
Cash outflow			
Net cash flow, other sources of national and international financing:			
_ Cash inflow			
Cash outflow			
(C) Total sources of deficit finance			

Accounting report: the balance of budget implementation

Technically, the balance of budget implementation is a summary report based on accounting data from the general journal and showing end-period balances on all accounts/sub-accounts in the bookkeeping system for the budget implementation. The formal report which is prescribed to be used by

the subjects of the Russian Federation (*oblast's*) is shown in Attachment 7. The simplified report's structure is summarized in Table 4.4.

In the report, the debit and credit sides of accounts/sub-accounts in the general journal are summed up in the end of the corresponding reporting period (e.g. month, quarter and end of the year). In the report, some accounts only have a debit balance (e.g. cash, expenditures) and some accounts only have a credit balance (e.g. income). That is why some accounts appear only on the debit side and some - only on the credit side of the report. These accounts are called respectively debit accounts and credit accounts. There are also, however, some accounts which can report either debit or credit balances, e.g. results of budget implementation. This is because the balance on the account can be either on the debit side (showing surplus) or the credit side (showing deficit).

At first, the report seems to be a version of a typical balance sheet as it includes typical balance sheet items. It reminds us structurally of the balance sheet, i.e. the concepts of the balance are employed in the title and in the lines of the report, both debit and credit sides are formally present, both opening and closing balances for the year are shown. It is, thus, natural to find "stocks" concepts, e.g. "sources of the budget deficit" on the liability side represented by loans received from banks, "budgetary loans" on the asset side represented by lendings to other accounting entities and "cash resources".

However, a thorough examination of the report reveals that it is not a typical balance sheet, because "flows" are also extensively presented in the report, and even the title infers a report showing process, i.e. "implementation". Use of different cash inflows and outflows concepts indicates that this is also a "flow" report, i.e. "expenditures", "income", "resources received and granted" and "results of budget implementation" appear either on the debit and credit sides of the report.

In addition to concepts which easily fall into the category of "stocks" or "flows", there are also concepts which are difficult to place into either of these categories. These accounts can more readily be understood as memorial accounts. Their purpose in the accounting technical system is to allow registration of different intermediate operations connected to one or another transaction and its consequences. For instance, "income of future periods" and "expenditure of future periods" accounts are meant for "reminding" about cash which will be paid in or out in the next periods. On many occasions,

balances in these memorial accounts are the results of deviations actual transactions from what was planned or budgeted.

Table 4.4. The simplified structure of the balance of budget implementation.

Balance articles and accounts	Opening balance	Closing balance	
		Before books are closed	After books are closed
DEBIT			
Cash resources of the budget			
Expenditures/Cash outflows	X		X
Adjustment to exchange rates			
Budgetary loans			
Payments connected to handling budgetary resources			
Resources received and granted	X		X
Expenditures of future periods			
Results of budget implementation (deficit)			
Balance			
Balance articles and accounts	Opening balance	Closing balance	
CREDIT			
Sources of budget deficit financing, e.g. loans, bonds, etc			
Income/cash inflow	X		X
Payments connected to handling budgetary resources			
Resources received and granted	X		X
Income of future periods			
Results of budget implementation (surplus)			
Balance			

X – means no entry is possible.

The statement also has sub-columns in the column for “closing balance”, i.e. accounting data is reported “before books are closed” and “after books are closed”. Such a separation is, thus, closely linked to the closing book procedure. When the general journal and supplementary books are closed, the pure technical procedure is conducted, i.e. it involves writing off balances of “flow” accounts on the account “results of budget implementation”. In this sense, when these balances are written off at the end of the year, it is impossible to find any opening or closing figures in the lines showing “expenditures”, “income”, “resources received and granted” (marked with “X” in table 4.4).

Communicating reports and auditing

The same accounting statements are prepared for two accounting entities, i.e. for the *oblast'* as an organization and as a territorial-administrative unit of the Russian Federation. These reports are to be sent to the Federal Ministry of Finance annually. The same reports are also reported to politicians (especially to the budget and financial committee of the representative council) and available for the administration departments. Simplified versions of statement of budget implementation can be found published in the newspapers.

Differing from the private sector, these reports and reports from disposers of local governmental financial resources are not subject to independent auditing. On the contrary the higher level organization/department responsible for receiving reports from lower level organizations should control that reports are prepared according to present accounting norms. It means that the Leningrad *oblast'* accounting department should check that reports from e.g. budgetary organizations are correct. However, there is also an independent structure which is present in any local government organization subordinated to the Ministry of Finance. This structure is responsible for unexpected inspections and audits (*kontrolno-revisionnoe upravlenie* (KRU)).

4.3.5. SUMMARY

In the sections above, Russian local government accounting was described with the help of the conceptual frame work of accounting. Even after presenting what the accounting technical system in principle looks like in Russian local government, many readers might still be somewhat confused about how the accounting process works, i.e. from the registration of transactions to preparation of statements. In order to give a better overview of how the system functions, I enclose in Attachment 8 a simple example developed together with qualified accountants in the Leningrad *oblast'* administration .

The description and the example show that the technical accounting system in Leningrad *oblast'* government is definitely cash oriented and devoted to determining how well the budget was implemented. According to the objectives of financial reporting, this system is perhaps regarded as capable of giving reliable information about budget implementation to users, e.g. the state, politician, administration, population. Particularly by reading

two statements, one is thought to achieve a picture of how the budget was handled. The statement of budget implementation mirrors how the budget was executed by revealing directly planned and actual cash inflows and outflows. The balance of budget implementation also provides such information, but indirectly, e.g. by summarizing balances on memorial accounts.

However, the description was only one aim of this chapter. Another, and perhaps more important purpose is to provide an understanding of Russian local government accounting. In the next section I will describe and apply a Western theoretical frame of reference in order to analyze the technical system in Leningrad *oblast'* government.

4.4. A "BREAKDOWN": ANALYZING RUSSIAN LOCAL GOVERNMENT ACCOUNTING BASED ON WESTERN ACCOUNTING TRADITIONS

In this section I am going to present what constitutes the theoretical foundation of the Western accounting tradition. Later in this section, I will use this frame of reference in order to analyze descriptions in Section 4.3. It will be argued that when such an analysis is performed, it shows that we can gain some understanding of the accounting system. Moreover, Western accounting tradition has a relatively high explanation power for some parts of the accounting system. However, the analysis also reveals some strange and problematic elements in the system which are difficult to explain by referring to the Western accounting tradition.

4.4.1. ACCOUNTING TRADITION IN THE WEST

In this section I would like to summarize what represents the theoretical foundation of the Western accounting tradition. In general, accounting in the West is regarded as a purposeful activity, i.e. it is directed towards specified ends (AAA, 1966). Accounting is about giving accounts for some actions to someone, i.e. it is supposed to reflect relations between the principal and the agent. The intended function of accounting, thus, is to be a language which facilitates the reduction of uncertainty in such relations in order to improve accountability, stewardship, control and decision-making (Mellempvik *et al.*, 1988; AAA, 1977; AICPA, 1974). In this sense, accounting reflects relationships between different parties with different interests, i.e. the

accountor, *accountee*, *accountant* and *auditor* (Ijiri, 1975) as indicated in Figure 4.4.

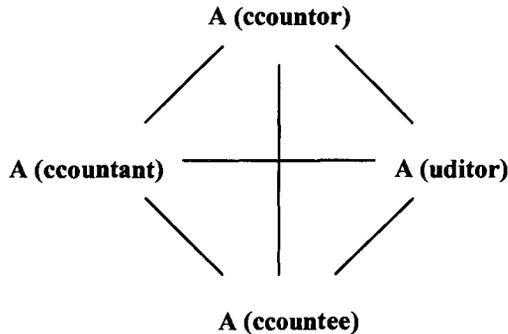


Figure 4.4. Four A's of Western accounting tradition.

Arguing about accounting often involves discussion about financial reports and techniques of how these reports are prepared. Accounting in practice is also concerned

“...with identifying how transactions and events should be described in financial reports... Accounting involves [thus]... professional expertise and judgement” (Larson & Miller, 1998; p. 11).

Such expertise and judgement are very often considered in respect to required, recommended and observed practices (Monsen & Olsen, 1996). When we refer to an accounting practice we often mean observed practice, but we refer to required and recommended practice as to accounting norms and standards (Bergevärn *et al.*, 1995). In observed practice, it is very often the *accountant's* own judgement which determines how accounting activities and procedures are performed. However, required or recommended practice is about judgment of the accounting professional community. It sets standards for how accounting activities should be handled in order to be regarded as “true and fair”. In this sense, the independent *auditor* is also an important part of the Western accounting tradition as the auditor is capable of guaranteeing to the *accountor* and *accountantee* that accounting activities performed by the *accountant* satisfy required practice.

While it is relatively easy to assert what an accounting practice represents, accounting theory is always a more difficult concept for accountants (Jönsson, 1988). As 500 years of accounting history show, the first 300 years of commercial accounting was characterized by lack of accounting theory of any kind (Chatfield, 1974). As a consequence, accounting practice was much discussed, taught and developed based on references to the detailed descriptions of rules and technical entries, i.e. practical experience. Technical improvements in accounting were mainly at the hands of accounting practitioners.

However, time changes and so does accounting theory, and its relation to practice. Today, it is widely accepted that accounting is a much broader social phenomenon and it is not enough to consider it only from the technical perspectives stressing its rational mathematical logic. What we call accounting theories emerged in the West as a result of reasoning about the nature of double-entry bookkeeping which later shifted focus onto discussions about how to understand accounting in its organizational context. Especially during the 20th century, accounting theory became a structure of ideas making a logical foundation for accounting rules in practice (Chatfield, 1974).

Accounting theory, thus, is much about different abstracted and mind-dependent representations of social phenomenon called accounting. In this sense, accounting theory is not a “passive” philosophical abstraction, created on the basis of observations and descriptions of existing practical accounting experience. As AAA (1966; p. 6) states:

“The purpose in developing a theory of accounting is to establish standards for judging the acceptability of accounting methods. Procedures that meet the standards should be employed in the practice of accounting; those failing to meet the standards should be rejected”.

Thus, in its more recognized normative application, accounting theory is prescribed to be actively used for e.g. the formulation of accounting standards, for resolving different accounting questions, and increasing confidence among users of financial statements (Kam, 1990; FASB, 1976). In this sense, any “accounting theory” became a construction which helps to find and/or justify accounting standards of modern society. That is why it is not strange that there is no generally accepted accounting theory (Watts & Zimmerman, 1979), i.e. none of the proposed theories are rich enough to embrace all the demands of accounting users and the accounting environment in general (Jönsson, 1988).

In summary, as there is no generally accepted accounting theory, there is always a problem of choice, i.e. which accounting theories should be included in the frame of reference. And because there is no generally accepted accounting theory, it is plausible to characterize the Western accounting tradition based on the conceptual framework of accounting. Even though this framework is much developed based on private sector accounting, it is applicable to analyze local government accounting (Mellemvik *et al.*, 2000). Particularly, this is the case because public and private accounting in the West are parts of one accounting tradition which can be called “Western”. Because of this common tradition, the theoretically grounded discussion about what public sector accounting should be is possible (e.g. Herzlinger & Sherman, 1980; Anthony, 1980) as well as meaningful, bearing in mind diffusion of private sector techniques into the public sector and vice-versa (e.g. Olson *et al.*, 1998; Covalleski & Aiken, 1986).

In the section 3.3 I have already introduced the conceptual frame work of accounting and used it for the description of Russian local government accounting. The conceptual framework of accounting is a framework consisting of conceptual accounting terms which are hierarchically linked between each other (Belkaoui, 1993), i.e. 1) objectives of financial reporting, 2) fundamental postulates, theoretical concepts and principles of accounting, 3) the particular accounting methods and techniques, and 4) accounting reports. In this section I will explore this framework more deeply in order to give an understanding of what is the theoretical foundation behind Western accounting.

First, objectives of financial reporting in the West stress importance of accounting activity to assist users of information in decision-making, control, stewardship and accountability (Mellemvik *et al.*, 1988; AAA, 1977; AICPA, 1974). Historically, changes in the objectives of financial reporting had their impact on reporting practices in the West (e.g. Macintosh, 1999). Today, the users’ needs for accounting information seem to be important for the Western accounting tradition. The users’ needs, thus, should be reflected in standard-setting, e.g. investors and creditors often require information about solidity and profitability (like ROI, ROE). To be useful, thus, financial information should possess some different qualitative characteristics (Belkaoui, 1993; Hendriksen & van Breda, 1992; FASB, 1980), e.g. understandability, relevance, reliability, comparability, materiality.

Secondly, the economy, political, sociological and legal environments put constraints on accounting activities. Such constraints are reflected in assumptions or fundamental postulates of accounting. Four major postulates are generally accepted and included in the private (commercial) accounting framework: the entity (or separate unit) postulate, the going-concern (or continuity) postulate, the unit-of-measure (or monetary) postulate, and the accounting period (or time period, periodicity) postulate (Belkaoui, 1993; Kam, 1990).

Thirdly, while accounting postulates offer important assumptions about the accounting environment, the theoretical concepts of accounting are assumptions about the accounting entity which portray its nature. A view of separating “stocks” and “flows” is an important foundation behind variations of theoretical recognition of the accounting entity and the whole Western accounting tradition (McDonald, 1972). The “stock” concepts refer to stocks of resources and obligations of the accounting entity at the particular point of time, like assets, liabilities, equity, working capital. The “flows” concepts are used to show flows of resources and obligations of the accounting entity over time, like revenues, expenditures, expenses, profit, cash-in- and outflows, changes in working capital, etc. Such a logic was originally advocated by the English classical economists who emphasized that a clear distinction had to be made between a stock of wealth (capital) and a flow of wealth (income/profit) (Chatfield, 1974; AAA, 1966). Such a logic is clearly present when correspondingly different financial statements are prepared which place these separate concepts in focus (McDonald, 1972). The balance sheet shows, thus, stocks of assets at a particular moment in time, e.g. at the end of an accounting period. The income statement, the cash flow statement and other “flow” reports show flows of financial resources over time, e.g. within an accounting period. Some combination of “stocks” and “flows” concepts in the same reports is unavoidable but this is done to link different reports in the same accounting system.

Consequently, “stocks” and “flows” are varyingly put into focus according to different theoretical reasoning about the accounting entity, e.g. the proprietary, entity and fund accounting theories (Belkaoui, 1993; Kam, 1990; Chatfield, 1974). These different theories not only give different understandings of the nature of the accounting entity, but also define who is regarded to be a primary user of accounting information, which accounting

records should be kept, and what financial statements should primarily be prepared.

Next, accounting principles are decision rules that help to develop particular accounting techniques (Belkaoui, 1993). The historical cost principle, the accrual principle, the revenue principle, the matching principle and the full-disclosure principle are generally accepted in Western private sector accounting. However, less agreement exists on what represents principles of, for example, consistency and conservatism.

Finally, accounting techniques are characterized by a combination of accounting books, registers employed and techniques used to record entries in them (Ash & Strittmatter, 1992). Particular for bookkeeping purposes, the system should depict a chart of accounts, i.e. a formalized listing of accounts which is used by the organization in which each account has its particular number (code) (Gross *et al.*, 1991). A chart of accounts is applied in the main accounting book, i.e. the general journal. There are, however, many other different accounting books which can be kept in the organization, depending e.g. on what registration principle is applied, e.g. accrual or cash. For instance, when the accrual accounting principle is used, 11 books or separate records are usually present. In case of simple cash accounting, 3 – 4 books are usually enough, e.g. the cash disbursement book, the cash receipt book, the general ledger and the general journal.

With help of the double-entry technique, any transaction can be recorded in these books and among different accounts. The double-entry is an important part of Western accounting (Bryer, 2000 a, b; Macintosh *et al.*, 2000), because it allows duality in reasoning about each transaction: “where-got, where-gone” (Luca Pacioli), or “an aspect and a counter-aspect” (Mattessich, 1964). It is often associated with the definitive causal effect of each transaction (Ijiri, 1976).

It is often the case that a so-called “trial balance” is prepared. The trial balance can be formally understood as a summary which

“... lists all accounts in the general ledger and proves that the total of the “debits” and “credits” in the general ledger is equal” (Gross *et al.*, 1991; p. 588).

Thus, the purpose of preparing the trial balance is to check that the balance is, in fact, in balance (Larson & Miller, 1993). If it is not, a bookkeeping error has been made. The adjusted trial balance can be also prepared which takes into account transactions at the end of the accounting

year. The trial balance is further used for preparation of the reports, e.g. balance sheet and income statement.

Specific aspects of public sector accounting in the West

Even though much of public sector accounting in the West can be understood in the light of conceptual framework of accounting (see e.g. Mellempvik *et al.*, 2000), it has, however, its own specifics which are described in this section. Writing about public sector accounting is difficult because there is no public sector accounting theory as such. There may be several reasons for this, but the main one is probably that public sector accounting, especially in central and local government, was not traditionally regulated by the accounting profession but rather by law and the state ministries. However, even though there is no public sector accounting theory, public sector accounting can generally and distinguishably be characterized by some important characteristics. What we know as traditional government accounting has the following elements (see e.g. Jones & Pendlebury, 1996; Chan, 1996; Oettle, 1990; Lindbeck *et al.*, 1977): 1) it is budget accounting, which is 2) non-accrual accounting, and in which 3) operational and capital accounts are usually separated. Let us briefly summarize these elements.

Firstly, the budget plays an important role in the governmental sector. Usually it is approved as a law which shows the cash receipts (income) which can be obtained and the cash outflows (expenditures) which can be incurred for departments and organizations financed from that budget. This budget should be executed (implemented), i.e. all planned cash receipts should be collected and planned appropriations in cash spent. The purpose of accounting in this case is control, i.e. the continuous comparison of budgets and accounts in order to find the variance and, if necessary, to take a corrective action in order to prevent overspending.

It is usual in this case that the technical system of accounting handles both budgeted (allowances) and actual amounts (actuals) within the accounting registers by means of double-entry technique, e.g. the budgeted expenditures are credited to accounts and when incurred, these accounts are debited with the amount spent (Jones & Pendlebury, 1996). The account balances when cash flows that are recorded show the budget unspent or overspent for this particular account (Chan, 1998).

In the case of budget accounting, accountants have to prepare statements of financial position in which e.g. each line in the expenditure part shows object-of-expenditure, i.e. for what purpose money was approved and how it was spent. Thus, in the statement, budget and accounting figures are presented against each other. Accounting, thus, is budget-coupled and does not have any independent identity (Chan, 1996). In this sense, the critique is often raised against traditional local government accounting that the job of the accountant is limited to registration and reporting history, and not the preparation of statements supplied with relevant analysis which could have saved much of the users' time (see e.g. discussion in Jones & Pendlebury, 1996).

Secondly, central and local government has not used complete accrual accounting as enterprises do, e.g. long-term assets and liabilities were not included into systematic bookkeeping (see e.g. Monsen & Näsi, 1996; Chan, 1996). That is why "modernization" of "traditional" local government accounting is associated with moving it from cash/modified cash basis towards full accrual accounting (Chan, 1998).

Thirdly, it is common for government organizations to separate budgets and accounts into administrative (operational) and asset (capital) budgets (Jones & Pindlebury, 1996; Chan, 1996; Oettle, 1990). Separation is usually based on distinguishing expenditures connected to current operations and expenditures for the formation of assets. In operational budgets, current income/revenue sources are recorded and expenditures are seen as financing current operations of local government. Thus, the financial results are determined, i.e. the fund balance, surplus or deficit.

The accounts for the asset (capital) budget show asset changes and the financial effect of such changes, especially how they have been financed, e.g. through borrowing, or covered by revenue. Consequently, the receipts and expenditures affecting assets are recorded and reported in asset budget accounting. It is also common to prohibit incurring the deficit in capital budget accounting. However, given the different nature of operational and capital budgets/accounts, they are usually closely linked through special transfers, i.e. a transaction recorded as an expenditure item in the operating budget and at the same time as an income item in the capital budget.

The rationale for such a separation of accounts in some countries is based on the demand for control of local government by the central government (Mellemvik *et al.*, 2000; Jones & Pindlebury, 1996; Brorstöm & Olson,

1984). In some countries, the wealth of local government is particularly reflected in the capital accounts which are not allowed to decrease, e.g. they are not allowed to erode their capital basis by selling public land and assets in order to finance ordinary activities. In other countries, the separation of operational and capital accounts gives politicians the notion of so-called “intergenerational equity” (Chan, 1998). It is a principle which underlines that each generation should fully cover the costs of all services delivered in corresponding periods.

In summary, local government accounting in the West is traditionally budget accounting which is non-accrual and in which operational and capital accounts are usually separated. It is also quite “flow of wealth” oriented, i.e. income (cash inflows) and expenditures (cash outflows) are given in detail allowing variance control between annual appropriations and actual receipts/spending. “Stocks of wealth” are recognized and recorded to the necessary extent depending on the basis of accounting used, but it is usually done only to provide summary figures of assets and liabilities and not for the services cost estimation.

Because the purpose of this chapter is to give an understanding of the accounting system in Russian local government, descriptions in Section 4.3 will be analyzed based on the Western accounting conceptual frame of reference and important elements of traditional local government accounting in the West.

4.4.2. APPLYING THE IDEAS OF THE WESTERN ACCOUNTING TRADITION

When Russian local government accounting is analyzed based on Western accounting tradition, we might find that there are many similarities between Western and Eastern accounting practice and that we can gain some understanding of the technical system.

Firstly, the objectives of accounting, postulates, principles, techniques and reports might be understood in terms of the Western frame of reference. The objectives of accounting are very similar, i.e. accounting should provide reliable information to users in order to enhance control and decision-making. There are some differences in the accounting entity definition, but these can be understood in terms of the double function the *oblast'* government performs. The technique used is double-entry bookkeeping.

Secondly, the description shows that the accounting system is a kind of budget accounting which allows monitoring the budget implementation. According to the objectives of financial reporting, accounting is regarded as a mirror of the budget. The technical system seems to have special memorial accounts in order to register deviation of actuals from budgeted/planned amounts. As is shown in the example (Attachment 8), it concerns e.g. monitoring that cash payments to the disposers of financial resources are not higher than appropriated for spending and that interest due this year is paid as planned. If not, the system will register and report variations in both reports, i.e. the balance of budget implementation and the statement of budget implementation. The last report is meant to show a comparison between budget and accounting for the year as well as the degree of budget execution.

Thirdly, the system of accounting and reports is strongly focused on cash and not on accruals. Applying the cash principle, the system deals with cash and very liquid assets (e.g. securities). In this sense, we might understand why the statement of budget implementation is prepared - the cash principle determines the nature of registrations made and reports prepared. Moreover, this report looks much like a report in Western local government indicating that there is a connection between Russian and Western local government accounting practices (see e.g. report of Ontario province local government, IFAC, 2000; p. 225).

Next, let us discuss in more detail the balance of budget implementation. At first we might have some problems with this report which looks like a balance sheet. Initially we might be confused by the fact that the accounting concepts of "stocks" and "flows" which are usually treated and signified as separate are mixed up in the report. Further, the closing books procedure is "strangely" present in the report. Finally, and as consequence of the above-mentioned, it is difficult to give any economic interpretation of the report.

At first, the accounting concepts seemed to be mixed up in the report. It is fundamental for the Western accounting tradition to argue for the separation of "stocks" and "flows" concepts. Any user should be able to understand what the report is about to show. Contrary to the Western tradition, "stocks" and "flows" seem to be rather intentionally combined in the balance of budget implementation. Such a practice of mixing up "stocks" and "flows" and in this way "blurring" the focus between such basic principles is not in accordance with the main premises of Western accounting tradition.

Furthermore, the statement also has special sub-columns in the column for “closing balance”, i.e. accounting data is reported “before books are closed” and “after books are closed”. When the balance of budget implementation is considered as some kind of financial report to users, it is difficult to give theoretically grounded arguments for why such a separation is done. It might be considered as a kind of technique helping to bridge the above-mentioned mixture of “flows” and “stocks” in one report. It also gives insights into the rules of how the administration has closed the books for control purposes.

Finally, the way some transactions are handled and reported indicates that it is difficult to give any economic interpretation to the report. For instance, let us take the handling of interest payment for usage of borrowed resources (see example in Attachment 8). In addition to recording interest payment as cash outflow, it is also recorded by applying double-entry technique on two memorial accounts “handling of interest” and “expenditure of future periods”. These two accounts are also part of the report. Maybe “expenditure of future periods” is a liability account showing the unpaid amount of interest due this year? According to the Western tradition, liability should be recorded in credit accounts. In our case, it appears to be the opposite, as “expenditure of future periods” is a debit account. In the same way one may wonder why the budgetary loan given by the county to the municipality and interest on this loan paid by the municipality to the county are handled on the same accounts “budgetary loan to municipality” and “income of future periods”. In this system, the loan and the interest are handled in the mixed way, blinding as we might deem the short-term and the long-term assets. We can also interpret the “income of future periods” as a receivable account. However, this is not the case as it is here a credit account. Thus, it is difficult to interpret the report as some kind of balance sheet with a debit side representing assets and a credit side representing liabilities. Rather it seems that the statement shows sums of debits and credits and that these balances are equal. In this sense, double-entry technology is applied in the technical system as some kind of technique helping to balance debit and credit accounts in the system without providing much economic meaning.

This kind of preliminary analysis was based on the assumption that this report was produced by an accountant for some user to show the financial position of the accounting entity. However, the report is meaningless for critical economic analysis as it is difficult to give any clear economic interpretation of the report. Thus, there should be other meanings for the

report construction. In searching for understanding the bookkeeping literature was analyzed and this analysis revealed that balance of budget implementation looks like a “trial balance”, i.e. a typical control tool of any Western accountant. According to Arthur (1999), a trial balance is meant to show on one piece of paper all the transactions which transformed the opening balance sheet into the closing balance sheet. Consequently, such a discovery forced me to change the assumption that this report was produced by an accountant for some user. The trial balance is a report for the accountant only. Having changed this assumption, we may now be able to understand more about the balance of budget implementation. Mixing up “stocks” and “flows” is no longer strange as this mix is done on purpose by the accountant for control purposes. We can also understand why balances are reported “before” and “after” books are closed. “Closing books” might be considered as an adjustment procedure transferring the “original” trial balance to the “adjusted” trial balance, adjusting it for cash flows, i.e. a mechanism to avoid mistakes.

4.4.3. A “BREAKDOWN”: WHERE DOES THE WESTERN TRADITION FAIL TO PROVIDE UNDERSTANDING?

In the sections above some interpretations of the technical accounting system in Russian local government were made, based on Western accounting tradition. It seems that parts of the Western accounting tradition have relatively high explanatory power and function relatively well for the purpose of understanding Russian local government accounting. However, even having made these interpretations, there are still some important problems and elements of confusion which require clarification. There is a “breakdown” associated with several problems.

Firstly, the accounting technical system does not have a clear separation between operational and capital accounts, and it is unclear why is there no such separation. According to traditional Western local governmental accounting, this separation is an important instrument for the central state to control that the wealth of local government is not decreasing. Even though operational and capital transactions are recorded separately in supplementary books, there are no specific rules in Russian local government such as in Western accounting of how operational and capital accounts should be linked. Does it mean that the Russian state does not care about the wealth of local government? Maybe there are other mechanisms to control “the wealth”?

Maybe the transition to market economy has diminished state control over local government? The historical perspective and descriptions in this chapter demonstrate that the answers to these questions are very probably no. Why is then such a practice present?

Secondly, the accounting technical system itself and accounting statements prepared also seem to have a very strong control focus. In the technical system any transaction is registered twice, i.e. in the general journal and at least in one of the supplementary books. If we take into account that the double-entry technique is used in the general journal and that one transaction can be registered several times on different accounts, the complexity of registration becomes easily twice-squared. There are also two different reports, but they contain almost the same accounting figures, i.e. "results of budget implementation" (i.e. deficit/surplus) and their determinants (cash inflows and outflows). The question then is why are these two reports prepared showing the same accounting figures? Is it because of the complexity of the system and a direct result of the desire for step-by-step control? If this is so, such a complex practice which repeats the same figures in two different reports might be interpreted as a "paranoia" of control (Richard; 1998). What is then the meaning of such an accounting practice?

Thirdly, when facing such a complex accounting system, the accountant in Russian local government seems to lack the freedom of judgement concerning how a particular transaction can be handled. Even new norms introduced in 1999 prescribe obligatory and detailed accounting procedures which have to be followed. Norms talk about accounting as giving "...complete and reliable information". In this system, in which the accountant is not allowed to have his/her own judgement, the demand for independent auditors is missing. Accounting information is regarded as complete and reliable when all formal and prescribed procedures are followed. If they are not, and it is revealed under an inspection, the accountant can face an administrative or even jurisdictional responsibility²⁴. The function of the accountant, thus, is to make routine registrations and report the history of budget implementation, constrained in judgement by detailed prescriptions and the threat of punishment for deviations. How can we understand the role of an accountant in such a context?

²⁴ See e.g. article 18 in the Federal law "On accounting" (1996)

Fourthly, and perhaps most problematic, an unexplained element of Russian accounting practice is connected to the balance of budget implementation. Why is the trial balance reported to users as a financial statement? The function of the trial balance in Western accounting is nothing more than "... to furnish a test of clerical accuracy" (Paton & Stevenson, 1976²⁵). Such a report has meaning for an accountant but not for an administrative officer or a politician. How can the principal account for the action of the agent based on this report? How did it happen that the report which only seems to have value to the accountant became communicated to the principal? The practice of reporting the trial balance to users of financial information should be considered meaningless from the perspective of Western accounting tradition.

Finally, there is the problem connected to how double-entry technology is used. Why has double-entry technology only become a balancing technique? There should be some theoretically grounded explanations for all these unexplained elements of Russian accounting practice. It is reasonable to expect that Eastern practice can be better explained by Eastern theories. In the next section one such accounting theory is examined and applied.

4.5. SEARCHING FOR AND APPLYING AN ALTERNATIVE ACCOUNTING THEORY – "THE BALANCE SCHOOL"

After revealing such a "breakdown" in respect to analysis of the technical system in Russian local government, the search was conducted in Russian and Soviet research literature for an alternative accounting theory. This search was guided by an intention to answer the question - Is there an alternative Eastern accounting theory that could make better sense of the accounting technical system and the balance of budget implementation? After such a search, a theory constituting the balance school was revealed. In this section I will describe how the balance school came into existence and something about its ideas. After that I apply the basic ideas of the balance school. I will demonstrate that when applied to analysis of the technical system in Russian local government, the balance school makes a "resolution", i.e. rediscovers the meaning behind present day accounting practice.

²⁵ Citation in Chambers (1995; p. 388).

4.5.1. THE APPEARANCE AND INFLUENCE OF THE BALANCE SCHOOL

The balance school represents an alternative accounting tradition to the Western one. If this is so, then Western and Eastern accounting theories and thinking have been developing in different directions for many decades. Indeed, the separation in the accounting development between West and East started when the October Socialist Revolution succeeded in installing a Soviet regime in Russia. The new state and ideology demanded new forms of accounting. However, there was no accounting model available at that time which could be easily adopted to cover the new needs of the Soviet planners. Russian theoreticians, thus, had to play an important role in developing the new type of accounting (i.e. so-called Soviet (socialist) accounting). In a quest for the new model, Russian theoreticians looked abroad. The historical period between 1920 and 1930 was also characterized by an intensive internal theoretical debate about what Soviet accounting should look like (Sokolov, 1985).

In this sense, many accounting models, developed in the West, could have been copied. There is evidence showing that some Western techniques were indeed selected and adapted by Soviet accounting practitioners (Richard, 1998; Ash & Strittmatter, 1992; Forrester, 1977). For example, the concept of standard costing (Harrison, 1918) was adopted to the Soviet management system in e.g. nationalized enterprises. German charts of accounts with their uniformity and the logic of the production cycle also influenced Soviet accounting practice, e.g. through works of German theoreticians like Schmalenbach whose books were translated into Russian.

Such an approach was complemented by the internal theoretical debate between representatives of pre-revolutionary and post-revolutionary schools, i.e. the so-called “great discussion” (Motyka, 1993; Sokolov, 1985). This discussion evolved around the nature of the balance sheet and double-entry bookkeeping. Many schools stressed the legal and economic nature of transactions in the balance sheet. However, another group of accounting theoreticians advocated the so-called “balance school” views²⁶. These

²⁶ Here and further on, the term “balance school” is used as a label to indicate a particular way of theorizing and thinking about accounting in the East.

researchers, influenced by ideas of mathematics and statistics, treated a balance sheet and particularly double-entry technique from a mathematical point of view without giving legal and economic interpretations to transactions. Accounting theory became for them a theory about the technology of bookkeeping (Sokolov, 1985).

One dimension of the “great discussion” was articulation of differences between capitalistic and socialistic accounting. While capitalistic accounting was claimed to have a major function of assisting the capitalist owning the enterprise in his quest for profit extractions, Soviet accounting was supposed to function as a device for control of plans execution at the level of the national economy. As a consequence, handling the accounting entity in Soviet accounting became something different compared to the traditional sense, i.e. accounting was thought to be applied for the needs of whole national economy, but not at the level of individual enterprise. The double-entry technique was considered not as an objective law of commerce, but rather as a convenient rule or technique, i.e. a notion of the scientific approach respected in the Soviet Union. Maybe the simplicity of its logic made the “balance school” widely accepted in the Soviet Union. This theory was, thus, recognized as more legitimate than other theories.

From this point in time the theoretical development in the West and East followed separate roads. Since 1930 the Soviet Union was closed from international development by the transition to the command-administrative and centralized system (Enthoven *et al.*, 1992). The same happened with the internal debate - the “great discussion” was resolved by even greater terror. All other views than the “balance school” were claimed to be “bourgeois” and were eliminated (Bailey, 1990). As accounting became bookkeeping (Bailey, 1995), accounting theory became theory about methods of bookkeeping. The desire to lower the cost of accounting and statistical information processing resulted in many different forms of technical bookkeeping models being developed during the Soviet period (Gofman & Kapelius, 1966). Soviet theoreticians were discussing more the number of accounting books applied and ways of keeping records rather than conceptual understanding of phenomena called accounting. However, even the technical improvements were more under the control of bookkeepers and the state statisticians rather than accounting theorists. Accounting activity became no more than a practical habit done for the sake of following rules (Combs & Liberman, 1994).

In the beginning of 80's it was recognized that it is difficult to improve accounting without having developed accounting theory. But, not until the beginning of the 90's did theoretically based understanding and development in the field of accounting begin to take place. The process which opened Russian society brought impulses for accounting harmonization, e.g. in teaching the Western accounting models and bringing former accounting standards closer to the international ones (Kovalev & Sokolov, 2000, Smirnova *et al.*, 1995). However, even today, the balance school seems to exercise an influence on local government accounting in Russia.

4.5.2. THE BALANCE SCHOOL OF ACCOUNTING – AN ALTERNATIVE THEORY?

Advocates of the balance school, such as many Western theoreticians at the beginning of the 20th century, focused on the interpretation of the balance sheet and the nature of the double-entry bookkeeping. A particular view was advocated when considering the credit side of the balance sheet, i.e. there is no significance in separating liabilities and equity (Sokolov & Kovalev, 1996). The idea was that together they rather more indicated *sources* of economic and financial resources shown on the left side of the balance sheet.

This view was further developed by some of the post-revolutionary theoreticians. They argued that if the balance sheet is to show duality of any transactions in two dimensions of organizational functioning, then double-entry is no more than a good and convenient technical method for continuously accounting for the entity's resources and its sources (Gofman & Kapeliush, 1966). Some Soviet theoreticians even went further by giving a much broader interpretation of the balance sheet, i.e. the balance sheet became not just a *resulting statement* but rather a *method of generalization* in monetary terms the accounting unit's economic means and sources of these means (Goloschapov, 1972; Makarov & Belousov, 1955; Gal'perin *et al.*, 1945).

For the Soviet planners such an interpretation became significant. On the one hand, such a method of generalization helped to show all the economic resources handed over from the state to organizations and also production means according to their composition and functional roles. On the other hand, it helped to show where these resources came from and for what purposes they should be used (Gal'perin *et al.*, 1945). The foundations of the Soviet plan economy like control and stewardship of resources' use were, thus,

reflected in the accounting interpretations of the balance school. In the administrative-command system of the Soviet Union, the right-hand side of the balance sheet represented restrictions determined by the state planners on how financial and material resources should be utilized rather than obligations to economic agents as capital contributors (as is assumed in the Western tradition). In this sense, the interpretation of the balance school can also be understood in terms of the premises of the modified fund theory (Sokolov & Kovalev, 1996).

Moreover, many theoreticians further argued that the balance sheet should be used not only to reflect resources and sources, but also economic processes. In order to reflect these processes, new accounts were introduced into the balance sheet, i.e. accounts reflecting processes of production and consumption (Ash & Strittmatter, 1992). The balance sheet lost its original name and became “the accounting balance” (*bukhgalterskiy balans*). It was probably done to indicate that in the accounting balance not only resources and sources of resources are balanced against each other (as in the balance sheet), but also processes of resources’ utilization and plan execution (Galperin *et al.*, 1945).

Such a combination of static and dynamic views in one subject matter was accepted by the socialist central planners because it helped to establish control over the plan execution. Another reason for the theory acceptance was a systemic view regarding the needs to create balances for an organization, a group of organizations and the whole nation. As a consequence, the concepts of “wealth” or “capital” lost their meaning at the level of particular organization in the case when the state owns all property and resources and makes all operational and capital plans. Any accounting unit in the Soviet Union, also local government organizations, were purely responsible and accountable for operational management of these state properties in accordance with national plans, not, however, for capital decision. “Results” in this sense are not interpreted as a measure of increase in the entity’s capital, but rather a contribution to the “capital” of the whole nation. It is not, therefore, strange that the bottom line “results of budget implementation” could be regarded as the operational income of the state’s property. In this way, it was an important indicator of annual growth in national production resources and, correspondingly, a practical contribution to the idea of “socialism construction”.

In this accounting world, double-entry technology was transformed into a kind of balancing technique. Surprisingly, it was also more widely accepted in other fields than accounting, e.g. statistical balances for sectors of economy, input-output balances for organizations, etc. (Lewis & Sternheimer, 1979). As Lewis & Sternheimer (1979; p. 117) pointed out

“... Despite the traditional philosophical antagonism between equilibrium concepts associated with bourgeois sociology and economics and a dialectical materialist conception of social reality, this conflict has in no way diminished the enthusiasm of soviet ... planning advocates for the idea of a balance...”

Balancing became a *philosophy* rather than just a method (Campbell, 1963). It is not surprising that the balance school of accounting theory gave birth to the theory about the accounting balance (*balansovedenie*). This theory was about principles reflecting construction of the accounting balance, evaluation of its items and analysis of economic activities represented by these items. This theory had a strong influence, e.g. bookkeeping during the 40's was sometimes even called “*balance-keeping*” (Sokolov, 1985; Galperin *et al.*, 1945).

4.5.3. A “RESOLUTION”: APPLYING “BALANCE SCHOOL” ACCOUNTING THEORY

From the description above, it seems that the Eastern accounting tradition was much influenced and based on the ideas of the balance school. Let us apply these theoretical ideas in relation to the technical system of accounting as well as in the examination of how these ideas resolve identified problems mentioned in Section 4.4.3.

Firstly, the separation between capital and operational accounts has no meaning from the point of view of the “balance school”. According to the “balance school”, resources and sources of resources which are under the control of an accounting entity should be included in bookkeeping. During the Soviet period, these resources were given by the state for the purpose of operational management. Local government was not responsible for capital decisions as they were made by the state. Thus, purely operational accounts were included in systematic bookkeeping thereby ignoring capital accounts.

Secondly, we can also try to understand why the trial balance was reported. It was meaningful to the central Soviet state and legitimated by the “balance school”. It is natural that the accounting concepts of “flows” and “stocks” are mixed up in the report. In accordance with the “balance school”

accounting tradition, the report seems to provide the generalized characteristic of budget execution at a required moment of time, e.g. at the end of the year. It can be understood as a special kind of generally applied accounting balance (see Table 4.7). Because it is only about financial resources and their sources, there are no other assets, debtors, creditors, present in the report other than cash and loans. According to the balance school, the debit side shows placement of budgetary resources (cash on different accounts), and how they are or will be used (loans to the municipality, cash disbursements, to cover deficit, to finance future expenditures). The credit side is meant to illuminate sources of resources (bank loans), sources of cash outflows already made and planned for the future (cash inflows, incomes from future periods) and reasons/restrictions for resource placement (e.g. handling interest on loan). Following the old Soviet context, the gross value of total resources which were in “stock” and flowing through the local government organization during the accounting period would, thus, be reported. This might explain why it was important from the point of view of the state to know the balances for all bookkeeping accounts.

Table 4.7. Schematic accounting balance of budget implementation according to the balance school ideas (Adopted and modified from Goloschapov, 1952).

DEBIT	CREDIT
placement of budgetary resources	sources of budgetary resources
how budgetary resources are used	sources of budgetary resources' use
	reasons/restrictions for budgetary resource placement

The same ideas might be applied to the statement of budget implementation. The statement is actually prepared by applying the same philosophy. “Expenditures” represent the use of resources, whereas “income” and “source of the deficit finance” show sources of budgetary resources’ use. In the statement these figures are balanced and this balancing point is the “deficit” figure.

Thirdly, strong state control can explain why two similar reports are prepared and the closing books procedures are implicitly built into the balance of budget implementation statement. In the centralized Soviet system, the state was the only user of accounting information. The theoretical

foundation of the balance school helped to establish local accounting procedures, thereby allowing strong state control over the use of resources in local government. In this context, preparation of reports becomes another routine procedure. Financial reporting is more about checking that all necessary procedures were correctly followed than about selecting and communicating economic information to users.

Fourthly, we can attempt to understand why double-entry technology just became a balancing technique. There can be many interpretations of double-entry accounting technology (see e.g. Jones, 2000). The Soviet central statisticians have used the interpretation of double-entry accounting technology made by the “balance school”, i.e. to establish procedures for accounting control. The double-entry technology became a technology of control, a convenient mechanism to link “resource” accounts with “source” accounts when the transactions were recorded. All other formal procedures were also strongly controlled. As Ash & Strittmatter (1992; p. 58) wrote

“... it [was] ... compulsory for all [organizations] ... and their accounting departments to abide by the decisions and instructions of [regulatory institutions]... [Even] the standard forms and manuals [were] ... printed in bulk for distribution to accounting departments throughout the country”.

Thus, standardization of accounting methods, rules, procedures and forms of accounting reports became a norm. Accounting practice had to conform to the central directives, and all accounting procedures had to be implemented as stated in instructions (Bailey, 1995). Accounting became a more formal, labor intensive and routine mechanical process (Lieberman & Eidinov, 1995; Combs & Lieberman, 1994).

Finally, in such a context an accountant has the role of procedure-follower. As was the case in other aspects of Soviet life, the state was probably too suspicious to allow accountants to exercise their own judgement on accounting matters. Detailed regulated procedures gave no room for the establishment of trust relationships between the *accountor* and *accountee*. Following the rules of this game, the state kept control over procedures by prescribing a large number of possible contingencies in the form of detailed instructions. Thus, as accounting was reduced to bookkeeping, it was more for the purpose of registration and measuring than for communication. Moreover, accountants were educated to obey these norms and to produce financial information for control purposes rather than for decision-making (Enthoven, 1999). In this sense, it is no wonder that the balance of budget implementation, the only statement valuable to the accountant according to

Western tradition, was here reported to the Ministry of Finance. The report does not contain accounting information but rather accounting data. Presented in this way, it helped to control *accountant* and *accountee* through the procedures of the bookkeeping process. It was meant mainly for control and perhaps further consolidation. Probably when consolidated together with reports from other regions, it had some applications for central planners.

4.6. DISCUSSION AND CONCLUSIONS

The purpose of the chapter was to describe and discuss the technical accounting system in one Russian local government organization, i.e. Leningrad *oblast'*. There are at least two issues which have become evident from such an examination. On the one hand, there is a mixture of understanding and confusion when present day accounting practice in Russian local government is analyzed, based on Western accounting tradition. Many similarities point to accounting in Russian local government being in some aspects very close to traditional Western local government accounting. Moreover, we can also gain understanding when analyzing Russian local government accounting from the perspectives of Western accounting theory, particularly the statement of budget implementation which is certainly a cash flow report.

However, we have also experienced some aspects of confusion in trying to understand problems when we carry out such an analysis. The “breakdown” especially appears when we encounter the balance of budget implementation and the ways it is prepared. Interpreted as a trial balance, this report seems to have no value to primary users of local government accounting, i.e. politicians and administration. Rather it is a report for checking the accountant’s accuracy. From a Western point of view, it is a “wasteful” statement doomed to spend the rest of its life on users’ bookshelves.

On the other hand, the “breakdown” is “resolved”, when the accounting system and the reports are discussed in the light of Eastern theoretical foundations. Particularly, the balance of budget implementation makes sense when it is examined from the perspectives of old accounting theory, advocating the ideas of the “balance school”. Refined by the Soviet theoreticians and legitimated by the Soviet ideologists, this accounting school of thought seemed to contextualize development of accounting practice for local government in Russia. In doing so, it limited accounting development and the influence of other accounting traditions on accounting practice. It

helped to establish central control of local resources. As a consequence, when turned into bookkeeping, accounting lost its freedom of interpretation, i.e. local accounting procedures were centrally checked and controlled. Moreover, the accountant as an actor lost his/her possibility to exercise free judgment and interpretation and became the “servant” of central instructions and directives. An accountant became much independent of the local users and represented a part of the strong central state. In this world, the objectives of financial reporting were not driven by local users but were dependent on central needs for control exercised through statistical and accounting data. The balance of budget implementation, as a trial balance, might be seen as a report which satisfied such central needs of the controlling state, but not those of the local users. What is surprising, however, is to find such a statement in accounting practice today.

Such a duality, i.e. co-existence of both Western and old Eastern understandings of accounting practice, can indicate that transition to a Western-style market economy and a democratic state in Russia which started almost 15 years ago gave birth not only to changes in accounting practice but has also deposited sediments²⁷. The transition ideology proclaimed “responsibility”, “autonomy” and “independence” for local government (Bourmistrov & Mellemlvik, 1999b). Moving towards the Western world could have meant adapting Western accounting practices and standards, i.e. the East could have looked at the Western experience as it happened 70 years ago. And it seems that some Western-motivated change has occurred, e.g. the new objectives of financial reporting were introduced, new elements in the statement of income and expenditures have appeared.

However, alongside changes in accounting practice, we also observe the presence of accounting from the past. As this chapter shows, the current accounting system and accounting reports are better explained by the “old” Soviet theory than the Western accounting tradition. In this sense, it is easy to conclude that the technical system of accounting and reports in Russian local government represents a historical “sediment” of past events rather than an innovation of today.

This finding indicating continuity and change is not, however, surprising. As Hopwood (1987; p. 230) wrote:

²⁷ I will later offer suggestions as to why sediments are preserved in organizations in the chapter offering my conclusions.

“...accounting also can be conceived of as creating residues of organizational consequences that can change the preconditions for subsequent organizational change. It is as if organizational transformations deposit sediments which not only interact with the organizational past but also modify the possibilities for the organizational present, and its future.”

What is interesting, however, is to understand why such a development was possible in the case of Russian local government accounting. An explanation might be that changes in the institutional structure were incomplete. It is impossible to change society in one day, i.e. to break links with the past. Even after 15 years of *perestroika* and market reforms in Russia it is difficult to make radical changes – to make an accounting revolution. It happens in other countries too (see Mellemvik & Pettersen, 1998). In such a “hesitant” transformation, only important changes occur. As was shown in the historical perspective, what has particularly changed is the nature of the principal-agent relation in Russian local government. Maybe accounting change has only reflected the most important changes in the institutional environment, i.e. change in principle-agent relations? Politicians in Russian local government organizations became the principal for the administration and, thus, a new instrument of decision-making and control was needed. Such an instrument was represented by a new statement of income and expenditures.

However, not everything has changed. Present day accounting practice also interacts with accounting of the past. Some parts of accounting today remain unchanged from 20 or 30 years ago. This primarily concerns the role the accountant plays in local government. It seems that as in the Soviet period, the state and the accounting community does not allow accountants to exercise their own judgement on accounting matters. The state still keeps control of procedures by prescribing a large number of possible contingencies in detailed instructions. The accounting profession is not yet strong enough to compete with the state in order to attain the power to set standards. In this sense, no big changes were possible in the technical system of local government accounting. The balance of budget implementation like a “ghost” from the old regime, is still prepared and reported.

Finally, this case indicates that it is important not only to pay attention to “changes” but also to “continuities” hidden in sediments when studying accounting practice in a transitional economy. As this chapter demonstrates, studying practices in transition might be difficult because some of the “sedimental” accounting practices can be regarded as accounting anomalies,

i.e. it is difficult to understand them by referring to present accounting traditions and understandings articulated in Western accounting textbooks. Thus, such anomalies might be omitted in research. But, it is important to study such anomalies in order to appreciate the whole phenomenon called accounting (Chambers, 1980).

More importantly, understanding of accounting anomalies and how old practice has appeared and survived might help to discuss possibilities for accounting development today and its future. As regards Russian local government accounting, incomplete changes and the presence of sediments might create great inconsistency in the technical accounting system. The new instruction of 1999 introducing new objectives of financial reporting stresses the needs of local politicians and administrative officers for accounting *information*, but the technical system of accounting and reports are still derived from the “old” Soviet context which advocated reporting accounting *data* to the central state. Russian reforms have brought new users of accounting information into focus (i.e. politicians and administration), but the technical system and the statement of budget implementation are better understood as “sediments” emphasizing the central state’s position. There is, thus, a divergence between the system of practice suitable for checking the accountant’s accuracy and the system of users who are expected to demand reports applicable for decision-making and control. So far we can only speculate that local users will have problems with the application of reports such as the balance of budget implementation. But if they do not use these reports, this might question the very existence of accounting as a purposeful activity. Some of these issues are discussed in the next chapter.

PART 3. THE USER PERSPECTIVE IN RELATION TO ACCOUNTING IN TRANSITION

“It [bookkeeping] was invented because man wanted it, because he found that he could not get on without it. It is essentially utilitarian. It is not the result of the work of *dilettanti*, of men who conceived some theory and labored to prove the truth of it. It was evolved with a conscious, definite and practical object in view ...” (Woolf, 1912).

“Accounting is not, and should not be, an intellectual exercise carried on for its own sake, but a service to the various parties concerned in the operation or ownership of business enterprise” (Coutts, 1960).

Part Three of the thesis examines use of accounting information in Russian local government today. The purpose of the chapter is to study use of accounting information in Russian local government and particularly how accounting information becomes meaningful for its users. Several aspects of accounting in use are revealed. Firstly, accounting reports help to maintain the structure of meanings, i.e. the general need for accounting information among users represents a collection of different understandings and interpretations. Secondly, it is shown that users’ needs for accounting information do not respond to changes in the accounting reports’ structure motivated by normative accounting theory.

However, it is demonstrated that accounting education and the dialogue concerning accounting matters can promote new needs for accounting information among politicians and administrative officers, and in this way provide new impulses for local accounting system development.

CHAPTER 5. RELATIONS BETWEEN THE NEED FOR ACCOUNTING INFORMATION AND THE REPORTS AVAILABLE: A MIXTURE OF MEANINGS AND IDEAS

5.1. INTRODUCTION

It is generally recognized that financial reporting is a purposeful activity, i.e. it is directed towards specified ends. The rationale for accounting activities is to satisfy users' needs for useful financial information (Shapiro, 1997; Lukka, 1990; Davis *et al.*, 1982; AAA, 1977). Accounting is meant to be a communication language between the principal (*accountor*) and the agent (*accountee*) in order to reduce uncertainty, to improve stewardship, accountability, control and decision-making (Mellemvik *et al.*, 1988). Such an approach sees users of accounting information as important and gives meaning to the very existence of any accounting system.

As regards local government accounting, it seems that it is only recently that the users and their needs for accounting information were brought into the focus of accounting research (Pauli, 1999; Grønhaug & Mellemvik, 1998; Mellemvik & Olson, 1996; Olson *et al.*, 1995). These studies have demonstrated the complexity of issues when dealing with studies of accounting information use. Particularly, such studies advocated the development of accounting systems "matching" needs and the characteristics of primary users of accounting information in local government organizations, e.g. politicians.

Because of such arguments, any study of local government accounting systems seems to be incomplete without reference to users and their use of financial information. Moreover, there is no contemporary published research about users of accounting information in Russian local government organizations. The researcher might get general ideas about the use of accounting and budgeting reports in local government in the Soviet Union. In the centralized and ideologically controlled system the use of accounting information by the people's deputies for decision-making purposes was very symbolic (Jacobs, 1983; Cattell, 1965). Public accountability through the accounting system was "... as much facade as substance" (Lewis & Sternheimer, 1979; p. 152). In many instances, accounting reports were not even presented to the deputies by the administration, and there was no open discussion (Chikhikvadze, 1972).

Dramatic reforms which began in Russia in the beginning of the 90's have given more autonomy, independence and responsibilities to Russian local government (e.g. Bourmistrov and Mellemvik, 1999b, c; Jacobsen, 1998). Local politicians are now meant to represent a new principal for the local administration replacing the former principal – the central state. Contrary to the Soviet period, politicians and administration officers are expected to use accounting information meaningfully to manage local economy and welfare. It is therefore reasonable to ask: Has the transition process changed the pattern in use of accounting information by politicians? If it has, how then do politicians and administration officers use accounting reports and how do these reports become meaningful for them?

The purpose of this chapter is to study the use of accounting information in Russian local government. On the one hand, users have their needs for accounting information. On the other hand, an organization produces accounting reports. The process of obtaining more knowledge about the use of accounting information in Russian local government can be linked to the research question - does disclosed accounting information meet users' needs for such information in Russian local government?

This study will be based on the description of accounting information supply given in the previous chapters. If users' needs for accounting information are not covered by information disclosed in present accounting reports, the local politicians and administrative officers may experience lack of necessary information and problems in managing local affairs. Consequently, they may require new accounting systems to manage local economy and finances, and to improve decision-making as well as financial control. It has happened in other local government organizations previously (e.g. Mellemvik & Olson, 1996; Mellemvik & Monsen, 1993).

In order to study the use of accounting information in Russian local government, the chapter is structured in five sections. In the second section, the theoretical frame of reference is presented in which the approach of how to study accounting information use is highlighted. In the third section, the method of research is presented. It is followed by descriptions of empirical data collected from a questionnaire and interviews in the fourth and fifth sections respectively. Finally, this data is discussed.

5.2. THEORETICAL FRAME OF REFERENCE

According to the decision-usefulness approach to accounting, the rationale for accounting activities is to satisfy users' needs for useful financial information (Shapiro, 1997; Lukka, 1990; Davis *et al.*, 1982; AAA, 1977). Accounting is meant to be a communication language between the principal (*accountor*) and the agent (*accountee*) (Mellemvik *et al.*, 1988). Normative accounting literature assumes that the information needs of the principal in order to maintain such relations are known. Accounting information is reported because it is seen to be useful in reducing uncertainty which the principal faces when monitoring the agent. Accounting reports are meant to improve the principal's decision-making and control over the agent. In this normative literature, accountants are prescribed to supply different kinds of information to cover such intended needs.

However, empirical studies have shown that the relation between users' needs for accounting information and reported accounting information is not so straightforward and problem-free. In reality, organizational members very often ask for more information than they can consume (Feldman & March, 1981). But more information does not necessarily make the decisions of the principal any better (Hedberg & Jönsson, 1978). Information relevant to the principal is withheld, distorted and manipulated (Macintosh, 1985). Decision-makers can want and apply accounting information for external and internal legitimation, preparation for meetings, simple scorekeeping, improving understanding rather than just for control and decision-making purposes (Vandenbosch, 1999; Grønhaug & Mellemvik, 1998). Thus, it was concluded that accounting has many other uses rather than those intended by normative accounting literature and that these uses are much dependent on the context of accounting²⁸ (e.g. Mellemvik *et al.*, 1988).

5.2.1. APPROACHING USE OF ACCOUNTING INFORMATION

Accounting use can be considered from the perspective of an information system (Davis *et al.*, 1982). From this perspective, accounting is seen as a tool for communicating economic reality to accounting users (Hines, 1988).

²⁸ With "accounting context" is meant both structures and processes within the organization and in its environment which are not part of the accounting structures and processes.

In this process, accounting links a “transmitter” (i.e. the accountant) and a “receiver” (i.e. the principal) of accounting information through a channel of communication. Accounting communication is about

“... the process of encoding observations in the language of the accounting system, of manipulating the signs and statements of the system and decoding and transmitting the results” (Chambers, 1974; p. 184).

Thus, accounting can also be discussed as a language of communication (e.g. Manninen, 1996; Belkaoui, 1978). When the receiver interprets the communicated information, the meaning is created.

To find any kind of application for financial information, the user should first of all access this information. In this sense, sources of accounting information become important. The obvious and primary source of financial information is formal accounting statements. However, users can access accounting information through other written and verbal communication channels rather than formal accounting reports.

To fulfil its mission as a mean of communication, accounting information accessed through the different communication channels should give interpretable information to the receiver (Shapiro, 1997; Boland, 1993; Lukka, 1990; Boland, 1989). In order to create meaning, the user should be able to process the information. However, this ability depends much on the quantity and nature of accounting information disclosed in accounting reports (e.g. Shilelds, 1983). The ways in which accounting data is presented (e.g. written, graphically, orally) influence understandability (O’Reilly, 1985). The complexity of information is closely related to the user’s cognitive maps affecting the ability to understand and analyze information (Driver & Streufert, 1969). The understandability is an inverted-U shaped function of the complexity of information presented, i.e. there is a point of optimal complexity which gives maximum understanding. Thus, differences in how users process and utilize accounting information can stem from the complexity of supplied accounting information.

Accounting information is used because users experience particular needs for such information. There are many ways in which organizational members can apply accounting information, e.g. for legitimation, preparations, scorekeeping, improving understanding, control and decision-making (Vandenbosch, 1999; Grønhaug & Mellemvik, 1998).

However, users’ needs are neither universal nor homogeneous among users, i.e. use is essentially context dependent. One important element of such

a context is user characteristics. The number of present and potential accounting users is enormous, and there is low consensus regarding information needs between them (Shilelds, 1983; Cyert & Ijiri, 1974). Indeed, the needs for accounting information are very often conflicting even between users with similar characteristics (Dyckma *et al.*, 1978). The way out of some these difficulties is to prepare accounting information which focuses on common and mutual needs of users. Particularly, this can be done by collecting users with more or less the same needs for accounting information into user groups. However, even similar needs of users in the same group should not be treated as something constant because they may change and this particularly happens because users' characteristics may alter over time (Jones & Pindlebury, 1996).

There are also considerable differences in how users process and utilize accounting information (Macintosh, 1985). Different users have different capabilities to process, understand, interpret and analyze accounting information. If understandability is about giving the right economic interpretations to accounting information, the problem in respect to understandability is that

“[accounting]... is a language with special vocabulary aimed at conveying the financial story of organizations. To understand ... [e.g. accounting] reports, a reader must learn the fundamentals of the language” (Homgren, 1974; p. 70).

Thus, any user of accounting information in general needs some education in economy and knowledge of accounting concepts in order to interpret and understand accounting information. However, accounting users are definitely not homogeneous as regards education. Different users might also have different interpretation and analysis models as well. Those who have only a general economic and accounting educational background do not have possibilities to make deep and critical analysis of financial reports in accounting terms. Such users often demand expert help to interpret and analysis e.g. accounting statements (Mellempvik *et al.*, 2000).

Users' understandability of accounting information might also differ in respect to other characteristics than education. Job experience, position, competence, time pressure, age – all these contextual factors might affect ways of how accounting reports are understood, interpreted and given meanings (e.g. Grønhaug & Mellempvik, 1998; March & Simon, 1958). In conclusion, in order to study how accounting is used and given meaning it is important to look not only at sources of information, their perceived

complexity and the needs for accounting information but also consider the sources of information in the context of users' characteristics.

5.2.2. A MODEL: USE OF ACCOUNTING INFORMATION IN A LOCAL GOVERNMENT

The purpose of this chapter is to study use of accounting information in Russian local government, i.e. how accounting information becomes meaningful to users. As the discussion above illustrates, it is possible to do so by focusing on relations between several important elements. These elements are summarized in Figure 5.1.

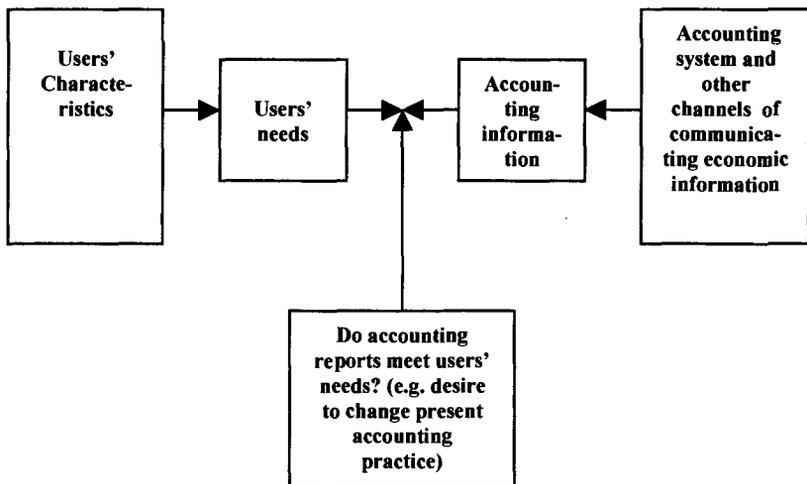


Figure 5.1. The study's framework.

Users and their needs for accounting information

Before studying the user needs, it is essential to focus on particular users dealing with accounting information in Russian local government. There are many potential users of local government accounting. Local citizens, taxpayers, investors, municipal employees, the administration, politicians, the state – all these groups represent users of local government accounting (Jones & Pendlebury, 1996). However, it is not the task of this study to look at the

needs of all user groups. This study focuses on local politicians and administrative officers since they are regarded as the primary users of locally produced accounting information (Olson, 1983; Brunsson & Jönsson, 1979).

Such a choice is made for a particular reason. The local political body is the agent of the electorate, i.e. the intended principal for local authorities. At the same time, the local political body is the principal for the local administration. The reporting of accounting information to politicians is connected to the idea that they would like to have information, allowing them to make political decisions related to management of local welfare and local economy, in the interests of the local population they represent. They also need this information to control what the local administration does to implement these decisions, and how resources have actually been allocated in comparison to the budget. The local administration, on the other hand, may need accounting information for operational management purposes, e.g. to manage the local economy and local financial resources, and to control the production of services to the local population on a day-to-day basis. Because local politicians and administration need accounting information to manage the local government, they can be regarded as primary users of accounting information compared to other potential users (Mellemvik *et al.*, 2000).

Because needs for accounting information are user-specific, users and their characteristics should be included in the study. Characteristics like education, position, work experience and age are included as they are expected to explain variation in needs for and meanings given to reported accounting information. For instance, local politicians and administrative officers can be characterized as *experts* or *laymen* in respect to combination of their educational background, knowledge of economy and accounting, interpretative models, needs for information, decision-making style, etc. (Mellemvik *et al.*, 2000). The average layman can be expected to have only general economic and accounting education, while experts have more deeper and very often specific knowledge of economy and accounting. In this sense, while administration officers as experts can ask for detailed information, politicians as laymen can only give meanings to information of more general character.

Accounting information

The previous chapter has examined the accounting technical system and reports in one Russian local government organization. It shows that present local government accounting practice is cash oriented and can be understood as a kind of mixture, consisting of new reports (i.e. statement of budget implementation) and reports developed for and in the context of the Soviet plan economy (i.e. balance of budget implementation). The accounting system is much regulated by the centrally defined accounting norms, i.e. there is a considerable notion of accounting uniformity. In this sense, the needs of local politicians and administrative officers for accounting information might be divergent from what they may get from the centrally regulated formal accounting system. One way to study use in such a context is to ask politicians about how they use the formal accounting reports. In case of divergence between needs and reports, politicians and administrative officers might access accounting information through other written and verbal communication channels rather than formal accounting statements. Thus, it is also important to consider these alternative information channels.

Ways of presenting accounting reports, i.e. the quantity and quality of information presented, are expected to affect use of accounting information. In this sense, it is relevant to make a modification of the present formal accounting reports and discuss it with users. Several alternative ways of presenting accounting information are possible. Different accounting information systems can be applied in public sector organizations such as local government (e.g. Anthony, 1985; Anthony, 1980 vs. Herzlinger & Sherman, 1980). Some accounting researchers argue for models similar to ones used in private enterprises (Chan, 1998; McSweeney, 1997; Brorström & Olson, 1984). Others, advocate the cash oriented models (Olson, 1999; Monsen & Olson, 1996). Evidently, politicians and administrative officers in Russian local government have a long tradition in dealing with cash based statements. The idea was to slightly modify the traditional accounting statement of budget implementation in direction of a more “clean” cash-flow report. In doing so, it was natural to look for solutions from accounting theory.

Reporting practice versus users' needs

The model presented in Figure 5.1 gives an opportunity to evaluate whether present reporting practice satisfies users' needs, e.g. whether reported

accounting information is used and how it is meaningful to politicians and administrative officers in Russian local government. If needs are not covered by information from present accounting reports e.g. because users experience the need for more and better information, users might express a wish to change present reporting practices. This might indicate deficiencies in the present accounting technical system and call for improvements. Such deficiencies can be expected because of inconsistencies in the accounting technical system in Russian local government due to the mixture e.g. between the “old” technical system and recently articulated new objectives of financial reporting. Although a consistent system does not guarantee that accounting information will be used by users, inconsistencies in the accounting system will certainly give birth to problems in accounting in use (Mellemvik *et al.*, 2000).

5.3. METHOD

The initial idea for this study was to concentrate on how accounting was used for particular purposes, e.g. how accounting information was applied to raise finance – to obtain an international bank loan or to determine the taxation level. However, it was almost impossible to implement this research project because of the difficulty in getting empirical data, e.g. a loan project was soon abandoned. Thus, instead of focusing on the use of accounting for particular purposes, the idea was to rather concentrate on different users and their use of accounting information in Russian local government.

5.3.1. RESEARCH DESIGN AND DATA

The purpose of this chapter is to study how accounting information becomes meaningful for accounting users in Russian local government. The study does not aim at generalization but rather is motivated by a desire to acquire insight into how accounting information becomes meaningful for politicians and administrative officers.

In order to get some insight into how accounting information is used, the study was performed on a step-by-step basis. To get insight into accounting in use, the first step was about selecting one local government organization. Leningrad *oblast*’ county administration was chosen because of good contacts already established with politicians and administrative officers while researching the accounting technical system. In a second step, these

established contacts were used in order to involve politicians and administrative officers in the study. Subjects of the study were mainly included into the research based upon the possibility of them taking part in it. Major parts of the empirical work were conducted during several trips to Russia within a year during the last four years in which I had the opportunity to meet respondents.

During a third step, data was collected concerning use of accounting information by politicians and administration officers by using a questionnaire and interview technique (see section 5.3.2 about more details). Particularly, the questionnaire technique was applied when politicians and administrative officers have participated in two one-week seminars organized in Norway by Bodø Regional University. One group consisting of 17 politicians and administrative officers participated in a seminar in which management control and accounting in Western local government was discussed. Theoretical discussions were supplied with practical examples from Norwegian municipalities. Another group of almost the same size took part in a seminar where issues of personnel management were in focus, i.e. a topic completely divergent from accounting and management control issues. At the end of the seminar, politicians and administrative officers in both groups were asked about their use of accounting information. Thus, the first group can be regarded as “influenced” by Western ideas on accounting and financial reporting presented at the seminar itself. The second group, on the other hand, might be regarded as an “uninfluenced” group. In this sense, the study has also employed a kind of quasi-experiment to highlight the effects of education and work position on interpretation and the use of accounting information among politicians and administrative officers²⁹.

In order to study how accounting information is meaningful for politicians and administrative officers, and, particularly, whether reported accounting information meets users’ needs for such information in Leningrad *oblast*’ county administration, both needs and available information had to be approached in the empirical research. Table 5.1 shows the aspects of “needs” and “available information” that were focused on in this study.

²⁹ It is a quasi-experiment because there was no opportunity to assign individual cases randomly to the comparison groups. Employed quasi-experiment research design bears a resemblance to the posttest-only group design (Frankfort-Nachmias & Nachmias, 1997).

Table 5.1. Characterizing “Accounting needs” and “Accounting information”.

ACCOUNTING NEEDS	ACCOUNTING INFORMATION AVAILABLE
<ul style="list-style-type: none"> • Purpose (i.e. use purpose of supplied accounting reports by the user) 	<ul style="list-style-type: none"> • Sources of accounting information (e.g. number of accounting reports, nature of accounting reports, alternative information channels)
<ul style="list-style-type: none"> • Importance (i.e. users’ rating related to importance of accounting concepts employed in the reports) 	
<ul style="list-style-type: none"> • Reporting frequency (i.e. frequency of receiving accounting reports) 	<ul style="list-style-type: none"> • Complexity of accounting information (e.g. perceived quality and quantity of supplied information)

We might get some indications about accounting needs of users by considering accounting “use purpose”, “importance” and “reporting frequency”. First, one indicator for users’ accounting information needs is the purposes accounting information is applied to (e.g. AAA, 1972). It is assumed that users have at least some experience in selecting the most useful information for themselves because it has a clear use purpose. In this case, “use purpose” can be regarded as an indicator for accounting information needs. Second, the “importance” is the subjective importance of a statement, report or a specific accounting item (e.g. Houghton, 1988; Shields, 1983). It means that “importance” allows evaluation of users’ perceived utility of information on hand and, consequently, their needs for this information. Third, “reporting frequency” refers to another aspect of needs for accounting information, i.e. how often users ask for or acquire accounting information (e.g. San Miguel, 1976).

Available “accounting information”, in its turn, was approached in empirical research by focusing on “sources for accounting information” and “complexity of accounting information”. First, as the discussion in the theoretical part of the chapter indicates, “sources for accounting information” can be characterized by the number and nature of accounting reports. These are reports which user explicitly deal with in his/her daily work experience. There can be other reports in addition to formal/standard accounting reports. However, users can get economic information from other information channels, such as through oral conversations rather than through formal accounting texts. Secondly, quantity and quality of information in the reports can offer indications about the complexity of accounting information (e.g.

Shields, 1983). The complexity of accounting information is reflected e.g. by the number of accounting concepts and parameters included in the reports, the degree of detail in the report, and the difficulty in understanding reports.

The model presented in Figure 5.1 employs other important elements which needed empirical indicators. Users' characteristics provided indicators of age, position, party membership, education, present work responsibilities, work experience. As education and work experience are important factors which can explain differences in the needs for accounting information, they were further divided into several categories, i.e. highest achieved level of education, length of education and work experience, nature of education and work experience received. Finally, the degree of overlapping between present accounting information and the needs for accounting information were given empirical indicators by introducing questions about the desire to change reports and present reporting practice, e.g. in respect to frequency of reporting, need for more or less information, graphical supplements.

5.3.2. QUESTIONNAIRE AND INTERVIEWS

To get a broader variation in responses indicating users' needs, characteristics of accounting information and users, the questionnaire technique was used to collect the first bulk of empirical data. The questionnaire was constructed in English to reflect elements of the model presented in Figure 5.1 and empirical indicators argued for in section 5.3.1 (see Attachment 9a). The questionnaire has included a combination of factual, closed- and open-ended questions. The initial version was translated into the Russian language and the most difficult parts of it were pre-tested during one of my visits to Leningrad *oblast'* county administration (see Attachment 9b for Russian version of the questionnaire). One administrative officer participated in a pretest. He was shown the questionnaire and asked to explain what meaning was assigned to each question and his possible responses. By comparing responses with original meanings the concept equality between the English and Russian versions of the questionnaire was secured.

The questionnaire was distributed to members of two groups participating in corresponding one-week seminars. In order to persuade participants to return questionnaires, each questionnaire was supplied with a short cover letter explaining, in general terms, the purpose of the questionnaire. The response rate in the "influenced" group was 59%, while only 15% in the "uninfluenced" group have delivered questionnaires. The seminar participants

were asked to do two things, i.e. to reconstruct their *general* experience on the use of accounting information they deal with today, and to comment upon the *concrete* accounting report, “the annual statement of budget implementation in Leningrad *oblast*’ county for the year 1997”. Particularly, participants were required to comment upon possible uses, interpretations and the complexity of the report.

Based on the information from both the questionnaire and the knowledge developed throughout the study, several interviews were conducted to collect primary data about users’ preferences in the form of accounting reports. Even though it was discovered through questionnaire research that there are other reports prepared by the Leningrad *oblast*’ county administration, the formal accounting statement of budget implementation was chosen for further research. This choice was made in order to maintain the consistency of the study. Particularly, Chapter 3 has examined historical development in the statement of budget implementation. Chapter 4 has demonstrated how a statement of budget implementation is prepared. It was, thus, natural to continue and consider uses of the statement of budget implementation in more detail.

Because the formal accounting statements in Russian local government studied are cash-oriented, the idea was to change the formal accounting statement of budget implementation in direction of a more “clean” cash-flow report. The experience gained from Western local government organizations was applied in modification of the original report (Pauli, 1999; Olson *et al.*, 1995; Olson, 1987). As the traditional report is a cash flow report, the modifications were made in the direction of cash flow models applied in the normative accounting literature. Thus, two different accounting statements were presented during these interviews; further called the “traditional” and “modified” reports respectively. Because the last interviews have taken place in the second part of the year, the traditional statement applied was the latest prepared formal report of budget implementation for 5 months of the current year (see Attachment 10 for reports).

To obtain variability in users’ opinions, interviews were conducted with three persons holding different political and administrative positions in Leningrad *oblast*’ government: 1) an administrative officer in the budgetary department, 2) an adviser to a chairman of the committee for budget and finance in the *oblast*’ representative council and 3) a mayor of one *oblast*’ municipality. These persons were chosen as they represent part of the

personal network. Established trust between the researcher and respondents are usually important for getting access to the primary data.

During three interviews lasting for two hours with each individual, questions were asked from a preliminary prepared interview-guide (see Attachment 11). The purpose of the interview was to look more deeply into ways in which accounting information becomes meaningful to the user. Some questions from the questionnaire were repeated, but some new questions were asked, particularly about the decision-making context of the respondent. All interviews were manually recorded as respondents expressed reluctance to being taped. In the course of the interview, the traditional report was firstly discussed. After finishing this discussion, the modified report was revealed to the interviewee. Because "...[users] expressed needs may simply reflect marginal improvements on what they have already been receiving" (Jones & Pendenbury, 1996; p. 112), the idea was to motivate the users to make comparison and choose one of the alternatives. In making explanations of their choices, users were asked to comment upon preferences in terms of the perceived usefulness of the report. To make a comparison of responses easier, the same questions were asked about the original and the modified reports.

5.3.3. DATA PRESENTATION AND ANALYSIS

After completing the questionnaire and interviews, filled-out questionnaires and interview notes were thoroughly analyzed. Questionnaires from the first and the second group were checked in order to find any differences in the answers between these two groups. Answered questionnaires were also divided between two corresponding user groups, i.e. politicians and administrative officers. In the empirical part, the results of the questionnaire were presented in tables showing the differences between politicians and administrative officers. These tables were further analyzed in the search for data patterns. Analysis was conducted in the general categories reflecting the model in the Figure 5.1: users' characteristics, reported accounting information, information needs and a match between needs and reporting practice.

The interview notes were also analyzed and interpreted. When writing the empirical part of the chapter, some important parts of the interview text were presented to the reader as more or less direct citations of respondents' expressions. In checking that my interpretations of the interviews were reasonably correct, respondents were further contacted in the course of a

follow-up telephone conversation. The main ideas, citations referred and interpretation of some parts of the interviews I was uncertain about were presented to them in order to get their approval or correction.

5.4. RESULTS OF THE QUESTIONNAIRE

The results of the questionnaire are reported in general categories reflecting the model shown in Figure 5.1. First, respondents are presented. Second, data regarding general accounting information reported is analyzed. Third, data about general needs is summarized. Because the questionnaire has also focused on one piece of general reporting practice, i.e. the annual statement of budget implementation in Leningrad *oblast'* county for the year 1997, the data connected to use of this report is summarized separately in the fourth section. In the fifth section the match between needs and reporting practice is evaluated. Finally, the questionnaire results are analyzed.

5.4.1. RESPONDENTS

In total twelve respondents delivered questionnaires and in this way participated in the questionnaire: seven top politicians and five administrative officers. The majority of politicians were mayors and vice-mayors of municipalities in Leningrad *oblast'*. One top politician represented the *oblast'* representative council. Three administration officers were employed in different departments of Leningrad *oblast'* county administration, while two held administrative positions in two different municipalities in Leningrad *oblast'*.

All the administrative officers could easily have been characterized as experts, because all of them have at least one type of higher education and most of them have studied economy and accounting for a period of between one and three years. The average age of the administrative officers is 45 years. Some of them have more than five years' practical experience concerning the use of accounting information.

Contrary to the theoretical frame of reference, politicians can also be characterized as experts, and not as laymen. Politicians' average age is higher than those of administrative officers, i.e. 55 years. They also have at least one type of higher education and have studied economy and accounting for up to three years. At least six of seven top politicians have gained practical experience in accounting by previously working in a public organization or

private/state enterprise, some of them even as enterprise directors. Thus, many of the politicians can be regarded as having an even higher formal expertise in economy and accounting than many administrative officers. In this sense, politicians are even better characterized as members of a *management elite* than are experts or laymen (Bourmistrov & Mellemvik, 1999a). They are middle-aged persons well-established in society, i.e. each of them belongs to a societal elite. They are highly educated, and some of them have even had managerial experience.

5.4.2. GENERALLY REPORTED ACCOUNTING INFORMATION

Politicians and administrative officers were asked about what reports they receive in addition to formal accounting reports, i.e. a statement of budget implementation and a balance of budget implementation. Table 5.2 summarizes the number of responses in relation to the total number of respondents. Responses summarized in the table indicate that accounting information is relatively diversified. In addition to formal accounting reports, users receive other reports, e.g. reports produced by own department, reports for implementation of particular program, reports showing the number of municipal employees, tax collection progress. These reports are relatively often produced, i.e. each month on average.

Table 5.2. Politicians and administrative officers: reporting practices today.

POLITICIANS		ADMINISTRATIVE OFFICERS	
Reports	Number of responses	Reports	Number of responses
• Statement of budget implementation	(5 of 7)	• Statement of budget implementation	(4 of 5)
• Departmental report	(4 of 7)	• Balance of budget implementation	(2 of 5)
• Balance of budget implementation	(3 of 7)	• Number of municipal employees	(1 of 5)
• Program implementation progress reports	(3 of 7)	• Progress of tax collection	(1 of 5)
• Number of municipal employees	(3 of 7)	• Departmental report	(1 of 5)

When summarizing the importance of the channels for communicating economic information the present written channels were regarded as more important than the oral ones for the great majority of the respondents. However, from the above-reported diversity, the statement of budget implementation seems to be regarded as the most important and most frequently received report among formal accounting statements. The majority of respondents in both groups receive economic information from the statement of budget implementation which is prepared by the accounting department once a month, quarterly and at the end of the year. On the contrary, the balance of budget implementation is not so frequently received. For instance, only mayors among politicians have reported that they are aware of this report. This can be explained by the fact, that according to Russian legislation, the leader for any organization/enterprise is, together with the accountant, responsible for the correctness of accounting information presented. In this sense, it is important for the mayor to know about relations to the balance of budget implementation.

5.4.3. GENERAL NEEDS FOR ACCOUNTING INFORMATION

Politicians and administrative officers were also asked about how received reports are used in their everyday work (see Table 5.3). Different answers were given. The majority of politicians need accounting information to control the administration. Information received offers the opportunity to observe e.g. how the plan for a period is executed, how work in the department is done or received financial resources are used. Some politicians need reports for planning future activities. Some find received reports useful for a kind of comparative analysis and also operational decision-making.

The diversity in needs for accounting information is even greater for administrative officers. The majority of users use reports for control purposes and also for detailed analysis of activities in the government. However, some of the administrative officers, who participated in the questionnaire research, use reports to prepare meetings and simply to be oriented on what is happening in government.

When the administrative officers and politicians are analyzed together, the conclusion can be drawn that information is generally needed for control purposes.

Table 5.3. Politicians and administrative officers: use of received reports.

POLITICIANS		ADMINISTRATIVE OFFICERS	
Use of the reports	Number of responses	Use the of reports	Number of responses
• Control (e.g. cash spent by administration)	(5 of 7)	• Control	(2 of 3 ³⁰)
• Planning (e.g. long-term, next budget)	(3 of 7)	• Detailed analysis	(2 of 3)
• Operational decision-making	(2 of 7)	• Preparations to meetings	(1 of 3)
• Comparative analysis	(1 of 7)	• To be simply oriented	(1 of 3)

5.4.4. MATCH BETWEEN REPORTS AND NEEDS: THE STATEMENT OF BUDGET IMPLEMENTATION

Because the statement of budget implementation is the standard accounting report prepared by the accounting department, the questionnaire included questions to reconstruct users' experience in using the original annual report published in 1997 by Leningrad *oblast'* county administration. The majority of questions were directed towards getting impressions about users' needs in respect to the report, e.g. use of the statement and rating of importance of the employed accounting concepts, as well as indications about the complexity of the report.

First of all, the respondents have differently defined the purposes for which the presented report might be used (see Table 5.4). The majority of politicians and administrative officers have agreed that the report might be used for planing next year's financial activities. The rest of the respondents have replied differently about possible uses of the report. For instance, the rest of the politicians find the statement useful, because it satisfies their needs for gaining simple information and for evaluating in general terms the economic situation of the *oblast'*. However, one respondent indicated that there is no need for the report, and one who responded that the report has no use.

³⁰ Two questionnaires lack answers to these questions. For an overview of the general "item-non-response" table, see attachment 12.

Other than planning, the report can be used by administrative officers for other purposes. Examples of responses to the open-ended question about possible uses of the report indicate that some users use the report to analyze governmental activities, ways in which public services are financed and also to control budget implementation. One respondent finds the report a source of statistical information.

Table 5.4. Politicians and administrative officers: use of the formal statement of budget implementation for 1997.

POLITICIANS		ADMINISTRATIVE OFFICERS	
Use of report	Number of responses	Use of report	Number of responses
• Planning (e.g. strategy, next budget)	(4 of 7)	• Planning	(3 of 5)
• For being informed	(1 of 7)	• To finance public services	(1 of 5)
• To evaluate economic situation	(1 of 7)	• Control	(1 of 5)
• Do not need the report	(1 of 7)	• To analyze government activities	(1 of 5)
• No use	(1 of 7)	• For statistical purposes	(1 of 5)

Secondly, the users were also asked about what accounting concepts (terms) are most important and relevant for them in the report. Their responses are indicated in Table 5.5. Even though there is no mutual agreement about how the report might be used, the report seems to show relevant figures for the majority of users. Each user, however, finds this relevance by referring to different concepts of importance to himself/herself.

What is interesting is that only two respondents, one politician and one administrative officer, were concerned with an overview providing a general understanding of the economic situation in the county, as expressed by the bottom line deficit figure. The majority of users are focused on more detailed information - either on income items or expenditure items. Examples of responses to the open-ended questions indicate that some users are concerned with the composition of expenditure items, e.g. how much is spent on particular public service compared to other public services. Others focus on the size of income items like tax, non-tax income items, subsidy figures. Finally, there are some users among the politicians who are interested in how

well the budget was executed in providing different governmental services, i.e. comparison of actual figures with budgeted figures for each governmental function. In this sense, none of the concepts can be regarded as generally important to all users simultaneously. Politicians, however, seem to provide more diversified responses than administrative officers who seem to look for more specific and detailed information.

Thirdly, even lacking mutual agreement about what is the most important accounting figure/concept, the statement allowed the majority of users to evaluate the general economic situation in the *oblast*' during the year 1997. Seventy percent of the users have evaluated the economic situation as poor. Such reflections are associated with unsatisfactory economic performance of the county administration as the report seems to indicate. Particularly, the local government organization was criticized for not managing to collect income and to finance all expenditures as budgeted.

Table 5.5. Politicians and administrative officers: concepts most important for users in the formal statement of budget implementation for 1997³¹.

POLITICIANS		ADMINISTRATIVE OFFICERS	
Most important concepts	Number of responses	Most important concepts	Number of responses
• Income composition	(2 of 5)	• Income composition	(3 of 4)
• Expenditure composition	(2 of 5)		
• Variance – actual figures compared with budget	(2 of 5)	• Expenditure composition	(3 of 4)
• Deficit	(1 of 5)	• Deficit	(1 of 4)

Finally, the complexity of the report seems to be low according to the opinion of the majority of users (see Table 5.6). The great majority regard the report as not difficult to understand and as not conveying too much information, i.e. it is not too detailed. Seventy eight percent of the respondents do not need expert help to understand and interpret the statement.

³¹ Two answers from politicians and one answer from administrative officer are missing. For more details, see attachment 12.

Table 5.6. Complexity of the formal statement of budget implementation for 1997³².

CHARACTERISTIC	POLITICIANS	ADMINISTRATIVE OFFICERS	TOTAL
Difficulty in understanding the report	0%	40%	17%
Too many details	17%	0%	9%
Need for expert help	0%	50%	22%

When considering the difference between politicians and administrative officers in evaluating the report's complexity, Table 5.6 indicates that many politicians understand the report better than almost half of the administrative officers. As regards evaluation of accounting information quantity, seventeen percent of politicians evaluate the report as too detailed, indicating perhaps that they are preoccupied with a more general overview of the economic situation of the county rather than detailed information.

5.4.5. EDUCATION PROMOTES NEW NEEDS AND CRITIQUE OF THE PRESENT REPORTING PRACTICES

The questionnaire has questions concerning the respondents' desire to change present reporting practice. The idea was to find out whether the users are satisfied with received accounting reports, i.e. whether the present accounting information matches users' needs. The result of the questionnaire in respect to these matters differs between members of "influenced" and "uninfluenced" seminar groups.

This difference is perhaps associated with additional knowledge that politicians and officers in the "influenced" group have gained during the seminar devoted to questions of economy and accounting in the West. None of the members who delivered questionnaires in the "uninfluenced" group want to change present reporting practice. For them, received accounting information seems to cover the needs for such information. However, the results are completely different when we consider the "influenced" group. The majority of members in the second group do want to change present

³² Percentage figures in the table were corrected for missing answers. For more details, see attachment 12.

reporting practice, at least partially. Such a divergence might indicate that presentations made during the seminar showing Western accounting reports, practice and theoretically driven models have given the politicians and officers new ideas of ways in which accounting figures in reports might be alternatively presented and used. Thus, lectures have broadened their knowledge about the needs for accounting information. At the same time, lectures have opened politicians' and civil servants' eyes towards the state of present accounting information, by establishing an atmosphere contributing to such openness and by pointing out accounting alternatives.

Changes which users in the "influenced" group want to make, however, are not homogeneous, i.e. there is no consensus about what should be regarded as new needs for accounting information and, consequently, new accounting practices. Some users seem to be more radical than others in arguing for changes in traditional reporting practice. For less radical participants, the improvements in the report are associated with making it more detailed and including additional accounting data from at least the previous accounting year. Users with a less radical attitude towards change argue for inclusion of accounting figures for three years. More radical respondents have expressed a desire for more detailed verbal comments and comprehensive financial analysis with a supplement showing key economic/financial ratios. The most radical users argued for the complete change of reporting practice without, however, indicating in which direction such a change should go.

5.4.6. RESULTS OF QUESTIONNAIRE: AN ANALYSIS

The results of the questionnaire indicate several important aspects of accounting in practice. First, the number of other types of report than the standard reports is relatively high, i.e. there is a diversity of reports for users to choose from. Some reports are formal accounting reports while others can be regarded more as "tailor-made" reports.

Second, ideas for use with respect to accounting information are not simple. There is a lack of consensus among users regarding what is needed from an accounting information system. Questionnaire results indicate that there are two types of needs for accounting information among users, i.e. general and specific. It is practically impossible to satisfy different needs through one report covering information needs for all potential users of accounting. These needs are met by different pieces of accounting

information, i.e. formal and “tailor-made” reports. Formal accounting reports seem to cover common needs for accounting information, e.g. the statement of budget implementation which is used by the majority of users for planning purposes. On the other hand, when users are referred to the formal reports, some of them lack specific information. A “tailor-made” report is meant to fill this gap, i.e. it has value and meaning for the particular user but not for the general public. For instance, the report showing progress in tax collection has a special meaning for an administrative officer dealing with taxation. In this sense, different reports are meant to give different meaning to different accounting users.

When questions in the questionnaire change from general use to use of specific report, answers indicate that accounting is not so much used in practice as there are ideas of usage. When uses of general and specific reports are compared (i.e. Table 5.3 and Table 5.4), the conclusion can be reached that there is a more established consensus about the use of specific reports than about the use of different reports, i.e. the use purposes become less diversified. However, the responses to the questionnaire indicate that even the same report can be differently used. The same statement of budget implementation for the year 1997 in some instances is applied differently by politicians and administrative officers. Particularly it is done by focusing on accounting concepts relevant for the user, i.e. there is no consensus among users about what concept should be regarded as the most important one. When users look into the same report they seem to find some parts of the reports more important than other parts. Thus, even the same piece of information can be given different meanings.

However, the general and specific parts of users’ needs for accounting information are not constant. Use of formal and “tailor-made” reports is also context dependent, e.g. with respect to the timing of reporting. For instance, the majority of formal and “tailor-made” reports are applied generally for control purposes because they are received continuously several times a month. Conversely, the statement of budget implementation for the year 1997 was mostly regarded as useful for planning activities, perhaps because it was outdated for control purposes when it was presented to users.

Third, politicians and administrative officers who have participated in both seminars can be divided into two groups with respect to how reported accounting information covers their needs. There is a group of users whose needs for accounting information seems to be covered by present accounting

information, i.e. a group of “traditional” users. Respondents in this group do not want to change present reporting practice. However, there is another group of users and members of this group seem to have a more critical view of traditional accounting reports, i.e. a group of more radical users. Wider knowledge about accounting alternatives among members of this group contributes to changes in the needs for accounting information and, thus, allows looking at accounting matters in a different perspective. In this way, they can search for additional information and/or argue for complete change in formal accounting reporting practice. However, so far the desires of this user group have not resulted in dramatic changes in the accounting system and reporting practices.

Finally, groups of politician and administrative officers participating in the questionnaire should both be regarded as experts. Such a finding is partially surprising as politicians in most democratic societies are expected to have the characteristics of laymen. Local politicians are meant to be elected among people of a locality and to represent their local constituencies. The essence of representative democracy is that ordinary people govern local affairs. On the contrary, by representing a societal elite and in some cases even the management elite, politicians who participated in the questionnaire have an even higher level of expertise in accounting and economy than many administrative officers. In this sense it is easier to explain why none of the politicians experience understanding problems and the need for expert help to be able to read accounting reports. However, politicians still need different kinds of information than administrative officers. They seem to prefer accounting information of a general character while the administration focuses on specific details.

After the questionnaire was completed and analyzed, there was a need to go into more detail. For instance, the questionnaire has shown that accounting reports are meaningful. However, the interviews could have helped to find out how, in particular, information becomes meaningful to the user. Because the questionnaire method does not allow for a flexible reaction from the researcher, interviews could have helped to provide additional information when something interesting appears in the course of a conversation. The questionnaire was also conducted during the seminars which were characterized by settings different from every day and decision-making contexts for politicians and administrative officers, i.e. the questionnaire attempted to reconstruct users’ experience; not access this experience

directly. During additional interviews, users could have been asked about the use of the statement of budget implementation at his/her working place in relevant decision-making situations. Moreover, discussions around traditional and modified accounting reports were expected to discover ways of how accounting information becomes meaningful to the user. The idea was to use interviews in order to get reactions of respondents regarding the perceived usefulness of two reports, i.e. the traditional and modified reports. Results of additional interviews are reported in the next section.

5.5. RESULTS OF INTERVIEWS

In this section, results of three in-depth interviews are firstly presented concerning use of the traditional statement of budget implementation and its modification according to the normative accounting theory. Towards end of the section, results of interviews are summarized and analyzed.

5.5.1. INTERVIEW 1: ADVISER TO A TOP POLITICIAN IN THE REPRESENTATIVE COUNCIL OF LENINGRAD *OBLAST*' COUNTY ADMINISTRATION

The first respondent holds the position of an adviser to the vice-chairman of the representative council responsible for issues of budget and finance. He seemed to know much about how politicians work in the representative council of Leningrad *oblast*' county administration. He was an officer in the department of finance in the *oblast*' government and had received additional education through the special training courses organized by the Ministry of Finance. In his opinion, being an adviser requires expert knowledge, especially when it concerns matters of budget and finance.

In his opinion, the traditional report concerning the budget implementation is used for discussions and debate among politicians in the representative council. He thinks that when politicians make decisions, they have to know what governmental functions (i. e. public services) are financed below what was budgeted for this accounting period. This is important as they have to find a politically correct solution for how and what services should be financed in future periods. No politician on the council scrutinizes everything in the report. He observes that politicians seek information from the point of view of their own particular interest. Very often discussions go on about particular details which the politicians are concerned about (e.g. "I cannot see

the school I promised to build for my constituencies?”). The detailed statement of budget implementation helps in this process. By asking for detailed reports, politicians can control how the administration works.

Concerning the complexity of the information presented, the statement of budget implementation is not easy to understand for some politicians. Perhaps some of the council politicians may experience problems applying economic information he/she cannot understand. But, in his opinion, it does not matter. He commented as follows:

“Do you want to understand current reports? Hire an expert, adviser, or simply get yourself better educated. We cannot deviate from the instructions of the Ministry of Finance because it stands for the quality of reporting. It guarantees that accounting information presentation is standardized and we can, thus, talk about reliable and comparable information”.

The modified report was also meaningful for the respondent. His ideas concerning the report, however, were closely associated with interpretation of accounting technology and figures in the report, and not accounting concepts. The respondent seemed to apply the ideas, knowledge and techniques of the balance school he learned during the seminars organized by the Ministry of Finance while he worked in the *oblast'* department of finance. Moreover, these techniques helped him to find a miscalculation in the modified report. In explaining how it was done, the following was expressed:

“The tricky part is that each accounting statement in the instructions of the Ministry of Finance has been constructed according to a special balancing principle. This principle is based on the fact that accounting, budgeting and variance figures in the statement are linked with each other. You apply mathematical operations; you add or subtract some figures from other figures. You have a kind of mathematical matrix in which the figures are mutually dependent. Thus, figures in the statement's columns, horizontal lines and diagonals should always be in some kind of a balance ... This principle was violated in the variance column of your statement.”

In his opinion, the new report would be less meaningful to politicians as it does not allow discussions about the allocation of resources. There is no functional classification of expenditures and percentage showing the budget implementation in the modified report. He commented in the following way:

“Ask yourself: what do politicians do in the representative council? They allocate. Allocation is, thus, power. During the Soviet period the state allocated resources. Today it is different ... Accounting is used to control whether the planned allocation of resources has been achieved and how different functions have been performed. In situations where collected income is lower than budgeted, the accounting figures help to identify priorities for financing. Usually, in such a situation politicians have to cut expenditures, but

the question is which of them? Should we cut the finance for the police if the criminal situation in the county is difficult? Or should we perhaps cut down on our education service? Maybe we should cut all expenditures, irrespective of the function, proportionally? The old statement at least allows us to have such discussions. The new statement does not allow this.”

According to his interpretations, the report is difficult to consider reliable. The report is not prepared according to norms and standards laid down by the Ministry of Finance. The structure of the new report is in this way independent from any standard known to him and is based on other solutions than those required by the Ministry of Finance. He illustrated his point as follows:

“In the Soviet Union, the Department of Finance presented budget and accounting reports in a simple form which deviated from the strict instructions of the Ministry of Finance. I know that this independent presentation helped the local administration and the state to hide real allocation and use of financial resources from the eyes of people deputies. Today, on the contrary, the budgets and accounts are transparent particularly because you have to follow all instructions. They prohibit independent interpretations concerning how accounting information should be reported. In this sense, your new report is a step back to the Soviet period.”

5.5.2. INTERVIEW 2: MAYOR OF ONE CITY MUNICIPALITY IN LENINGRAD OBLAST'

The interview with the mayor of one municipality of Leningrad *oblast'* helped to provide an understanding of accounting statements' use in another context, i.e. the day-to-day work of a top politician. The dialogue proceeded in a context of events which would certainly have important consequences for the economic life of the municipality during the next year. The first important problem was associated with the budget proposal for the next year put forward by the governor of Leningrad *oblast'*. In the governor's proposal, the city has lost one important source of local income, i.e. personal income tax. Cash collected as personal income tax in the territory of the city will no longer be paid to the city treasury as it was during the current and previous years, but transferred to the county administration. The city almost lost 30% of its present total income.

The second problem suddenly turned up during the interview. One person asked for permission to come in and address the mayor. We had to take a break in our conversation as he had urgent matters to discuss. When we continued our conversation after a while, the mayor said that at this very

moment the city budget had lost an additional 10% of its potential income. The city planned to invest in a factory which allowed the generation of additional income to the city in the form of profit tax as well as providing additional jobs for the local population. The only thing needed was to get a signature for a loan guarantee from the governor of Leningrad *oblast*'. However, for some reason he cancelled his previous agreement and refused to sign the guarantee.

From now on, the mayor had to make important decisions, e.g. what should the city do - fight the decisions of the governor or find other sources of income? Maybe cutting some expenditures is an inevitable alternative? However, the city was never "poor" with respect to local economic resources and could afford to spend much on local welfare. Should it change its spending pattern now?

Considering the city's future, it was important for the mayor to articulate several relevant accounting concepts in this particular decision-making situation, i.e. the potential cash inflows into the budget, possible level of cash outflows and how much monetary resources will be left, i.e. a potential surplus. Talking about her everyday work, however, the same inflow and outflow concepts were regarded as important. She even demonstrated her organizer with pages full of accounting numbers indicating cash inflows and outflows. What was important about these numbers is their indication of the mayor's concern about detailed cash management of public services in the municipality. As she pointed out:

"What is extremely important for my municipal administration is to guarantee uninterrupted financing of municipal services ... Each day I check that we finance what we have to finance and that we have enough cash for the next day. That is why I closely monitor cash inflows, cash paid to finance municipal services and money left in our bank account. "

Such a concern might be illustrated by an image of keeping water in a water tank. There are pipes connected to the tank supplying it with fresh water. There are other pipes allowing water to run out of the tank. The job is to get enough water into the tank or/and to manage outflows in such a way that the water tank never runs dry.

In the light of this metaphor, the problem of raising finances makes particular sense. Personal income tax is a relatively stable income source compared with profit tax levied on enterprises. It is paid to the bank account twice a month, while profit tax is transferred to the bank account only three times a year. She commented further on this problem:

“A good mayor pays pensions and salaries without delay. Even though I would deal with the same volume of cash in profit tax, I prefer to have the same volume in personal income tax. It provides continuity in financing. Even with a larger share of profit tax I doubt that I can guarantee such continuity.”

In theory, there are many alternatives for raising short-term finance. For instance, interruptions in cash inflows can be financed by short-term borrowing from banks. However, she commented on this alternative in the following way:

“ It is quite impossible to take a short-term loan from the bank, even from the same bank in which the city has its bank account ... The bank does not even give interest on money we have in our bank account. Certainly, they use this money to earn profit. It sounds absurd but it is true.”

The descriptions above provide an example of a mayor’s decision-making situation and her mission as a cash manager, i.e. to control and manage the city’s resources in a metaphorical “water tank”. In her opinion, the statement of budget implementation is very useful for this job. The statement is meant to reflect all streams of monetary resources for some period of time; in the traditional report presented to her – for 5 months. The statement is used to make plans for the next period(s), e.g. what was financed below the budget in this accounting period should be financed accordingly in the next period. For these purposes the report is relevant and detailed enough. It also uses concepts which are relatively simple to understand. The mayor concluded:

“I am like a fish in water when I use this report.”

Despite its meaning for the mayor, the traditional report does not show all aspects of economic life in the municipality, in her opinion. The main problems are associated with a lack of indication of how much cash goes for investment purposes and a lack of total amount of debts. She describes the situation as follows:

“Without knowing accounting figures reflecting investments, you do not know how and in what directions you should develop your municipality ... The same concerns debts. Contrary to the enterprises we simply do not know what is the total amount of our municipal short-term and long-term liabilities. However, these important accounting problems are not of special interest for our *oblast*’ government ... I do not think they are unaware of these problems, but rather they ignore it on purpose.”

The modified report, according to the mayor’s opinion, might be meaningful. Investment activities are very important for the city and the level of net cash inflows from the investment activities is usually high. Moreover, these positive net cash inflows from the investment activities help to balance

net cash outflows on operations. The traditional report does not address this issue, while the modified report explicitly indicates investment activities and might give an important message to all accounting users. At the same time, this report gives an overview of changes in the overall financial situation of the local government organization. In this sense it might be useful as an annual report.

However, this report, in her opinion, will never substitute the traditional accounting report. The modified statement of budget implementation does not provide accounting information about how well local government functions are performed. What is important in the statement of budget implementation is figures of budget implementation. Without this figure the mayor might lose control of the stream of financial resources, i.e. what public services are financed below and what are above the planned amount, and is there cash available in the cash reserves. She even considered whether such a report may be more suitable in the West than in Russia. She expressed her point in the following way:

“I was travelling in a car on a highway in Germany. The car driver seemed to be very relaxed and I asked him if indeed it is so easy to drive the car. He replied jokingly that he is not actually driving but holding his hands on the wheel for one purpose only – not to fall on the floor ... Your new report might be used by Western politicians who work in conditions of certainty, have a big number of advisers and can afford to be relaxed. Russia is different. You cannot relax here. Trust nobody. As a result we need detailed knowledge to control and manage the finances.”

5.5.3. INTERVIEW 3: ADMINISTRATIVE OFFICER, SECTOR OF BUDGETING, THE ECONOMIC DEPARTMENT OF LENINGRAD OBLAST' COUNTY ADMINISTRATION

My next respondent had relatively long work experience in the Leningrad *oblast'* county administration, i.e. firstly as a people's deputy in the county Soviet and, since 1991, as an officer in the budgeting sector of the economic department. In this sense, the interview with him could have clarified use of accounting reports for the purpose of making next year's budget. His primary job was to design methods and rules for compiling the county budget. In Russia, the county and municipalities' budgets are mutually dependent. In order to finance their operations some municipalities are given cash transfers and shares of some county direct taxes in addition to local incomes. This makes the budgeting process very complex and reciprocal. Since 1995 when

the county was given more autonomy according to the Municipal Act, there was a need to develop relatively simple budgeting technology linking the county budget and the budgets of its municipalities. My respondent developed ideas and designed a new budgeting system in Leningrad *oblast'* based on so-called social standards.

In his opinion, this system functioned quite well because it allowed for the distribution of financial resources in a fair way, on the one hand, between the *oblast'* government and *oblast'* municipalities, and, on the other hand, between "poor" and "rich" municipalities. However, the budget preparation procedures have changed this year. Through a decision of the *oblast'* governor, the responsibility for budget preparation was taken away from the economic department and given to the Department of Finance. In his opinion, the Department of Finance has violated these "fair" rules and made the budget proposal for next year based on unknown principles.

The traditional report is an important input for his ordinary job, particularly the statement showing budget implementation for a complete year (i.e. annual report) for the *oblast'* government as well as for all municipalities in Leningrad *oblast'*. The interviewee has worked continuously with these reports since 1991 and proudly regarded himself as an expert. The idea is to make a comprehensive analysis of these annual statements for several years before you can prepare the budget proposal for the next year. In this sense, detailed knowledge of cash outflows for all public services is needed as expressed in total cash outflows per service. Moreover, during the analysis, these numbers are recalculated for each municipality in rubles per person. Cash inflow figures are also important, e.g. the proportions in which different taxes were divided between municipalities and the *oblast'*. By analyzing how resources were divided and spent, it is possible to make a prognosis for new budget figures.

In his belief, the uniform budget classification provides good assistance in performing such an analysis. Because no local authority has the right to change ways in which income (cash inflow) and expenditure (cash outflow) items are classified, it makes the comparison and analysis job much easier. In his opinion, this also frees information from biases and misjudgment.

However, the report should not be regarded as unproblematic. Some concepts applied in the traditional statement are very difficult. For instance, money transfers between *oblast'* government and municipalities can appear in the report as so-called subvention, as a subsidy and as an ear-marked transfer.

It is sometimes difficult to comprehend the difference. At the same time, the traditional report does not reflect the potential each local government in the *oblast*' has for receiving income in municipalities, i.e. different assets like property, real estate, etc. The same applies to enterprises owned by municipalities and the *oblast*' government - the traditional report omits this information too. Such figures could have provided opportunities for the economists in the department to develop even fairer rules for resource allocation between municipalities and between municipalities and *oblast*' government.

The modified report, in his opinion, might be used, but as a complementary report only. The new report has an advantage, in that there are no unclear concepts as in the former one, e.g. transactions are reflected as cash inflows and cash outflows. The new report also informs of change in the cash position of *oblast*' government in a comprehensive and compressed manner. However, the new statement is not detailed enough to perform an analysis of respondent needs. The detailed classification of cash inflows and cash outflows showing how governmental functions are performed are missing in the report. He, thus, concluded:

“Perhaps we need both reports: one for allocating, controlling and making detailed analyses of resources [i.e. the traditional report]; another for understanding the overall economic situation in *oblast*' government presented in a compressed form [i.e. the modified report]”.

5.5.4. RESULTS OF INTERVIEWS: AN ANALYSIS

The interviews indicate several important aspects of accounting in use. First, it illuminates how the traditional report is meaningful for different users. The same report is understood, interpreted and put to use differently. In doing so, individuals look into the report to find concepts and ideas important for them. The way accounting data is presented in the traditional report allows debates for reallocation of resources (interview 1), control of cash inflows and outflows (interview 2), and preparation of future plans for “fair” resource allocations (interview 3). In this sense, the traditional report satisfies several and different needs for accounting information. And as can be seen, these needs are by no means the same. The report, thus, plays an important function by allowing different users to put into the report their own meanings. The first user considers an accounting report as a “mathematical matrix”, i.e. a collection of balanced verticals and horizontals (interview 1). Another user

interprets it through the prism of day-to-day cash management expressed through the “water tank” metaphor, i.e. a primary tool for controlling the continuity in cash flows (interview 2). The third user considers the report as a mean for maintaining “fair” rules of budget preparation (interview 3).

Secondly, the interviews show that changes in accounting reports inspired by “outside” accounting solutions are not realized in considerable changes associated with uses of accounting information, i.e. the new report is in many ways rejected as a complete substitute for the traditional report. It is an interesting finding because even though the modified report changes the ways in which accounting information is presented, this change is not dramatic. The report is still a cash-flow report; it only becomes “cleaner” in terms of normative accounting theory. In this sense, even minor changes in the form of presenting accounting reports meet user resistance.

By resisting the new report, users avoid uncertainty in dealing with unknown accounting alternatives. Particularly, the report is rejected because it does not fit the users’ decision-making situations as it does not show accounting figures along relevant economic dimensions, e.g. functional classification of expenditures, percentage of budget implementation, etc. Thus, by substituting the formal report with the new one, the council politicians will experience uncertainty in how to debate allocations (interview 1), the mayor - uncertainty in how to control financial flows to the public services (interview 2), the administrative officer - uncertainty in how to prepare next year’s budget (interview 3). The “old” decision-making context prevented users finding fully relevant applications to the modified report.

Moreover, the accounting theory driven modification comes into conflict with established ways of handling accounting norms, practice and use. The new report is regarded as “allowing too much freedom”, as “too simple”, and as “too Western-relaxed-politician oriented”. First, the new report deviates from norms set by the Russian Ministry of Finance allowing more “freedom” in presetting accounting information. In the eyes of the user, it threatens the reliability of accounting information presented so much that it is even regarded as a step back towards the Soviet period (interview 1). Second, the “simple-structured” report comes into conflict with established detailed and relatively complex budgeting standard operation procedures (interview 3). Third, in the Russian world of low trust, detailed accounting reports are needed much more than the simplified reports designed for the Western context of relative stability and predictability (interview 2).

Finally, even though the new report is not accepted as a substitute, the users' needs are nevertheless slightly modified. The report finds its potential use as an additional statement because it indicates explicitly and in a compressed way some important accounting concepts missed in the traditional report, e.g. investment activities (interview 2) and change in overall cash position (interview 2 and 3). Thus, the modified report is meaningful for users too. Because the new report was a slight modification of the traditional report, it matched well existing users' interpretative models. The first user's interpretations of the modified report stem from the ideas of the balance school he learned while being an officer in the financial department (interview 1). Interpretations of the second user matches her decision-making model focusing on cash flows (interview 2). The interpretations of the third user seem to fit his understandings for needs both for detailed and generic information when the budget is prepared (interview 3).

5.6 DISCUSSION AND CONCLUSIONS

The purpose of the chapter was to study users' use of accounting information in Russian local government. The idea was to illuminate how accounting becomes meaningful to its users. Particularly, in conditions of low trust, high uncertainty and asymmetric information, there is a need for meaningful accounting information and, as a consequence, such information is provided. In this sense, the study of accounting information use by organizational actors was conducted by exploring links between local government accounting information reporting practice and the needs for such accounting information.

From the analysis presented in the sections above, several issues are evident. These issues are further discussed.

Accounting information uses: a collection of understandings

The results of the questionnaire and interviews suggest that general needs for accounting information among users represent a collection of different understandings and interpretations. Nevertheless the same accounting information is differently interpreted. Accounting information in terms of accounting statements can, thus, be regarded as a collage (Mellemvik, 1997). By using the same report in different ways, each user finds an application for a fragment of the collage, e.g. for making allocations, for cash management or

for design of “fair” budgetary rules. In this sense, there is no “right” or “true” way of reading an accounting statement, i.e. the accounting reports mean what their readers make them mean (Boland, 1993).

However, when meaning is created, users do not only provide meanings to numbers in the statement, but also to organizational structures and processes. Understandings of the same report might even be conflicting and bring conflict further into the organization. For instance, in Russian local government, such a conflict might easily be associated with the “fair” rules of budget preparation. These rules demand that “rich” county municipalities share with “poor” county municipalities. In this situation, rules which give accounting figures legitimacy will certainly be regarded as a “unfair” by members of the “rich” municipality.

Accounting theory motivated report does not change users’ needs for accounting information

The interesting question is what will happen with accounting in use when either reporting practice changes or needs for accounting information change in the organization? This study indicates that needs for accounting information do not necessary follow changes in reporting practice. Particularly, the modified report formulated in accordance with normative accounting theory cannot replace the traditional accounting report. For some users, it was purely perceived as capable of giving some additional information. For others, it was regarded as a backwards step.

Some explanation can be given for such insensitivity of needs for accounting information to changes in reporting practice. First, because accounting can be considered as a language and tool of communication, changes in the report’s structure change ways in which accounting messages are coded, decoded and interpreted by users. Particularly, concepts included in the statement’s lines and columns affect perceived relevance, i.e. how accounting information presented fits decision-makers’ interpretative models and decision-making contexts. The important questions are therefore how to structure the report and where should new accounting solutions come from?

The traditional report was modified by using normative accounting literature with respect to cash flow models (e.g. Belkaoui, 1993; Lee, 1984). However, the structure of the modified cash flow report was considered to be irrelevant by many users. Many see in the report what they expect to see.

Expectations about the statement structure reinforced by user's private experience came into conflict with the structure of the new report. There is, thus, a gap between assumptions behind construction of the new report, on the one side, and users' needs, expectations and habits, on the other side. When looking into the new report, users do not recognize the old structure. Changes in the report in which users have established confidence lead to uncertainty, and consequently, rejection of the alternative. In this sense, users prefer a traditional report to a modified report, because applications of the traditional report are known and certain, whereas applications of the new report are not. The results of interviews could have been different if users were actively involved in the design of the statement.

Secondly, the process of unlearning the traditional alternative is also difficult. Individuals in a local government organization studied follow in many ways established accounting standards, routines and established patterns of accounting information use. When these standards, routines and patterns are mobilized for interpretation of modified accounting report, the individual faces a dilemma, i.e. to accept the report and deviate from established routines or to reject the report and preserve the status quo. Accounting solutions formulated according to the normative accounting theory were perhaps regarded as such considerable deviations from the established standards, that some users even considered it a step back towards the Soviet past, interpreting the modified report as "accounting degeneration". Other users also have problems with unlearning established standard operating procedure or accounting information use patterns.

A need for new accounting information: a force of accounting development

Another explanation for insensitivity of changes in the needs for accounting information to changes in the reporting practice was that change in accounting reports were in many ways artificial and experimental but not driven by users' needs. If changes in needs for accounting information cannot follow changes in reporting practice and in this way bring changes in accounting use, does it mean that accounting change is essentially driven by user needs? Feldman & March (1981) indicated that organizations are essentially stupid - they gather more information than they can consume. Overconsumption of information makes organizations ask for new and better

information continuously. For any growing needs in accounting information there should be a growing quantity of information reported.

Users in the organization studied do not perhaps experience the necessity to significantly change present accounting reporting practice. Even though Russian reforms were intended to make local government organizations more independent and responsible, it seems that there has been no considerable shift in the public sector identity resulting in the search for a new kind of accounting information. It did happen in many Western local government organizations during the new public management reform (see e.g. Olson *et al.*, 1998). Perhaps a “water tank” metaphor as expressed by the city mayor is a good illustration. What is important for some politicians and administrative officers is to guarantee uninterrupted cash outflow to finance public service *à la* “water tank” and to find a “fair” system for resource allocation, but not to manage the public services in an accountable and efficient manner.

However, as this study indicates, more education can promote new needs for accounting information among politicians and administrative officers, and in this way give new impulses to accounting system development. Wider knowledge of accounting alternatives might stimulate changes as regards what kind of information is perceived needed and allow users to look at present accounting reporting practices with a different perspective. But, from the perspective of this study, this process of accounting development in Russian local government accounting seems to be more evolutionary rather than revolutionary. Changes in accounting system which might follow will be more incremental than dramatic. Radical accounting users in Russian local government have clearly expressed their needs for some improvements in already existing reports and accounting practices. However, it is still unclear how their expressed needs for new and better information will be realized and whether they will fit the picture of strongly uniform Russian local government accounting.

PART 4. ACCOUNTING, CHANGES AND TRANSITION

“The force of habit, the grip of convention, hold us down on the trivial plan; we are unaware of our bondage because the bonds are invisible, their restraints acting below the level of awareness. They are the collective standards of value, which determine the rules of the game, and make most of us run, most of the time in the grooves of habit – reducing us to the status of skilled automata ...”

(Koestler, 1966; p. 365)

Part Four concludes the thesis and consists of just one chapter. This thesis was motivated by a desire to describe and analyze accounting in Russian local government in order to provide an understanding of accounting in transition. The transition in Russian society, economy and politics which started in the middle of 80's has changed responsibilities, autonomy and the nature of financial activities of Russian local government organizations. Because of interdependence between accounting and its wider environment, this study has questioned whether local government accounting has changed, whether there are links and in which case, what sort of links exist between local government accounting and transition in society.

In order to summarize the descriptions and analysis given in the previous chapters, the conclusion chapter intends to integrate this study's findings. The chapter opens with a discussion of how to understand accounting from this study. It is further shown that local government accounting development and transition are much de-coupled from one another, and this de-coupling is much apparent in accounting continuities from the Soviet past. Accounting is, thus, subject to a set of processes contributing to its continuity and implying small changes, but not dramatic reconstruction. Accounting becomes so much institutionalized in norms, practice and use that it might even be regarded as a “glue” of society in transition and distress. The slow de-institutionalization processes contributing to such continuity are discussed from the perspective of institutional theory. Based on accounting development in Russia, the chapter suggests connections between changes and continuity in accounting theory and practice. Finally, this section is concluded with a proposal for further research.

CHAPTER 6. THE RUSSIAN TRANSFORMATION: HOW CAN WE UNDERSTAND ACCOUNTING IN TRANSITION?

Since *perestroika* began in the middle of the 1980's, Russian society and economy has entered into a process of transition. The results of the transformation have been changes towards a free market economy and a democratic state in Russia. Years of reforms have also changed ways in which the Russian state was organized. Particularly, the central power of the Russian state was decentralized, by giving autonomy and local self-government to counties and municipalities.

Accounting is important for all organizations. Accounting principles and ways of preparing for instance financial statements reflect the context of accounting (Garrod & McLeay, 1996; Watts & Zimmerman, 1979), and the context influences how accounting is institutionalized (Bergevärn *et al.*, 1995). This study was therefore motivated by an interest in questioning whether changes in Russian economy and governmental structure have affected accounting in local government in Russia. The study looks into the issue of whether elements of the new ideology, e.g. autonomy and responsibility for local government organizations, have been materialized into accounting norms, practice and use.

Applying this question, the thesis aimed to describe and analyze changes in Russian local government accounting norms, practice and use in order to give an understanding of accounting in transition. The democratization processes and openness of Russian society have not yet promoted widespread interest from the research community to study local government and its accounting and links to transition in society. Even 15 years after the transition started, we still lack comprehensive knowledge about what local government accounting really is in Russia, especially in comparison to the West.

Three perspectives were applied in order to study accounting in transition: historical, technical and user perspectives. As the concluding sections in each chapter illustrate, this study has revealed several findings. The purpose of this chapter is to try to provide a synthesis of these findings and give them a more or less holistic analysis and interpretation.

In Chapter 1, accounting in transition was conceptualized as processes of how new dominating societal ideology was materialized into accounting norms, practice and use. In order to discuss whether, why and how accounting was involved in transition, it is important initially to try to provide an accurate description of the present state of Russian local government accounting

depicted in its current norms, practice and use. The present day accounting norms, practice and use, in their turn, might be considered to be a consequence of the transition. In this sense, in order to find out how accounting has “arrived” at its present state, we should also understand its “journey” - those processes which contributed to changes in local government accounting in Russia. By processes I mean ways the transition proceeded, e.g. how the links between new ideology, on the one hand, and accounting norms, practice and use, on the other hand, were established and old links disappeared. In the following sections I will mainly focus on the last transition period which started in 1990, since this year marked the beginning of a new era. The main question is whether, why and how was accounting involved in transition. The point of departure is however how accounting in Russian local government organizations can be understood from this study.

6.1. UNDERSTANDING ACCOUNTING

Accounting is usually recognized as a multi-dimensional phenomenon and could be described by different metaphors, e.g. as history, economics, politics, ideology, magic (Morgan, 1988; Morgan, 1986). In Morgan’s terms a metaphor gives

“... important insights [on something with] ... clearly defined limitations”
(Morgan, 1988; p.479).

In this sense, the use of metaphors involves describing a phenomenon in terms of abstract images or symbols by finding some expressions that depict the qualities that we are trying to describe and emphasize. However, none of the metaphors are separately rich enough in meaning to fully reveal the nature of accounting as a social phenomenon. What is important then, is that each of these interpretations helps to identify important aspects of accounting which are invisible and hidden when seeing accounting through the prism of an alternative metaphor. Combined together, they represent a powerful symbiosis and provide an understanding of the societal phenomena.

From this study, accounting can be given meaning in the light of at least three metaphors which are closely related to accounting norms, practice and use. These images are summarized in Table 6.1, i.e. accounting as a “machine”, as “rules” and as an “organism”.

The metaphor of accounting as a “machine” is based on the understanding of accounting from the perspective of the norm system of Russian local government organizations. First, any “machine” can be seen as a part of the

bigger system called a collection of machines, i.e. society. Much in the same way, ministries of the central government have considered local governmental accounting. In all historical periods it was very important for the central state to be left only to local accountants. For instance, in the Soviet Union accounting became a part of the bigger system of the national statistical and planning systems allowing control for plans execution. Local accounting was centralized and became subject to strong central regulation in which no allowance was made for autonomy in local accounting development. Second, designed by an engineer to be a part of the bigger system, the “machine” is meant to perform a particular task. As a “machine”, local government accounting procedures were meant for a particular purpose, i.e. to control and form the local accountant through the bookkeeping processes. Third, once started, the machine performs its task in an automatic way. What seems to be particular about Russian local government accounting is that accounting norms and procedures were meant to be mechanically applied in accounting practice, reducing accounting to bookkeeping, and the role of an accountant to a strict procedure follower as well as a strict controller of others, i.e. making that others follow procedures. In this sense, by becoming a “machine” accounting has fulfilled an important function for the central state – control of local government.

Table 6.1. Images of local government accounting from perspectives of this study.

Local government accounting as a “MACHINE”	Local government accounting as “RULES”	Local government accounting as an “ORGANISM”
Is part of the bigger <i>machinery</i> of the central state	Is about handling <i>numbers</i> : in terms of the balance sheet	Is about management of <i>flows</i> : short-term resources like cash
Performs a particular <i>task</i> : central control over local accountant	Applies particular <i>procedures</i> : balancing technology	Designated to control <i>supply</i> of “flows” to particular user: mark spendings “pipes”
Performs its task <i>automatically</i> : when accounting is reduced to bookkeeping, the accountant becomes a strict procedure follower	Stands for particular ways of number <i>presentation</i> : statement as “matrixes”	Is used to secure <i>continuity</i> in flows: cash should not run out in the bank account
	Is applied to do useful <i>calculations</i> : “results of budget implementation”, “deficit”	

When we consider accounting in practice, it is reasonable to characterize accounting from the perspective of “rules”. Particularly, advocated by the balance school and legitimated by the Soviet ideology, accounting was much treated in practice as “rules”, especially rules about handling numbers. Accounting was important because it was about dealing with accounting figures – it was a source of statistical information for the central planners. Accounting implies particular rules – the double-entry technique. However, these techniques had received a particular interpretation under the balance school, i.e. convenient techniques to balance resources and sources of resources which gave the central state control. With time, accounting procedures lost their accounting meaning and became performed for the sake of rule following (Combs & Liberman, 1994). By applying special rules, accounting figures can be combined into a more convenient form for the purposes of calculation, like matrixes. Mathematical rules are applied to these tables to make useful calculations. Interestingly, accounting statements became just such “matrixes” of balanced accounting figures under the balance school – the statement of budget implementation and particularly the balance of budget implementation. In this sense, accounting was much about controlling how results of economic activities were calculated, e.g. “result of budget implementation” and “deficit”. By becoming “rules”, accounting matched its context advocated by the Soviet ideology – “figure stacking” for statistical purposes .

Chapter 5 included several interviews with politicians and administrative officers about how they use accounting information. What was particular interesting was that a mayor of one municipality referred to local government accounting information in terms of “keeping the water in the reservoir”. First, local government accounting was used to manage *flows* of short-term resources particularly cash – pretty much like when we want to keep water in the tank we mainly have to concentrate on water inflows and outflows. Second, a reservoir is managed for some purpose - to supply water to different water users. The process in which this is done is much organic. The “rain” and supply system, i.e. taxation rules and centrally given laws, influence the resources’ availability. The “tank” itself, and especially the “pressure” from several parties to empty the “tank”, influences resource management and the use of resources. In the same vein, accounting activities is very much spending grounded; it is the control of spending on financing public services in local government which makes accounting important. For

that reason we mark the financial “pipes” going out of the reservoir: accounting statements allow an overview of the purposes of spending, i.e. local government functions, and sources where “fresh” resources come from. In this way accounting gives a picture of an organism. Third, like managing a water reservoir, local government accounting information was essentially about continuity in flows - in a parallel to local government accounting - to secure that cash never runs out of the bank account. That is why accounting users are busy trying to find more stable sources for inflows of “fresh” resources.

In summary, these different metaphors emphasize different aspects of accounting in Russian local government in relation to accounting norms, practice and use. However, when they are put together they indicate an important thing - how strongly Russian local government accounting is institutionalized and routinalized. In the next sections, this institutionalization is discussed and especially the links between accounting and transition.

6.2. UNDERSTANDING ACCOUNTING CONTINUITY

This study indicates that accounting development and the ideology of transition are much de-coupled and that this de-coupling is very much visible in the continuities of accounting from the Soviet period. The continuity of Russian local government accounting can be understood from different theoretical perspectives. According to relevant literature, there are two major perspectives on organizational change which vary with respect to who is dominating the process of change - the organization, or its environment (Czarniawska & Joerges, 1996). If an organization can significantly influence its environment, the change can be called *planned innovation*. Such changes or innovations can be understood and analyzed from the perspective of theories focusing on approaches such as strategic choice, decision-making and organizational development. The other perspective can be called *environmental adaptation*, and is usually represented by contingency theory, population ecology, and institutional theory. These approaches contribute in different ways towards understanding change and continuity in an organization and its integrated practices like accounting.

During the historical transition, Russian local government seemed to a high degree to be adapting to the changing institutional environment. In this sense, theories stressing environmental adaptation are better suited to providing an understanding of the change processes than theories of planned

innovations. The contingency and the institutional approaches to organizational change are, thus, useful in explaining the interrelationships between the organization and its environment. However, in explaining continuity, the institutional theory supplies a stronger explanation as it explicitly stresses reasons why and ways in which institutions are created, maintained and dissolved.

There are several ways or directions in which institutional theory can be defined or approached in empirical studies (see e.g. Tolbert & Zucker, 1997; Scott, 1987). Basically and in the way I understand institutional theory in this study, it deals with questions regarding how organizations adapt to ideologies and rules in their institutional environments, e.g. through which processes and/or elements (Meyer & Scott, 1983). The organizations adapt to myths of the environment to gain legitimacy, resources, stability and in order to survive (Scott, 1987; Meyer & Rowan, 1977). Organization conforms to the symbolic order through different types of learning, i.e. coercive, mimetic, and/or normative process (DiMaggio & Powell, 1983).

Institutional theory sees the nature of change in the accounting system as a dynamic process. If the organization is to gain external support, the accounting system may change over time as the result of interaction between the organization and its institutional environment. In this process the organization adapts to new and sometimes also unlearns (de-institutionalizes) old ideas, norms, and rules of environment. In this sense, changes in the accounting system can be seen as a process of learning between the organization and its environment.

6.2.1. CHANGES: SEDIMENTS AND LEARNING

During the transition some old norms, elements of practice and particularly old patterns of use were changed, i.e. the study demonstrates that there are some minor changes in accounting norms, practice and use of accounting. For instance, change in norms depicts new external principal-agent relations (replacing the central state by a local political body as a principal for the local administration) and changed financial relations (decreasing local governmental dependence on state funding and increasing dependence on financial inputs from institutions of a nascent market economy). Consequently, newer accounting norms adopted a new kind of chart of accounts which gives room for new transactions unknown in the former system of norms. Politicians become the principal in local government

and have learned to use the available accounting reports meaningfully in order to take responsibility for local economy and affairs. However, though there were changes, the development of local government accounting was much based on sediments from the past, and local politicians seemed to have learned how to use accounting. Based on institutional theory, there are at least three interlinked ways of understanding the continuity, or to rephrase this, ways of understanding the lack of de-institutionalization of accounting.

6.2.2. ACCOUNTING HAS NOT BEEN QUESTIONED

According to the institutional approach, an organization changes in order to gain legitimacy, e.g. it adopts elements of a new ideology in order to survive. However, shifts in the dominating ideology only give legitimacy to some organizational and accounting changes, but not to others. Some changes become more important for an organization than others, because only these offer legitimacy and survival. In the process of transition, accounting norms, practice and use fit only what the new ideology emphasized in its rhetoric; the continuity emerges as a result of “silence” in the rhetoric of ideology with respect to accounting. Unlike in the Western new public management reforms, the new ideology has not explicitly emphasized change in the public sector identity (e.g. marketisation, public management) or change in the accounting techniques (e.g. adopting business-like models). Emphasizing accounting development has not been important for the central state; at least not as important as emphasizing local self-government and responsibility. In this sense, it is not surprising that the old elements of accounting norms and practice were not deinstitutionalized, e.g. old accounting ideas live on because the ideology connected to transition has not addressed them.

Røvik (1996) showed that deinstitutionalization is linked to non-usefulness of established practices. The old elements of accounting norms and practice have not been proven unusable yet. The question is who has the power to prove it? There are many groups of accounting users who can do this, e.g. local politicians, administrative officers, investors, members of the research community. Because necessity is the mother of invention, the need for new accounting should be experienced by the users in order to change it. However, as has been demonstrated, the primary users in Russian local government seem to be satisfied in their day-to-day work experience with the present accounting information supply. Even though the local politicians and administrative officers might need some additional accounting information,

there is an absence of pressure for accounting change from them, as well as from other groups of internal and external accounting users.

Similarly, there is a lack of wider interest from the research community in local government accounting in Russia. As regards the research community, they should help to confront the present accounting norms and practices with alternative ways of practicing accounting in local government. There is an old theory behind present accounting norms and practices of local government accounting. The balance school was an important theory once, i.e. the theory which has matched the dominating ideology during the Soviet Period. In a longer-term perspective, the implicit presence of the balance school in accounting norms and accounting practice anchored possibilities for interpreting accounting and development of its practice. With the passage of time it becomes so strongly institutionalized that it is taken for granted in accounting norms and accounting practice – and certainly, by many accounting researchers, practitioners and users. Strong institutionalization of the balance school does not, however, contribute to the search for other accounting alternatives and hinders a “fresh” look at Russian local government accounting. In this sense, the lack of pressure from the majority of accounting users might help to explain the slow de-institutionalization processes.

6.2.3. A HIERARCHICAL LEARNING PROCESS

The ideology of transition has emphasized autonomy, but local government accounting is still regulated by the central state in the way it was done during the Soviet Period. As in many Western countries, local government accounting in Russia is regulated by legislation and instructions given by the Ministry of Finance. Autonomy might have meant that Russian local government organizations could become a “strong” context of the state, or at least a counterbalance to the state power and, in this way, manage to influence the way in which local government accounting norms were elaborated. However, the transition did not bring new ways of handling accounting regulations; it is pretty much like it was during the Soviet period. Instructions of the Ministry of Finance still give detailed prescriptions of how to handle each particular transaction. The state, as an important user of accounting information and, at the same time, as a norm-giving institution, seems to be reluctant to give up former centralized control over locally performed accounting procedures. In this case, accounting to a great extent

still functions as a legitimating device (Mellemvik *et al.*, 1988). Because central government still represents a “strong” context for accounting in local government organizations, local government follows prescribed accounting instructions and norms and in this way, legitimizes itself in relation to the strong central state. In this sense, autonomy for local government, while emphasized in the ideology, was not realized in the form of autonomy in the development of local accounting procedures in Russian local government organizations.

Lack of de-institutionalization can also be understood as a paradox in which one attempts to master the unknown by help of the known (the «hermeneutic» circle, see Czarniawska, 1997). Because “unlearning” the old behavior, norms and procedures is always difficult (Hedberg, 1981), formal changes in practical accounting will take time and be made on a step-by-step basis. For Russian local government, used to a situation in which the federal state gave orders, it may be even more difficult to create its own ways of handling accounting in practice, i.e. to find new ways of handling accounting different from the ideas of the central norm system or the balance school. In the case of Russian local government, the accounting norm system still controls accounting in practice. As the study of Bergevärm *et al.* (1995) has shown, development of accounting in such a case is dominated by hierarchical processes, i.e. the accounting norm system gives prescriptions to the accounting practice and the only way the norms system might change is by learning from its own experience or/and from new ideology. In this sense, norms are changed either by exploiting texts of older norms (rather than explore new accounting solutions) or by adapting to changes which are legitimate in the current ideology. Thus, the hierarchical learning processes give limited opportunities for both change in the accounting norms and exploration of new accounting solutions in practice.

Following further this line of argument presented above, the ideology of transition argued for independence and freedom, but local government accounting practice cannot be considered as an innovation of today. Independence could have meant that Russian local government would develop its own formal accounting systems, independent of the state prescriptions and better suited for local purposes, or local government organizations could have been forced into such a development. However, the accounting system in the local government organization studied is mainly based on “sediments” from the Soviet period. For instance, the statement of

the “balance of budget implementation” allows strong central control. At the same time, these sediments and complicated accounting reports give the local accountants much power in the sense that they have specialized competence. It is difficult to assure that these local accountants would appreciate any changes, especially if these changes implied that they would have to unlearn what they had learnt from their work with the existing accounting system. In this way the complicated accounting system and the competence that is developed connected to this system, is in itself a barrier to change.

6.2.4. THE BELIEF IN THE TRUTH

The new ideology has much focused on self-government. The notion of local self-government could have influenced accounting matters by giving power to local accounting users— to those who are now meant to manage local economy and affairs in the interests of the local population, i.e. politicians and administrative officers. In this case, the local accountant could become the link between the agent (the administration) and the new principal - local politicians. However, as was demonstrated previously, the years of transition have not changed the role of an accountant; s(he) still very much follows the central procedures rather than is devoted to the local users. By legitimating local accounting in relation to the instructions given by central government, the accountant becomes quite independent of the local users and, at the same time, becomes part of the “strong” context of accounting, i.e. the central state. The accountant, thus, has much power over local accounting matters. The fact that the accountant supplies meaningful information to local users only goes to further reinforce the power of the accountant. In this way accounting becomes even more strongly institutionalized because local users have learned to use accounting information in ways that they find meaningful. In this sense it is easy to conclude that the new ideology has not been materialized into accounting. The transition has not resulted in changes in the understanding that dominates and controls accounting matters. The accounting norms are still laid down by the strong Russian state. Accounting practice is still dominated by strong accountants, and accounting reports are still regarded as meaningful, especially by local politicians. In this sense, the present state of accounting in Russian local government can be fairly characterized as a continuation of the past rather than a consequence of the transition.

Finally, we could talk about specific assumptions, values and beliefs about the social world in the East which slow down de-institutionalization processes. The core of Eastern assumptions and values are particular visible when we examine how the accounting world is constructed when new ideology is introduced. New ideology meant: market economy, democracy, freedom, liberty, autonomy and independence. Even though the East adopted these Western ideals, they have not led to a complete deinstitutionalization of the former values and beliefs. Perhaps this in itself is a strong indication of considerable differences in core assumptions, values and beliefs concerning the surrounding social world. The social world is ambiguous, paradoxical and fragmented (Czarniawska-Joerges, 1994; Boland, 1991). In this world, no links between institutional structures and processes can be taken for granted and regarded as established once and for all. Their meanings are to be rediscovered through the process of institutionalization and socialization (Czarniawska-Joerges, 1994). As this study has indicated, in this world budgets are regarded as being “implemented”. Financial resources await their “correct” application. Local authorities still believe in the “fair” rules of budget construction. Accounts are recorded, balanced and reported as in a mathematical matrix. These examples indicate that change is much perceived as a program awaiting its implementation, rather than the consequence of socially negotiated reality. It is believed that accounting numbers can reveal the true nature of the world rather than that they are meant for further interpretations.

In summary, the institutional approach to organizational change is very useful in explaining continuity in Russian local government accounting. However, even though accounting can be seen to change in respect of shifts in ideology, its change in Russian local government seems to be rather minor, residual and secondary compared to economic and political changes in society. Perhaps this is so because accounting is regarded as less important in a society undergoing distress. Economic and political reconstruction was considered in the rhetoric of ideology as being important, and in this reconstruction local government accounting was not regarded as important at all. Maybe the opposite is true - accounting is so important in a course of an unpredictable transition, that it even serves as “... an anchor of stability in a new reality with a new purpose...” (Vámosi, 2000; p. 28). Perhaps it acts as a kind of a “glue” for society and organizations in transition; it is institutionalized in society and institutionalizes society and therefore cannot

change too fast. One way or another, what seems to be certain is that in Russian transitional local government, accounting is subject to a set of processes contributing more to its continuity than to dramatic reconstruction.

6.3. UNDERSTANDING TRANSITION AND ACCOUNTING DEVELOPMENT

The section above has suggested that accounting development and transition are quite de-coupled, by giving indications and explanation of such a de-coupling. In the following section the aim is to consider transition and accounting development in a perspective of how institutions are generally developed.

The frame of reference for such an analysis is presented in Figure 6.1. The process of institutionalization can be seen as following three major stages, i.e. a pre-institutionalization stage, a semi-institutionalization stage and a full institutionalization stage and involves three major sub-processes, i.e. habitualization, objectivisation and sedimentation. There are many similarities between this way of thinking about institutions and development of ideas presented in Chapter 2. The whole process starts when something happens in organizational environment which requires organizational attention. For instance, environmental changes can create problems for an organization, and as a response the organization may innovate by e.g. finding new structures and ways of handling organizational relationships to the environment. During the pre-institutionalization stage, these new structures are diffused into organizational routines. This is much a process of habitualization in that newly invented structural arrangements are becoming more formalized.

Not all new structures, however, are subjects to further institutionalization. To receive more permanent status, the new structure should be objectified. Objectification is a process which contributes to such

“... [a] social consensus ... concerning the value of new structure, and the increasing adoption [of this structure] by organizations on the basis of that consensus” (Tolbert & Zucker, 1997; p. 182).

For instance, development of “theory” supporting the idea of structure adoption contributes to the process that makes adoption of the new structure by others less questionable and more legitimate.

Finally, during the full institutionalization stage the new organizational structure becomes a sediment, i.e. a historical continuation of what was once

regarded as an innovation. This process of sedimentation is motivated, for instance, by the positive outcomes of using the structure and low opposition against this structure.

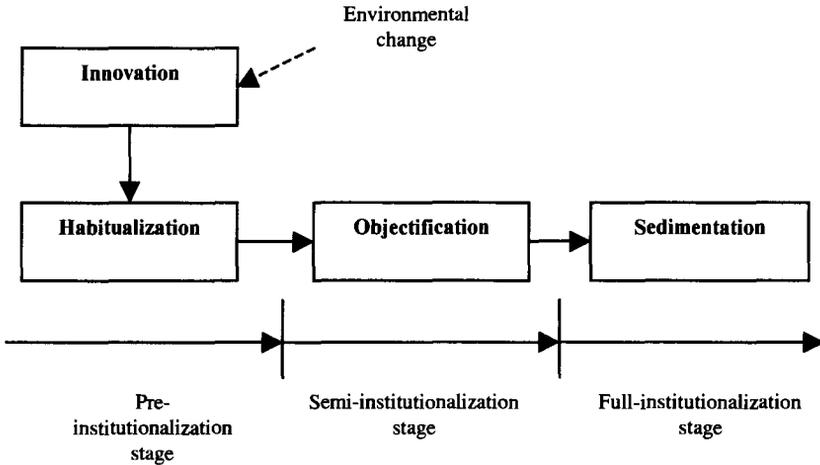


Figure 6.1. Stages of institutional development

(Adapted from Tolbert & Zucker (1997, p. 182)).

Let us apply this framework in order to analyze the Russian transitional process in question and local government accounting development. On the one hand, transition has contributed to change in local government organizations and this development can be understood as complete institutionalization processes in terms of what is presented in Figure 6.1. The new ideology leading to the transition of the 90's was a remarkable innovation – a considerable new way of thinking about society, politics and economy. As Chapter 2 demonstrates, the new ideology was much about finding solutions to the societal and economic problems of the Soviet Union. As regards local government, this innovation has been “habitualized” because the ideas of independence, autonomy, liberty and self-government have gained importance and support in the great majority of the population. With time, these ideas have also been “objectified”, by being formalized in the form of central laws and instructions concerning new local government structures, e.g. the new Russian Constitution, laws on self-government. Finally, today these new structures might be considered to be

institutionalized, because they also become written into local laws and local procedures concerning e.g. local elections, budget discussions, formal political-administrative structure, etc. In this sense, it is easy to conclude that transition has been much about institutionalizing new ways of thinking about local government organizations.

On the other hand, when we consider local government accounting development during the period of the market reforms we observe that no innovation was introduced. Recent Russian accounting history shows that there was no accounting innovation which could further become a “habit” and, in the end, become institutionalized as a “sediment”, reflecting the new ideology. On the contrary, dramatic reconstruction in local government organizations’ environment was handled with respect to accounting, by adopting a previous accounting “sediment”, i.e. the solution developed several decades earlier - the balance school. Certainly, the balance school did once constitute an important innovation, i.e. a way of interpreting the balance sheet and the double-entry technique. By matching Soviet ideology, it was easy for ideas and practical solutions in terms of this accounting school to become habitualized. Furthermore, the Stalinist command-administrative economic system seems to have provided “the balance school” with an objective status - not only as a way of theorizing about accounting balance but even more as a balancing philosophy (see Chapter 4). And over time, the accounting solutions of the balance school have deposited sediments in accounting practice of local government organizations.

What it may indicate is that there are links and connections between changes and continuations in accounting practice as well as in accounting theory. Accounting development is an important result of interrelations between accounting theory and accounting practice. Development in accounting theory and practice can be viewed by referring to terms indicated in Table 6.2. Continuity in accounting practice can be referred as “sediments”, whereas continuity in theory is much about the “received view”, i.e. academicians’ and practitioners’ shared theoretical assumptions and ways of reasoning about accounting practice. On the contrary, a dramatic change in practice can be referred as to an “innovation”, while change in theory is often associated with a research “paradigm shift”. Change in accounting practice can give impulses to theory development, while change in theory may imply “dramatic” practical innovations. The history of modern accounting is full of evidence that such links actually do exist.

Table 6.2. Accounting development with respect to theory and practice.

DEVELOPMENT THROUGH			
		CONTINUITY	CHANGE
ACCOUNTING	THEORY	RECEIVED VIEW	PARADIGM SHIFT
		SEDIMENTS	INNOVATIONS

In the case of Russian local government accounting, such links are particularly illustrative. Firstly, the balance school brought in many ways a “paradigm shift”, i.e. by “winning” a “great debate” it instituted a new way of seeing accounting. It becomes a case of practical innovation too because it helped to introduce into practice the technical solutions which would become known as Soviet (socialist) accounting. With the passage of time, this theory became “a received view” and deposited “sediments” into local government accounting practice.

Secondly, the lack of either accounting practical “innovation” or new ways of “theorizing” can explain why Russian local government accounting has not developed much since the transition started. As Russian accounting history shows, theory once had the power to bring changes in accounting practice. Thus, the continuity in old ways of theorizing gives much continuity in practice, i.e. the “received view” of the balance school’s is still present and much visible in the “sedimental” local government accounting practice. In this sense, the lack of change in accounting theory, in spite of changing ideology, may have hindered innovations in local accounting practice.

6.4. PROPOSAL FOR FURTHER RESEARCH

This thesis has aimed to describe and analyze changes in Russian local government accounting in order to provide an understanding of accounting in transition. Several findings as well as their implication for our understanding of study concepts were discussed in previous sections. However, further research is needed in order to understand more about the interrelationships between concepts like accounting, local government and transition as well as

about the concepts themselves. The study is concluded by the present section which intends to reflect work done in previous chapters, i.e. the known research, theory and empirical data which was presented and the unknown answers to the questions which were asked. These reflections are summarized as several ideas for further research.

6.4.1. STUDYING PARTICULAR ACCOUNTING HISTORICAL PERIODS

The present study has examined relationships between changing ideology and accounting norms from a broad historical perspective. It was shown how accounting norms have been developed in response to shifts in societal ideology. However, in order to understand more about dynamic forces of transition and their effects on accounting, it is important to study accounting in more detail in the transitional periods when one ideology takes over another ideology. The historical period from about 1917 to 1930 is particularly appealing. In this potential study, changes in accounting can be studied as a result of complex interactions between older ideology and newer ideology, between older norms and new accounting ideas and necessities. This period is particularly interesting as it allows the study of how different theoretical accounting schools contributed to the “great discussion” and how the “balance school” gained its ideological legitimacy. It can also identify powerful actors who provided legitimacy to accounting changes.

6.4.2. STUDYING ACCOUNTING PRACTICE: A SEARCH FOR INNOVATIONS?

A second alternative for possible future research is to study in depth accounting in practice. Particularly, there is a big potential in studying the “tailor-made” reports mentioned in Chapter 5. Generally, accounting practice is represented by different accounting reports, calculations, techniques, etc. Some of them are adopted from the accounting norm system, but some of them again can be developed for internal use and, thus, are not externally regulated. Western studies have shown that financial accounting also functions as management accounting in local government organizations (Olsen, 1997; Høgheim, 1990). This may mean that in Western local government, formal accounting reports prepared for external parties function as reports for the purpose of internal use. The same is partially true for

Russian enterprise accounting in which financial accounting serves the functions of both managerial and tax accounting (Kovalev & Sokolov, 2000). It was shown that there is only one accounting world of financial accounting which combines two other accounting worlds and is dominated by the interests of tax authorities. In these cases, the management accounting becomes “hidden” and dominated by other forms of accounting. However, the presence of “tailor-made” reports in Russian local government may offer an important indication that there is a growing notion of management accounting in Russian local government. In this sense, there is the potential for a descriptive study, more particularly: What are the reports? Why have they been reported? Who is responsible for their design? Who receives these reports? How have these reports been used? Discussed from this perspective, the “tailor-made” reports might perhaps be illuminated as important accounting innovations in Russian local government. In searching for accounting innovations, other local government organizations might also be involved in the study.

6.4.3. ADDRESSING ACCOUNTING USE

This study has addressed the use of accounting information in terms of how reported accounting information becomes meaningful to different users. Another alternative for further research is to concentrate on how accounting is used for particular purposes. It should be possible in the future to find some situations in which accounting information has been prepared and applied in order to raise financial resources for local government. For instance, situations connected to obtaining a national or an international bank loan, or to determine the taxation level in the municipality or county are particular interesting.

As was illustrated, centrally controlled accounting practice can produce locally useful reports. However, the question is can this usefulness be improved in respect of finding better ways of supplying accounting information? As the study from the user perspective has illustrated, the demand for local accounting information was relatively insensitive to changes in supply motivated by normative accounting theory. However, politicians and administrative officers in Russian local government studied have expressed their desires for additional accounting information. In addressing accounting use in further research it could, thus, be interesting to initiate a research project aimed at developing locally designed accounting reports, and

even an accounting information system better suited to the accounting needs of local politicians and administrative officers. Such research can be based on accumulated research experience (see e.g. Pauli, 1999; Mellemvik & Olson, 1996) and more closely involve local accounting users.

6.4.4. COMPARATIVE STUDIES

Next, the local government can be seen as a complex organization and its accounting can respond, in a diversity of ways, to new ideology (Lapsley & Pallot, 2000). In this case, it will be interesting to find out what kind of institutional factors influence the development of an accounting system over time in the context of two different countries. Have institutionalization and deinstitutionalization processes been the same in two similar or two different countries? For this reason, the longitudinal comparative study can be chosen, for example studying one Western and one Eastern county.

This thesis was devoted to studying accounting in a county government organization. One modification of the present problem complex might be to study accounting in municipality local government. As the study from the historical perspective points out, the law of 1995 allows a great degree of freedom for municipalities to choose their own local governmental structure. It could be expected that different structures might demand different accounting systems (Flamholtz, 1983). This means that it might be possible to conduct a comparative study within Leningrad county in Russia, in order to determine differences of accounting systems between municipalities. It represents the possibility of conducting so-called testing-out research (Phillips & Pugh, 1995). The following question might be addressed: What determines the accounting innovations in a municipality: is it the state, the local economy, users or/and other factors which influence the choice of a particular accounting system?

6.4.5. THE PUBLIC SECTOR - REFORMS IN WEST AND EAST

Contemporary development in the Western public sector today is much motivated by ideas from the private sector. In a sense, the direction of reform in the West and in the East are somehow related, i.e. both argue for privatization, for increased responsibility of the public sector institutions, etc. That is why it might be interesting to compare the ideas and practices of new public management and the development of the public sector in Russia. The

fact is that even if the West and East are moving in the same direction, they have different starting points. The new public management policies in the West were results of criticism from the public about public sector inefficiency and the reforms were inspired by the well-developed private sector. In Russia, the reforms were started by the policy of openness (*glasnost*), in which critics of revealed inefficiencies were developed at the central level. The privatization policy is an important part of the reforms, however, this policy was a kind of experiment, i.e. there was after all no private sector for almost 70 years! The output of such a study might be not only to enrich our understanding of public sector reform and empirical data on public sector privatization in Russia, but also to offer normative policy implications for both Russian and Western public authorities.

In conclusion, this thesis was both descriptive and exploratory in its nature. Its primary contribution is that we hopefully know more about Russian local government accounting, i.e. about its norms, practice and use. However, being explorative, this study revealed more questions than answers. But what is research actually about? Is it about giving answers and solutions to the questions and problems? Or is it the process of asking questions? Should a researcher only ask questions and let politicians and bureaucrats handle issues related to these questions in practice? Or should a researcher be normative and directly involved in practical work? One way or another, asking new questions is important for at least two reasons. First of all, new questions may help in the development of new theories based on the old ones. Secondly, new questions might also be used for practical purposes, i.e. by showing the possibilities and opportunities to develop new practice. Perhaps these may constitute some of the reasons explaining the purpose of research.

ATTACHMENTS

ATTACHMENT 1. OVERVIEW OF SOME ACCOUNTING NORMS WHICH HAVE BEEN STUDIED.

1. The period of the Tsar autocracy:

- the *Zemstvo* Statute (1864)
- the Statute on *Zemstvo*'s obligations (1864)
- the Second *Zemstvo* Statute (1890)
- Instruction "On compilation of *Zemstvo* Budget Estimates (*Smeta*)" (1897)

2. The Soviet period:

- *polozhenie o mestnikh finansakh*, (1928)
- instruction of the Ministry of Finance , N 572, NKU USSR (1945);
- instructions of the Ministry of Finance N263 (1968);
- letter of the Ministry of Finance N 205, (1971),
- order of the Ministry of Finance N 1726 "On approval instruction for accounting for local budget implementation in financial departments" (1950);
- orders of Ministry of Finance N921 "On approval instruction for accounting for implementation of local budgets" (1955);
- instruction of Ministry of Finance, N 427 "On preparation of annual report of local budgets' implementation"(1965)
- instruction of Ministry of Finance, N344 "On accounting of budget implementation of budgets of autonomous republics and local budgets in financial bodies" (1967);
- letter of Ministry of Finance, N 427, changing instruction of Ministry of Finance, N344 "On additions to preparation of annual report of local budgets' implementation" of 1965,
- order of Ministry of Finance, N 49 "On approval instruction on accounting of republican budgets of autonomous republics and local budgets in financial departments" (1975).

3. The period of market reforms:

- The Federal laws "On the basic budgetary rights and rights of formation and disposal of off-budget funds by representative and executive bodies of the state power in republics of the Russian Federation, autonomous regions, autonomous territories, formations,

counties, cities of Moscow and St. Petersburg, bodies of local self-government" (1991),

- The Federal law "On the basic principles of budget system and budgeting process" (1991),

- Order of Ministry of Finance (No. 117) "On introduction of changes and additions into the classification of revenues and expenditures of budgets of the Russian Federation" (1994),

- The Federal Law (N115) "On budget classification in the Russian Federation" (1996),

- Instruction (N15N) on Accounting of Budget Implementations (1999)

**ATTACHMENT 2. FINANCIAL STATEMENTS FOR ZEMSTVOS
(in use during the 1890's).**

Budget Estimates for Expenditures for *Gubernia Zemstvo* (form N1).

List of Expenditures (Fund Outflows)	Estimated by <i>Uprava</i> for year X	Explanation and Supporting Calculations	Budgeted last year (X - 1)	Accounts last year (X - 2)	Finally Approved by Assembly for year X	Attachments
§1. Participation in Work of Central Governmental Institutions (e.g. operating expenditures, pensions). Total expenditure..... Including part financed from special fund.....						
§2. General Administration Total expenditure..... Including part financed from special fund.....						
§3. Organization and operation of prisons Total expenditure..... Including partially financed from special funds.....						
§4. Road duty (e.g. transfer to road fund, road building and maintenance) Total expenditure..... Including part financed from special fund.....						
§5. Public education (e.g. salaries, building of new schools, maintenance of schools) Total expenditure..... Including part financed from special fund.....						
§6. Charity. Total expenditure..... Including part financed from special fund.....						
§7. Public health (e.g. salaries, building of new hospitals, maintenance of hospitals) Total expenditure..... Including part financed from special fund.....						
§8. Veterinary activities Total expenditure..... Including part financed from special fund.....						
§9. Support of local economic infrastructure Total expenditure..... Including part financed from special fund.....						
§10. Repayment of debts (e.g. interests, repayment of debt principals, transfers to special capital fund)						

Total expenditure..... Including part financed from special fund						
§11. Other (e.g. purchase of <i>zemstvos</i> real estate) Total expenditure..... Including part financed from special fund						
§12. Internal transfers (e.g. turnover capital and special capitals fund) Total expenditure..... Including part financed from special fund.....						
§13. Transfers to reserve capital amount						
TOTAL EXPENDITURES..... Including part financed from special funds						

Budget Estimates for Income for *Gubernia Zemstvo* (form N2).

List of Fund Inflows (Income)	Estimated by <i>Uprava</i> for year X	Explanation and Supporting Calculations	Budgeted last year (X - 1)	Accounts last year (X - 2)	Finally Approved by Assembly for year X	Attachments
§0. Transferred from last year's closing accounts: a) Unrestricted for use cash b) Debtors (local tax due from last year accounted to be reliable as a source of revenue for the year X)						
§1. Income from <i>zemstvo</i> property (e.g. interest from unrestricted capital, income from real estate) Total income §1.....						
§2. Different tax income (e.g. road tax) Total income §2.....						
§3. Grants, transfers and fees (e.g. from central government, private persons, from special funds; fees for medical services) Total income §3.....						
§4. Other incomes (e.g. different fines, sales of property) Total income §4.....						
§5. Fees from licensing activities Total income §5.....						
§6. Taxes on property of others (e.g. forests, lands, factories, real estate in towns) Total income §6.....						
§7. Payments to the road fund from different <i>uezds</i> (<i>uezd</i> 1, <i>uezd</i> 2, ...) Total income §7.....						
TOTAL INCOME						

**ATTACHMENT 3. MAJOR FINANCIAL STATEMENTS FOR
LOCAL SOVIETS (during the 1940's).**

Balance of Budget Implementation (form N1).

Debit Side	Begin- ning of the Year	End of the Year	Credit Side	Begin- ning of the Year	End of the Year
Cash Resources (e.g. different kinds of bank accounts)			Income (e.g. revenues of local budget, subsidies and grants received from higher level soviets, resources received from lower level soviets, revenue due)		
Allocated to the <i>Ispolkom</i> departments (memorial account)			Short-term and long-term loans (e.g. from higher and lower level soviets, banks)		
Expenditures (e.g. expenditure of local budget, transfers to higher and lower soviets,)			Financing from the budget (e.g. actual usage of budgetary resources by the departments of <i>Ispolkom</i>)		
Short-term lending to lower level soviets			Funds (e.g. buildings repair, industry development)		
Interbudgetary payments (e.g. with lower or higher level soviet, payments due)			Results of budget implementation (unused until closing books)		
			Off-balance accounts		
			Transfers from higher level budget for special purposes		
			Restricted budgetary reserve		

Statements of Income and Expenditures (form N2).

Article Of Budget Classif.	Revenue and Expenditure Items	Approved for the year	Imple- mented
	Income (in some of sections):		
	Local governmental profit from local enterprises		
	Income from housing		
	Fees collected from local markets		
	Local taxes, licensing fees and duties		
	Turnover tax		
	Payments from profit of enterprises and organizations of Republican subordination		
	Income tax from enterprises and organizations		
	State tax from population		
	Short-term loans, cash borrowed from cash fund		
	Opening balance of cash excluding cash resources devoted to cover expenditures		
	Sum income		
	State credits		
	Grants and transfers from higher and lower level budgets		
	(A) Total Income:		
	Expenditures:		
	Financing of enterprises of national economy		
	Expenditures on education		
	Expenditures on health and physical culture		
	Expenditures on social security		
	Transfers to higher and lower level budgets		
	(B) Total Expenditures:		
	RESULTS OF BUDGET IMPLEMENTATION (A - B)		

**ATTACHMENT 4. STATEMENT OF INCOME AND
EXPENDITURE (in use since 1996).**

Item	Code of the line	Adj. plan for the year	Executed since 01.01. 9X	% of execu- tion
Income				
Tax Income (with corresponding sub-items)				
Non-tax income (with corresponding sub-items)				
Grants and transfers (with corresponding sub-items)				
TOTAL INCOME				
Expenditures				
State and local government				
Police, fire department and state security				
Fundamental research and technological progress				
Industry, power generation and construction				
Agriculture and fishing industry				
Environmental safety and protection of natural resources				
Transportation, road maintenance and communication				
Development of market infrastructure				
Housing and communal economy				
Prevention and elimination of disasters				
Education				
Culture, art and movie production				
Mass media				
National health and physical culture				
Social policy				
Financial support to other budgets				
Other expenditures (subsidies)				
Expenditures of restricted off-budget funds				
TOTAL EXPENDITURES				
EXCESS OF INCOME OVER EXPENDITURES (OR DEFICIT)				
SOURCES OF FINANCE (FOR THE DEFICIT)				
Change of cash on bank account				
State and municipal bonds				
Subsidies received from other budgets				
Loan from banks and other commercial organizations				
Other sources of internal financing				
Total amount of sources of finance				

ATTACHMENT 5. DESCRIPTION OF LENINGRAD OBLAST' AND ITS GOVERNMENT.

The territory defined to be under the jurisdiction of Leningrad county today began in the 17th century, when some territories were added to Russia in 1708 as a result of the Northern War, led by Peter the Great. According to the territorial division of 1719, Russia comprised 11 big regions (called *gubernia*) and 49 provinces. At that time, the region of interest consisted of 11 provinces and was called St. Petersburg *gubernia*. The problems of governing such huge territories as a *gubernia* led to reforms in 1727, when 14 *guberniy* and 47 provinces were introduced. However, the reforms of Catherine the Second again changed the territorial-administrative division in the region. The new system of "*gubernia-uesd-volost*" was introduced, giving the power of self-governance to rural and urban regions and cities in the region. St. Petersburg *gubernia* was divided into 10 *uesd* territories.

Such a situation existed until 1924, when Petrograd (formerly St. Petersburg) was renamed after Lenin, i.e. Leningrad. St. Petersburg *gubernia* also changed its name to Leningrad *gubernia*. The reforms of the Soviet period changed the administrative-territorial division of the region considerably, i.e. during the 1930's the names and numbers of regions in the county changed. Even the borders of the county were not constant. Re-allocation of territories ended only after the Second World War.

Since *perestroika*, Leningrad county has had an area of 85.9 thousand square kilometers. It consisted of 17 regions and six cities under county jurisdiction. The total population was approximately 1.5 million people. From 1996, in accordance with the law of 1995 "On Local Self-Government in the Russian Federation", the local population in Leningrad county received the right to be governed by the local authorities which were to be represented by people directly elected by the local population. The municipalities³³ were formed according to the preferences of the local population. Thus, since 1996 the administrative-territorial division of Leningrad county has slightly changed, when population in these 17 regions and six cities decided to reorganize them selves into municipalities. To the existing list of these 23 new municipalities, six new ones were added (three cities, two rural towns and one *volost*). The population of these six new municipalities decided to

³³ In the law of 1995, the municipalities are named as "municipal formations".

have their own local government and not to be included in the old territorial administrative region.

The functions of county government are regulated by the Constitution of the Russian Federation and the agreement between the county and the Federal authorities instituting the division of responsibilities between them and the Statute of Leningrad county (The Statute of Leningrad County, 1997; Article 1, p. 2). There are several major rights and obligations introduced by these documents. They can be classified in the following way: the county as a Federal *agent, guarantor* and with some *autonomy* functions. First of all, the county authority is an agent of state power in the Russian Federation. This means, for example, that the county authority has to make sure norms and laws issued by the county's government correspond to the Constitution of the Russian Federation and Federal Laws. It also has to participate in the development and realization of federal target programs concerning restructuring and reallocation of state ownership in Leningrad county. The introduction of common principles of taxation and the collection of fees in the Russian Federation might also be understood as an agent function.

Secondly, the county authority plays the role of guarantist. It means that the county, on behalf of the state power of the Russian Federation, should, for example, protect human rights and the freedom of citizens on county territory as well as guarantee an acceptable standard of living for the citizens according to federal standards.

Thirdly, the county has some functions which can be regarded as functions of autonomy. Here we can find legislative functions such as approval of the county's laws which do not have to conform to the Federal Laws, solving problems of the administrative and territorial structure within Leningrad county. Other important functions are economic ones like the development of conditions of certification and licensing of some types of activities including use of natural resources and territories of Leningrad county, usage of natural resources and environmental protection as well as co-ordination of international and economic contacts for Leningrad county.

The *governor* has the highest position in the Leningrad county government (see Figure A5.1, based on "The Statute of Leningrad County", 1997; Article 23, p. 9). He is also the chief administrative officer of the administration. He has the right to initiate laws in the representative council (Ibid.: Article 28; p. 11), i.e. he can introduce new laws. His obligations are: to represent Leningrad county internally and externally, to govern the work of

the administration, to himself recruit to the top positions in the administration, and to be fully responsible for the functioning of the executive council. He controls the carrying out of the Statute of Leningrad county in practice and of human rights and the freedom of citizens (Ibid.: Article 25; p. 9). Thus, he and the administration mostly play guarantor and agent roles, as mentioned above.

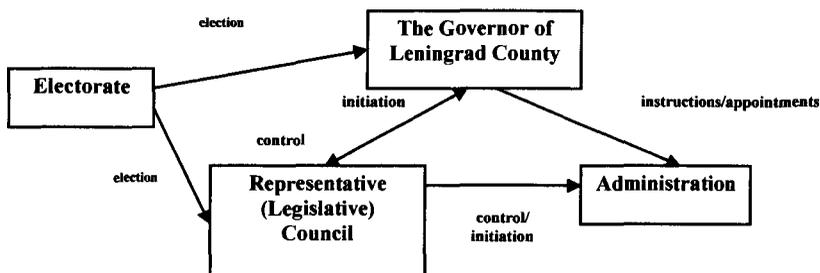


Figure A5.1. The Structure of the Government of Leningrad County.

The *representative council* of Leningrad county is elected for four years and consists of 50 representatives who are elected from all regions of the county. The number of representatives has changed in 1997 from 25. The structure of the representative council consists of several permanent committees. The work of the representative council is led by the Chairman of the representative council. He introduces the structural committees of the council and governs their activities (Ibid.: Article 37; p.14). There are several functions which are prescribed to the representative council by the Statute of the Leningrad county: the function of making local legislation and having the legislative initiative in the Duma of the Russian Federation, determination and control of the use of resources and ownership of Leningrad county, and approval of the budget and execution of control regarding the budget implementation. Such functions mainly correspond with the autonomy functions mentioned above. However, the governor of Leningrad county has relative autonomy in decision-making on resource allocation, leaving the representative council with a function of post-action control.

The *executive council of government* (or *administration*) is also appointed for four years and consists of public employees and some politicians. It is divided into permanent departments which have different functions. The main

activities of the administration are: the provision of effective work and coordination of executive power of the Leningrad county, to carry out the uniform state policy in the sphere of economy, the preparation and implementation of the budget, financial and credit policies, and the implementation of policies in the field of governance of the county's economy (County Law "On Administration of Leningrad County", 1997; Article 11; p. 5). The important part of the administration functioning is to help newly-formed municipalities by introducing county programs of financial support to municipalities, hereby guaranteeing the financial independence of local self-government, as well as by other means (Ibid.: Article 17, p. 8).

**ATTACHMENT 6. CHART OF ACCOUNTS FOR ACCOUNTING
OF *OBLAST'* BUDGET IMPLEMENTATION.**

Acc ount	Sub- account	
		Article 1. Cash resources.
111		Cash resources of the <i>oblast'</i> budget on bank accounts
	1111	Cash resources of the <i>oblast'</i> budget on bank accounts
	1112	Cash resources of the <i>oblast'</i> budget on bank accounts of budgetary disposers
112		Cash resources of the <i>oblast'</i> budget tied up in foreign currency
	1121	Cash resources of the <i>oblast'</i> budget tied up in foreign currency
113		Cash resources of the <i>oblast'</i> budget in transit
	1131	Cash resources of the <i>oblast'</i> budget in transit
114		Cash resources of the <i>oblast'</i> budget tied up in securities
	1141	Cash resources of the <i>oblast'</i> budget tied up in securities
115		Cash resources received from entrepreneurial and other activities
	1151	Cash resources received from entrepreneurial and other activities
		Article 2. Expenditures/Cash outflows
210		Expenditures/Cash outflows of the <i>oblast'</i> budget
	2101	Expenditures/Cash outflows of the <i>oblast'</i> budget
	2102	Expenditures/Cash outflows made from ear-marked grants or restricted funds
	2103	Expenditures/Cash outflows made from resources obtained from entrepreneurial and other activities
		Article 3. Sources of budget deficit financing
331		Bank loans
	3311	Short term loans (for 1 year)
	3312	Middle-term loans (1 to 5 years)
	3313	Long-term loans (5 to 30 years)
332		Securities issued by <i>oblast'</i> government
	3311	Short term loans (for 1 year)
	3312	Middle-term loans (1 to 5 years)
	3313	Long-term loans (5 to 30 years)
333		Budgetary loans given to <i>oblast'</i> government by Federal government
	3331	For very-short term (up to 6 months)
	3332	Short term loans (for 1 year)
	3333	Middle-term loans (1 to 5 years)
	3334	Long-term loans (5 to 30 years)
334		Budgetary loans given to <i>oblast'</i> government by local (municipal) governments
	3341	Short term loans (for 1 year)
335		Other short-term and long-term liabilities
	3351	Other short-term and long-term liabilities
336		Other internal sources of finance

- 3361 Other internal sources of finance
- 341 Loans received from international monetary organizations**
 - 3411 Short term loans (for 1 year)
 - 3412 Middle-term loans (1 to 5 years)
 - 3413 Long-term loans (5 to 30 years)
- 342 Loans received from foreign governments**
 - 3421 Short term loans (for 1 year)
 - 3422 Middle-term loans (1 to 5 years)
 - 3423 Long-term loans (5 to 30 years)
- 343 Loans received from international banks or enterprises**
 - 3431 Short term loans (for 1 year)
 - 3432 Middle-term loans (1 to 5 years)
 - 3433 Long-term loans (5 to 30 years)
- 344 Securities of *oblast*' government in foreign currency**
 - 3441 Short term loans (for 1 year)
 - 3442 Middle-term loans (1 to 5 years)
 - 3443 Long-term loans (5 to 30 years)
- 345 Other short-term and long-term liabilities**
 - 3451 Other short-term and long-term liabilities
- 346 Other external sources of finance**
 - 3461 Other external sources of finance
- 350 Exchange rate differences**
 - 3501 Exchange rate differences

- 410 Article 4. Income/cash inflow**
 - Income/cash inflow of the *oblast*' budget**
 - 4101 Income/cash inflows of the *oblast*' budget
 - 4102 Unclassified income/cash inflows of the *oblast*' budget
 - 4103 Income/cash inflows from entrepreneurial and other activities

- 511 Article 5. Budgetary and state loans**
 - Budgetary loans to local (municipal) budgets given by *oblast*' government**
 - 5111 Budgetary loans to local (municipal) budgets given by *oblast*' government
 - 512 Budgetary loans to enterprises given by *oblast*' government**
 - 5121 Budgetary loans to enterprises given by *oblast*' government

- 611 Article 6. Payments connected to budgetary resources**
 - Payments connected to *oblast*' budgetary resources**
 - 6111 Payments to financial institutions for exchange of foreign currencies
 - 6112 Payments of interest on bonds issued by *oblast*' government
 - 6113 Payments in connection with budgetary guarantees
 - 640 Interbudgetary payments**
 - 6402 Interbudgetary payments between *oblast*' and federal budgets
 - 6403 Interbudgetary payments between *oblast*' and municipal budgets

		Article 7. Resources received and granted
720		Resources received by and granted to the <i>oblast</i>' budget
	7202	Resources received by and granted to the <i>oblast</i> ' budget from the Federal budget
	7203	Resources received by and granted to the <i>oblast</i> ' budget from the municipal budget
		Article 8. Expenditures/income of future periods
802		Expenditure of future periods
	8021	Expenditure of future periods of <i>oblast</i> ' budget in terms of interest on received loans
	8022	Expenditure of future periods of <i>oblast</i> ' budget in terms of fines
	8023	Other expenditures of future periods
812		Income of future periods
	8121	Income of future periods to <i>oblast</i> ' budget in terms of interest on given loans
	8122	Income of future periods to <i>oblast</i> ' budget in terms of fines
832		Expenditures to be returned
	8321	Expenditures to be returned (e.g. loans given form the budget)
		Article 9. Results of budget implementation
910		Results of <i>oblast</i>'s budget implementation
	9101	Results of <i>oblast</i> 's budget implementation

ATTACHMENT 7. BALANCE OF BUDGET IMPLEMENTATION.

Balance articles and accounts	Opening balance	Closing balance	
		Before books are closed	After books are closed
DEBIT			
Article 1. Cash resources of the budget			
Cash resources of the <i>oblast'</i> budget on bank accounts			
Cash resources of the <i>oblast'</i> budget tied up in foreign currency			
Cash resources of the <i>oblast'</i> budget in transit ³⁴			
Cash resources of the <i>oblast'</i> budget tied up in securities			
Cash resources received from entrepreneurial and other activities			
Article 2. Expenditures/Cash outflows			
Expenditures/Cash outflows of the <i>oblast'</i> budget			
Article 3. Sources of budget deficit financing			
Exchange rate differences			
Article 5. Budgetary and state loans			
Budgetary loans to local (municipal) budgets given by <i>oblast'</i> government			
Budgetary loans to enterprises given by <i>oblast'</i> government			
Article 6. Payments connected to budgetary resources			
Payments connected to <i>oblast'</i> budgetary resources (e.g. interest on bonds <i>issued by oblast'</i>)			
Interbudgetary payments			
Article 7. Resources received and granted			
Resources received and granted by the <i>oblast'</i> budget			
Article 8. Expenditures/income of future periods			
Expenditure of future periods			
Article 9. Results of budget implementation			
Results of <i>oblast'</i> s budget implementation			
Balance			

³⁴ This account (*dengi v puti*) shows local governmental claims on cash transferred from e.g. higher level government to the local government through the bank before the end of an accounting period, but the amount of which would not be received by local government until the beginning of the next accounting period.

Balance articles and accounts	Opening balance	Closing balance	
		Before books are closed	After books are closed
CREDIT			
Article 3. Sources of budget deficit financing			
Bank loans			
Securities issued by <i>oblast'</i> government			
Budgetary loans given to <i>oblast'</i> government by Federal government			
Budgetary loans given to <i>oblast'</i> government by local (municipal) governments			
Other short-term and long-term liabilities			
Other internal sources of finance			
Loans received from international monetary organizations			
Loans received from foreign governments			
Loans received from international banks or enterprises			
Securities of <i>oblast'</i> government in foreign currency			
Other short-term and long-term liabilities			
Other external sources of finance			
Exchange rate differences			
Article 4. Income/cash inflow			
Income/cash inflow of the <i>oblast'</i> budget			
Article 6. Payments connected to budgetary resources			
Payments connected to <i>oblast'</i> budgetary resources (e.g. interest on bonds <i>issued by oblast'</i>)			
Interbudgetary payments			
Article 7. Resources received and granted			
Resources received and granted by the <i>oblast'</i> budget			
Article 8. Expenditures/income of future periods			
Income of future periods			
Expenditures (loans) to be returned			
Article 9. Results of budget implementation			
Results of <i>oblast'</i> budget implementation			
Balance			

ATTACHMENT 8. REGISTRATION TECHNIQUES AND PREPARATION OF REPORTS: AN EXAMPLE

Let us suppose that during the year the *oblast*' government had collected an income of Russian Rubles (RR) 1.100 of which tax income was RR 500 and non-tax income was RR 600. Additionally the local government has raised a bank loan of RR 300 which will be repaid in 10 years at a rate of 10% annual interest. Thus, interest due each year is RR 30. However, this year only RR 25 was paid, leaving the county with RR 5 to be paid in the next period.

The *oblast*' government has also given a budgetary loan RR 50 to another municipality at 20% annual interest under condition that it will be repaid in 2 years. The interest payment due each year is RR 10. However, the municipality has paid only RR 5 this year.

Finally, the department of finance of the *oblast*' government has followed the budgetary allocations and allowed spending to the disposers in terms of RR 1.200. From this amount RR 300 was given to the health department and was allowed to be spent on current operations in terms of RR 200 and RR 100 - for investment purposes. At the same time, RR 900 was allocated to the education department limited to RR 850 for operations and RR 50 for investment. However, the reports received at the end of the year from these departments by the *oblast*'s department of finance have shown that these departments have spent less, i.e. the health department spent RR 50 less than planned for investment purposes and the department of education spent RR 50 less on financing current expenditures. Finally, the county politicians have also decided at the end of the year to pay back RR 50 of the original loan of RR 300.

The following registration will be made. The long-term loan increases cash reserves (cash-inflow), but also the county's liability to pay annual interest and repay the loan after 10 years. The first payment should already be made this year, which is also regarded as cash outflow. The following transaction will be made in a general journal:

- a) Receiving long-term bank loan in cash, RR 300:

1111 Cash resources of the budget	3313 Long-term bank loans (5 to 30 years)
300	300

b) It is also necessary to register interest due this year on raised long-term bank loan. It is done between two corresponding memorial accounts, i.e. debit account 8021 and credit account 6112:

8021 Expenditure of future periods	6112 Handling interest on loan
30	30

c) Actual payment of the current year interest RR 25 will be handled as cash outflow:

1111 Cash resources of the budget	2101 Expenditures/Cash outflows of the budget
25	25

At the same time, the amount of interest due registered in memorial accounts should be reduced by RR 25, leaving us with RR 5 unpaid interest which should be paid during the next year, i.e. expenditures of future periods.

8021 Expenditure of future periods	6112 Handling interest on loan
30 25 5	25 30 5

d) When the RR 50 of the loan is repaid, the cash account is credited and the loan account is debited, leaving us with RR 250 as a long-term liability.

1111 Cash resources of the budget	3313 Long-term bank loans (5 to 30 years)
300	300
50	50
250	250

In addition to being registered in the general journal in a double-entry manner, these transactions will also be registered in the supplementary books:

1. The long term loan – in the book of sources of deficit finance, showing the organization who gave the loan, the terms of loan, and the amount received and repaid.
2. Handling interest – in the book of interest due and paid, showing the organization who gave the loan, amount due and actually paid.

3. Expenditures – in the cash disbursement supplementary book, in which it would be specified that these expenditures are connected to the debt handling. When income is received, it is registered as a cash inflow, i.e.

1111 Cash resources of the budget	4101 Income/cash inflow for budget
1.100	1.100

At the same time, the transaction is specified in a cash receipt book as tax income of RR 500 and non-tax income of RR 600.

In the case of cash outflows, the transaction should be recorded between three accounts. It is done in two steps. The first step is an internal transaction which involves the amount of money transferred to the disposers. This amount is equal to budgetary allocations for the accounting period for the particular budgetary disposer. When money is transferred from the main bank account to disposers' bank accounts, the following holds:

1111 Cash resources of the budget	1112 Cash resources of budgetary disposers
1.200	1.200

However, during the second step, the registration of cash outflow as expenditure for the year is based on reports showing actual money spent by disposers, i.e. not allocated RR 1.200, but actual RR 1.100, in which RR 250 is the share of the health department and RR 850 - the education department. In this case the account of disposers is credited and the account for cash outflows of the *oblast'* budget is debited, i.e.

1112 Cash resources of budgetary disposers	2101 Expenditures/Cash outflows of the budget
1.200	1.100
1.100	
100	

leaving us with a balance of RR 100 in cash on the disposer's account. At the same time, the expenditure is specified in detail in the cash disbursement book. It is recorded that the expenditure of the health department was RR 250, in which RR 200 was spent on current operations and RR 50 on investment. It will be also specified that the education department spent RR 800 on current activities and RR 50 on investment.

Finally, the transaction involving lending money to the municipality is very complex and involves registration between six different accounts. First of all, because it is a loan to another accounting entity, the budgetary loan is transformed to an asset. Such a transaction is recorded firstly between two debit-sided accounts:

1111 Cash resources of the budget	5111 Budgetary loans to municipalities
50	50

This transaction is supplied by registering the loan in the supplementary book registering lending, showing whom this loan was given to, its size and terms. At the same time, this loan is the cash outflow, which is registered between the cash outflow account and the memorial account showing that these financial resources were lent but will be returned in the future:

2101 Expenditures/Cash outflows of the budget	8321 Resources to be returned
50	50

The lending transaction also leads to later interest payments and repayment of the loan by the municipality to the county. The municipality should pay an amount of RR 10 in interest each year. As in the case of the long-term loan, the interest due this year is firstly recorded:

5111 Budgetary loans to municipalities	8121 Income of future periods
10	10

Secondly, when this year's interest has actually been paid to the *oblast'* budget from the municipality it is handled as a cash inflow:

1111 Cash resources of the budget	4101 Income/cash inflow for budget
5	5

At the same time, the interest due for this year should be reduced by the same amount:

5111 Budgetary loans to municipalities

8121 Income of future periods

10	5	5	10
	5	5	

It leaves us with RR 5 to be collected from the municipality during the next year, i.e. a kind of receivable. Such registrations are also supplied by recording transactions in the single entry manner in the supplementary books analogous to previous transactions.

Having made such registrations, let us summarize debit and credit balances on all accounts:

Balance articles and accounts	Sub- account	DEBIT	CREDIT
Cash resources of the <i>oblast'</i> budget on bank accounts (300+1100+5-25-1200-50-50)	1111		80
Cash resources of the <i>oblast'</i> budget tied up in foreign currency	1121		100
Expenditures/Cash outflows of the <i>oblast'</i> budget (25+1100+50)	2101		1.175
Budgetary loans to local (municipal) budgets given by <i>oblast'</i> government	5111		55
Expenditure of future periods	8021		5
Bank loans	3113	250	
Income/cash inflow of the <i>oblast'</i> budget (1.100+5)	4101	1.105	
Handling interest on loans	6112	5	
Income of future periods	8121	5	
Resources to be returned	8321	50	
Balance		1.415	1.415

However, before the reports are prepared, so called "closing year transactions" are performed. These involve writing off balances of some flow accounts on the account "Results of budget implementation". In our example, amounts from expenditure account 2101 and income account 4101 will be written off on account 9101, leaving it with a balance of RR 70 (RR 1.175 – RR 1.105). Because this balance will be on the credit side, it shows the annual budget deficit figure.

After this reports are prepared, i.e. balance of the budget implementation and statement of budget implementation. Let us consider the balance of

budget implementation first. The report for the numerical example is shown in Table A8.1. In this statement the closing balance has two parts, i.e. one reporting closing balances on accounts before closing year transactions, and closing balances on accounts after such transactions have taken place.

Table A8.1. The balance of budget implementation for the numerical example.

Balance articles and accounts	Opening balance	Closing balance	
		Before books are closed	After books are closed
DEBIT			
Cash resources of the <i>oblast'</i> budget on bank accounts	0	80	80
Cash resources on disposers' accounts	0	100	100
Expenditures/Cash outflows of the <i>oblast'</i> budget	X	1.175	X
Budgetary loans to municipality given by <i>oblast'</i> government	0	55	55
Expenditure of future periods	0	5	5
Results of <i>oblast'</i> s budget implementation	0	0	70
Balance	0	1.415	310
Balance articles and accounts	Opening balance	Closing balance	
		Before books are closed	After books are closed
CREDIT			
Bank loans	0	250	250
Income/cash inflow of the <i>oblast'</i> budget	X	1.105	X
Handling interest on loans	0	5	5
Income of future periods	0	5	5
Resources to be returned	0	50	50
Balance	0	1.415	310

Table A8.2. shows the statement of budget implementation (statement of income and expenditures) prepared based on the accounting information in the example. In this statement income and expenditure items, as well as sources of deficit finance are summed up according to groups of budget classification correspondingly recorded in the cash receipt book, the cash disbursement book and the book for sources of deficit finance.

Table A8.2. Statement of budget implementation for the numerical example.

INCOME		
Tax income		500
Non-tax income		600
Interest		5
(A) Total income		1,105
EXPENDITURES		
Health, including:		250
- current operations	200	
- investments	50	
Education, including:		850
- current operations	800	
- investments	50	
Handling interest on debts		25
Lending money, budgetary loan to municipality		50
(B) Total expenditures		1,175
Deficit (C) = (B) - (A)		70
SOURCES OF DEFICIT FINANCE		
Change of cash on bank account:		- 180
- Beginning of the year (0)		
- End of the year (180)		
Net cash flow, bank loan:		250
- Cash inflow (300)		
- Cash outflow (50)		
Total sources of deficit finance (C)		70

ATTACHMENT 9A. A QUESTIONNAIRE: LOCAL GOVERNMENT ACCOUNTING AND REPORTING IN RUSSIA (ENGLISH VERSION).

My name is Anatoli Bourmistrov. I am a doctoral student and writing my Ph.D. thesis. The main theme of my work is about use of local government accounting in Russia. The main premise in my work is that understanding of accounting information by politicians and officers is very essential for management of economy and financial resources belonging to the municipality and the county. This questionnaire is prepared with purpose to understand some of your perceptions and evaluations related to the municipal (county) accounting and reporting in Russia. Among other things the questionnaire, is based on the report "Statement of budget implementation for Leningrad county for 1997" with comments of the governor (see Attachment 1.1). I kindly ask you to answer these questions as precise as possible. I would also like to inform you that nobody will have access to answered questionnaires and all possibility to identify the respondent will be eliminated before presented to a third party.

Thank you very much for your cooperation

[signature]

Anatoli Bourmistrov

1. General information about yourself:

- Age
- Position
- Party membership (if any)
- How long do you hold your current position
- Your present responsibilities

2. Education:

- Your highest achieved level of education
- Have you studied economy and accounting? Yes _____ No _____
- If yes, for how long?
 - Less than one year _____
 - From 1 to 3 years _____
 - More than 3 years _____
- Do you have practical experience concerning work with accounting information (like being director of enterprise or organization)?
 - Yes _____ No _____
- If yes, how long is this experience?
 - Less than one year _____
 - From 1 to 5 years _____
 - More than 5 years _____

3. Reporting at you working place today (municipality, county):

- What kind of reports do you use today in connection to your work?
 - Balance of budget implementation _____

Statement of balance implementation _____

Other (Please specify) _____

- How often do you receive accounting reports?

Each day _____

Each week _____

Each month _____

Each third month _____

Each fourth month _____

Once a year _____

- Do you use other information channels to gain access to economic and financial information (other than accounting reports)?

Yes _____ No _____

- If yes, please specify these channels _____

- Which of them are most important?

Oral _____ Written _____

- For what purpose do you use the reports you receive?

4. Possible use of the report in the Attachment:

- Have you seen the report in the Attachment 1.1 before?

Yes _____ No _____

- For what purposes might this report be used? (specify)

- Can you rank the importance for your concepts in the report by decreasing their importance for you?

1. _____

2. _____

3. _____

4. _____

- Is it difficult to understand the report?

Yes _____ No _____

- Do you think the report is too detailed?
Yes _____ No _____
 - Do you want to change something in the report?
Yes _____ No _____
 - If yes, what exactly would you like to change?
Yes _____ No _____
 - Do you think you need expert help in order to interpret the report?
Yes _____ No _____
 - What is your evaluation of the economic situation in Leningrad county?
Good _____
Satisfactory _____
Poor _____
Difficult to say _____
 - Does the report tell you something about activities of county government?
Yes _____ No _____ Difficult to say _____
 - If yes, what exactly?
-
-

- Does this report look like the report used in your municipality?
Yes _____ No _____ Do not know _____

5. Desire to change reporting practice:

- Do you want additional reports to those which you use today?
Yes _____ No _____ Do not know _____
- If yes, do you think that reports should include some of those:
 1. More detailed verbal comments _____
 2. Graphical presentations (diagrams; patterns, etc.) _____
 3. Key economic/financial ratios _____
 4. Classification on capital vs. operational income and expenditures _____
- 5. Other things _____

- How much time should pass between closing the accounting books and presentation of the accounting reports?

1 week _____
2 weeks _____
1 month _____
3 months _____
½ year _____
Do not know _____

- How often should accounting reports be prepared and presented?

More frequently than one month _____
Every month _____
Every 3rd month _____
Every 4th month _____
Once a year _____
Less frequent than once a year _____
Do not know _____

- For how many years should accounting data be included in the budget and accounting report?

Only the relevant/current year _____
One year back _____
Two years back _____
Three years back _____
More than three years _____
Do not know _____

THANK YOU!

**ATTACHMENT 9.1. ACCOUNTING REPORT OF BUDGET
IMPLEMENTATION PREPARED FOR LENINGRAD COUNTY FOR
THE YEAR 1997.**

Article	Adjusted budget for 1997	Implemen- ted on 01.01.98	Implemen- tation (%)
Income (in billions of Rubles)			
Direct taxes, including:	792,3	662,3	83,6
- Profit tax (companies)	610,8	484,6	79,3
- Income tax (personal tax)	181,5	177,7	97,9
Taxes on goods and services: Including:	391,5	307	78,4
- VAT	295,8	273,8	92,6
Property tax	252,8	269	106,4
Payments for use of natural resources	57,5	91,9	159,8
Other taxes	1,2	1	83,3
Non-tax income	24,6	23,4	95,1
Income from reciprocal payments	221,5	221,5	100,0
Transfers	206,2	206,2	100,0
TOTAL INCOME	1.947,6	1.782,3	91,5
Expenditures (in billions of Rubles)			
County administration	89,3	79,5	89,0
Police and security	140,8	116,4	82,7
Industry, power generation and construction	50,8	30,2	59,4
Agriculture	121,4	102,1	84,1
Environmental protection and protection of natural resources	20,9	15,8	75,6
Transportation, road maintenance, communication and logistics	72,7	53,8	74,0
Development of market infrastructure	23	7,5	32,6
Housing and administration of municipal infrastructure	89,8	69,3	77,2
Handling consequences of disasters	13,8	13,3	96,4
Education	126,6	114,2	90,2
Cultures and art	48,3	32,1	66,5
Mass media	24,2	15	62,0
Health	247,2	245,3	99,2
Social policy	91,1	59,3	65,1
Earmarked grants and transfers to municipalities	430,1	402,2	93,5
Expenditures to municipalities as a reciprocal payments	547,1	547,1	100,0
Loans from the county budget	2,6	69,3	2665,4
Other expenditures	209,5	170,7	81,5
TOTAL EXPENDITURES	2.349,2	2.143,1	91,2
POSITIVE DIFFERENCE BETWEEN INCOME AND EXPENDITURES (DEFICIT)			
	-401,6	-360,8	

SOURCES OF FINANCING THE DEFICIT			
Change of cash in bank account	0,9	1,5	
- Opening balance at the beginning of the year	15,7	15,6	
- Closing balance at the end of the year	14,8	14,1	
County bonds:	0	-34,4	
- Issue	0	127,4	
- Repayment	0	161,7	
Subsidies:	100	100	
- Received	133	133	
- Repaid	33	33	
Other source of national financing	0	276,8	
- Receiving loans	0	454,8	
- Repayment of loans	0	178	
Changes of cash in currency accounts:	0	16,7	
- Opening balance in the beginning of the year	24,1	24,1	
- Closing balance in the end of the year	24,1	7,4	
TOTAL SOURCES OF FINANCING OF THE DEFICIT	100,9	360,8	

Leningrad county government. Enactment of 28 Mars 1998, N 17.

About the results of implementation of the consolidated budget of Leningrad county and Leningrad county's own budget.

By evaluating the final results of budget implementation of the consolidated budget of Leningrad county and Leningrad county's own budget for 1997, the county government points out that the following has occurred: the collected income amounted to 3342,6 billions of rubles (95,1 %), including the budget of Leningrad county – 1782,3 billions of rubles (91,5 %); expenditures amounted to 3789,1 billions of rubles (87,9 %), including the implementation of Leningrad county's own budget – 2143,1 billions of rubles (91,2 %). Grants from the Federal fund of financial support to the subjects of the Russian Federation have amounted to 206,2 billions of rubles (100 %).

Budget expenditure figures have increased in 1997 compared with 1996.

Budgeted allowances for Leningrad county have been spent in 1997 as follows, according to functional classification of expenditures (in % to the original budget):

- county administration	96,5
- industry, power generation and construction	69,1
- agriculture and fishery	81,3
- housing and management of municipal infrastructure	88,9
- education	
94,1	

- culture and art	82,6
- health and physical culture	
84,6	
- social policy	
73,5	

In general, expenditures on capital construction in Leningrad county have been financed by 93,3 % compared with the budgeted amount, including Leningrad county's own budget – 94,0%.

In accordance with what is stated above, the Government of Leningrad county enacts the following:

1. Takes the above-mentioned information about the final results of implementation of the consolidated budget and budget of Leningrad county for 1997 into account.
2. Proposes to finish this accounting year by approving the Leningrad county Law about implementation of the Leningrad county budget for 1997 prepared according to the standard procedures (proposal of the law is included).

Governor of the Leningrad county [signature]

V. Gustov

ATTACHMENT 9B. A QUESTIONNAIRE: LOCAL GOVERNMENT ACCOUNTING AND REPORTING IN RUSSIA (RUSSIAN VERSION)

ОПРОСНИК: МУНИЦИПАЛЬНАЯ ОТЧЕТНОСТЬ В РОССИИ

Меня зовут Анатолий Бурмистров. Я аспирант и пишу свою кандидатскую работу. Основная тема работы - использование муниципальной (областной) отчетности в России. Основной отправной точкой работы является то, что понимание данных отчетности политиками и работниками администрации является важным для управления Экономикой и финансами муниципального образования и области. Этот опрос производится с целью понять Ваши представления в отношении и Вашу оценку муниципальной (областной) отчетности в России. Опрос в том числе базируется на "Отчете об исполнении бюджета Ленинградской области за 1997 г." с комментариями губернатора (Приложение 1 к опроснику). Я прошу Вас ответить на поставленные вопросы как можно точнее. Я так же хотел бы уведомить Вас что никто кроме меня не будет иметь доступа в ответенным опросникам и что данные будут анонимизированы для предоставления третьим лицам.

Спасибо заранее за сотрудничество.

Анатолий Бурмистров

1. Общая информация о Вас:

Возраст _____

Должность _____

Принадлежность к партии (если есть) _____

Время пребывания на должности (с - по) _____

Обязанности _____

2. Общее образование, в.ч. в Экономике:

Ваш уровень образования _____

Изучали ли Вы Экономiku и учет? Да _____

Нет _____

Если Вы ответили да, сколько по времени продолжалось Это обучение?

Меньше года _____

От 1 до 3 лет _____

Более 3 лет _____

Если ли у Вас практический опыт работы с отчетной информацией (к примеру как директора предприятия или организации)?

Да _____
Нет _____

Если Вы ответили да, сколько по времени продолжалась Эта практическая работа?

Меньше года _____
От 1 до 5 лет _____
Более 5 лет _____

3. Отчетность на Вашем рабочем месте (муниципалитет, область) сегодня:

Какими отчетами Вам приходится пользоваться в отношении Вашей работы? (выбирете один или несколько вариантов)

Баланс исполнения бюджета _____

Отчет об исполнения бюджета _____

Другие отчеты (пожалуйста укажите) _____

Как часто Вы получаете отчетную информацию?

Каждый день _____

Каждую неделю _____

Каждый месяц _____

Каждый квартал _____

Каждые 4 месяца _____

Раз в год _____

Используете ли Вы другие (кроме отчетности) каналы для доступа к Экономической и финансовой информации?

Да _____

Нет _____

Если да, то какие? _____

Какие из них самые важные - устные или письменные? _____

Для какой цели Вы используете получаемые отчеты? _____

4. Возможное использование отчета в Приложении 1:

Видели ли Вы отчет в Приложении 1 раньше?

Да _____

Нет _____

Для какой цели Вы считаете Этот отчет может быть использован?

Какая цифра или понятие на Ваш взгляд является самым важным в отчете (укажите) ? _____

Если таких цифр или понятий несколько - укажите их в последовательности убывания важности?

1. _____

2. _____

3. _____

4. _____

Сложно ли Вам понять отчет?

Да _____

Нет _____

Считаете ли Вы что отчет слишком детальный?

Да _____

Нет _____

Если у Вас желание изменить что-нибудь в отчете?

Да _____

Нет _____

Если да, то что _____

Хотели ли бы Вы что-нибудь вставить в отчет?

Да _____

Нет _____

Необходимо ли Вам иметь знания/помощь Эксперта что бы понять отчет?

Да _____

Нет _____

Как Вы оцениваете Экономическую и финансовую ситуацию в Ленинградской области в 1997г.?

Хорошая _____

Удовлетворительная _____

Плохая _____

Сложно сказать _____

Считаете ли Вы что отчет дает представление о делах (деятельности) правительства Ленинградской области?

Да _____

Нет _____

Сложно сказать _____

Если да, что именно? _____

Для тех кто работает в муниципальном образовании: похож ли отчет в Приложении 1 на тот который используется в Вашем муниципальном образовании?

Да _____

Нет _____

Не знаю _____

5. Возможные изменения в отчетности на Ваш взгляд:

Желаете ли Вы другие отчеты в дополнение к тем что Вы сегодня используете?

Да _____

Нет _____

Не знаю _____

Если да, думаете ли Вы что к отчетам должно прикладываться следующее (возможно несколько вариантов):

1. Более детальные письменные комментарии _____

2. Графическая информация (диаграммы, графики) _____

3. Цифры финансового и Экономического анализа _____

4. Разделение доходов и расходов на текущие и капитальные (развития) _____

5. Другое _____

Сколько времени по Вашему мнению должно проходить между заключением книг учета и предоставлением отчета?

1 неделя _____

2 недели _____

1 месяц _____

3 месяца _____

Полгода _____

Не знаю _____

Как часто по Вашему мнению должны Вам предоставляться отчеты?

Чаше чем раз в месяц _____

Каждый месяц _____

Каждый квартал _____

Каждый 4 месяц _____

Раз в год _____

Реже чем раз в год _____

Не знаю _____

Сколько данных по отчетности и бюджету по предыдущим годам должно включаться в годовой отчет?

Только за Этот год _____

Предыдущий год _____

2 предыдущих года _____

3 предыдущих года _____

Больше чем 3 предыдущих года _____

Не знаю _____

СПАСИБО!

ATTACHMENT 10. THE STANDARD AND THE MODIFIED STATEMENT OF BUDGET IMPLEMENTATION

10A. THE STANDARD REPORT FOR 5 MONTHS OF YEAR 2000

Article	Budget for 2000	Implemen- ted on 01.05.2000	Imple- menta- tion (%)
Income (in billions of Rubles)			
Tax income	1 017 557	751 002	73,80
Non-tax income	25 495	64 496	253
Transfers	62 562	36 551	58,42
Income from restricted budgetary funds	474 849	276 531	58,24
TOTAL INCOME	1 580 463	1 128 580	71,41
Expenditures (in billions of Rubles)			
County administration	83 608	41 856	50,06
Courts	596	187	31,38
Police and security	73 713	41 706	56,58
Industry, power generation and construction	22 630	12 821	56,65
Agriculture	63 644	34 680	54,49
Environmental protection and protection of natural resources	7 930	1 675	21,12
Transportation, road maintenance, communication and logistics	29 792	7 609	25,54
Housing and administration of municipal infrastructure	65 347	29 569	45,25
Handling consequences of disasters	4 675	2 170	46,42
Education	75 089	36 007	47,95
Cultures and art	21 218	11 902	56,09
Mass media	15 770	9 602	60,89
Health	251 715	117 303	46,60
Social policy	131 952	67 069	50,83
Handling interest on debts	203 293	65 995	32,46
Financial support of municipalities	251 336	208 065	82,78
Other expenditures (including giving loans)	17 326	62 289	356
Expenditures from restricted budgetary funds	474 849	262 632	55,31
TOTAL EXPENDITURES	1 794 483	1 013 137	56,46
POSITIVE DIFFERENCE BETWEEN INCOME AND EXPENDITURES (DEFICIT)		- 214 020	115 443
NATIONAL SOURCES OF FINANCING THE DEFICIT			
Change of national currency on bank account	0	-58 166	
County bonds	0	-5 611	
Loans from the county budget	42 000	42 000	
Other source of national financing	155 588	-70 699	
Sale of property	25 000	2 445	
TOTAL NATIONAL SOURCES OF DEFICIT FINANCE	222 588	-90 031	
INTERNATIONAL SOURCES OF FINANCING THE DEFICIT			
Change of international currency on bank account	0	-5 595	
Loans from international banks	-8 568	61 480	
Exchange rate difference	0	-81 297	
TOTAL INTERNATIONAL SOURCES OF DEFICIT FINANCE	- 8 568	-25 412	
TOTAL SOURCES OF FINANCING OF THE DEFICIT		214 020	-115 443

10B. THE MODIFIED REPORT:

Article	Budget for 5 months of 2000	Accounting 01.05.2000	Variance (A-B)
MAIN (CURRENT) ACTIVITY			
CASH INFLOW FROM OPERATIONS:			
Taxes	1 017 557	751 002	-266 555
Cash inflow from other budgets ¹⁾	62 562	36 551	-26 011
Other non-tax cash inflows	24 775	63 311	38 536
Cash inflows, restricted funds	474 849	276 531	-198 318
Total cash inflow from operations	1 579 743	1 127 395	-452 348
CASH OUTFLOWS ON OPERATIONS:			
Current activities ²⁾	-1 125 322	-907 741	-217 581
Interest on loans, bonds and other securities	-203 293	-147 292	-56 001
Total cash outflow on operations	-1 328 615	-1 055 033	-273 582
A. NET CASH INFLOW/OUTFLOW FROM OPERATIONS	251 128	72 362	-178 766
INVESTMENT ACTIVITY			
Cash inflow from investment activity (including sale of property)	25 720	3 630	-22 090
Cash outflow on investment activity (including purchase of fixed assets)	-86 190	-17 404	-68 786
B. NET CASH INFLOW/OUTFLOW FROM INVESTMENT ACTIVITIES	-60 470	-13 774	-178 766
FINANCIAL ACTIVITY			
BORROWINGS:			
Cash inflow ³⁾	327 205	184 698	-142 507
Cash outflow ⁴⁾	-138 185	-157 528	19 343
LENDING:			
Cash inflow ⁵⁾	0	43 832	43 832
Cash outflow ⁶⁾	0	-65 829	-65 829
C. NET CASH INFLOW/OUTFLOW FROM INVESTMENT ACTIVITIES	189 020	5 173	-183 847
A+B+C. NET CASH INFLOW/OUTFLOW	0	63 761	63 761
Opening balance of cash ⁷⁾	31 159	31 159	0
Closing balance of cash ⁸⁾	31 159	94 920	63 761
D= A+B+C. NET CASH INFLOW/OUTFLOW	0	63 761	63 761

NOTES:

	Budget	Accounting
1. Cash inflow from other budgets:		
In accounting of the reciprocal payments	0	827
Other cash inflows (e.g. transfers)	62 562	35 724
Total	62 562	36 551

	Budget	Accounting
2. Cash outflow on current activities:		
Salary	153 484	85 449
Financial support to other budgets (subsidies)	251 336	208 065
Cash outflows of restricted budgetary funds	474 849	262 632
Other cash outflows on current activities	245 653	351 595
Total	1 125 322	907 741
3. Cash inflow from borrowings:		
Budgetary loans	50 000	50 000
National bank loans	277 205	51 698
International bank loans	0	83 000
Governmental bonds	0	0
Total	327 205	184 698
4. Cash outflow from borrowings:		
Repayment budgetary loans	- 8 000	- 8 000
Repayment national bank loans	- 121 617	- 122 397
Repayment international bank loans	- 8 568	- 21 520
Repayment governmental bonds	- 0	- 5 611
Total	- 138 185	- 157 528
5. Cash inflow from lending activity:		
Repayment of budgetary loans given	0	579
Repayment of loans given to state organizations	0	43 253
Total	0	43 832
6. Cash outflow for lending activity:		
Budgetary loans	0	- 34 115
Loans to state organizations	0	- 31 714
Total	0	- 65 829
7. Cash opening balance:		
National currency	30 487	30 487
International currency	672	672
Total	31 159	31 159
8. Cash closing balance:		
National currency	30 487	88 653
International currency	672	6 267
Total	31 159	94 920

ATTACHMENT 11. THE INTERVIEW GUIDE.

1. Could you tell me something about yourself, e.g. education, experience, age, position?
2. What do you do at work?
3. What kind of economic information do you apply?
4. What kind of decision-making situations are common for you during your working day?
5. Have you seen this report before?
6. For what kind of purposes is this report used (might be used)?
7. How do you use (might you use) this report?
8. Is it difficult to understand this report?
9. Is it complex/too detailed/employing unclear concepts?
10. Do you need expert help to interpret the report?
11. Do you know, is this report used (might be used) for discussions?
12. For what kind of decision-making situations is this report useful (might be useful)?
13. Do you feel confident that this report reflects all economic events?
14. Could you say that the information presented in the report is unbiased and valid?

ATTACHMENT 12. "ITEM-NON-RESPONSE" TABLE.

Item groups	Politicians		Adm. officers	
	Number of responses	Number of non-responses	Number of responses	Number of non-responses
General information about yourself	7	0	5	0
Education	7	0	5	0
Reporting today	7	0	5	0
Frequency of receiving reports	7	0	5	0
Use of other communication channels	7	0	5	0
Use purposes of received reports	7	0	3	2
Use purposes of statement of budget implementation for 1997	7	0	5	0
Accounting concept importance in the report	5	2	4	1
Difficulty in understanding the report	7	0	5	0
Understanding the report as too detailed	6	1	5	0
Desire to change the report	6	1	5	0
Need of expert help to interpret the report	5	2	4	1
Evaluation of the economic situation in Leningrad county	7	0	5	0
Evaluation of government activities	7	0	5	0
Desire to receive additional information/reports	7	0	5	0
Desired reporting frequency	7	0	5	0
Desired number of accounting years included into the report	6	1	5	0

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