

**THE VALUE OF PUBLIC SECTOR ANNUAL
REPORTS AND ANNUAL REPORTING AWARDS
AS A SIGNAL OF MANAGEMENT
PERFORMANCE**

**WORKING PAPER SERIES
Working Paper No. 3**

Christine Ryan

School of Accountancy
Faculty of Business
Queensland University of Technology

Keitha Dunstan

School of Accounting and Commercial Law
Faculty of Commerce and Administration
Victoria University of Wellington

Jennet Brown

Department of Transport
Queensland Government
Brisbane, Australia

This paper is work in progress. Please do not quote without the permission of the authors.

Please address all correspondence to:
Dr Christine Ryan
School of Accountancy
Queensland University of Technology
Brisbane, Australia 4000
Tel: 61 7 3864 4320 Fax: 61 7 3864 1812
Email: cm.ryan@qut.edu.au

**THE VALUE OF
PUBLIC SECTOR ANNUAL REPORTS AND ANNUAL REPORTING AWARDS AS
A SIGNAL OF MANAGEMENT PERFORMANCE**

Abstract

Australian public sector reforms have emphasised the accountability of agencies for the performance of management. Despite considerable diversity in public sector organisations, annual reports have been promoted as an appropriate tool to discharge the accountability of all government agencies. However, there remains an absence of consistent empirical evidence as to the value of the annual report for reporting on management performance. Further, debates about the role of public sector annual reports often become intertwined with notions of the quality of reports. Prior research has investigated the incentives of agencies to enter annual reporting awards as a means of signalling the quality of management. However, the research ignores the possibility that the value of annual reports to discharge performance accountability and the value of entry into an annual reporting award may vary depending on the type of public sector agency and on the relationships between stakeholders. This study focuses on the Queensland public sector and the Queensland Annual Reporting Award (QARA) and uses a series of case studies to examine the value of the annual report as a means of discharging accountabilities. The results reveal a cross sectional variation in the perceived value of the annual report in discharging accountabilities. In some cases it was thought that alternative forms of communication provided a more suitable means to discharge the accountability demands of stakeholders. Further, while annual reporting awards provide a mechanism to supply a credible signal of quality, it will only be used in those situations where the participants identify direct benefits of entry.

Acknowledgments

The authors gratefully thank the participants in this study for their generous provision of time and effort to support our research.

THE VALUE OF PUBLIC SECTOR ANNUAL REPORTS AND ANNUAL REPORTING AWARDS AS A SIGNAL OF MANAGEMENT PERFORMANCE

1.0 INTRODUCTION

The Australian public sector has been under an intensive period of reform since the early 1980s. Managerialist and corporate management philosophies have been promoted. These philosophies, with their accompanying reforms have focused on the efficiency of agencies, cost savings, streamlining of operations and commercially driven imperatives. Government agencies once held accountable for compliance with spending mandates are now accountable for their performance (Davis et al, 1993; Parker and Guthrie, 1993; Gray and Jenkins, 1993). This performance emphasis in management has led to a debate about the appropriate means of discharging public accountability and along with this an increased awareness of the role of annual reporting in the accountability chain.

While it is acknowledged that the annual report does not report on the total accountabilities of public sector agencies, it is statutorily required as the primary medium of accountability for all public sector agencies despite their considerable diversity (JCPA, 1989; QFMS, 1994; PAEC, 1999; Likierman, 1992). Further, the importance of the annual report is assumed by most commentators. As Boyne and Law (1991, p179) argue, the annual report is "the only comprehensive statement of stewardship available to the public". Coy et al., (2001, p14) concur stating:

The value of the annual report rests in the provision of a wide range of summarized, relevant information in a single document, which enable all stakeholders to obtain a comprehensive understanding of [an entity's] objectives and performance in financial and non-financial terms. No other single source of such information is available to all stakeholders on a routine basis.

However, empirical evidence for these claims about the value of the annual report in the public sector is not evident. While some facets of annual reporting have been empirically examined (for example who uses reports) empirical evidence on the role of annual reports as a mechanism for discharging public accountability in the broad range of public sector organisations has not been undertaken.

Moreover, debates about the role of annual reporting in the public sector often become intertwined with notions of the quality of the reports. Consequently, some argue that the value of annual reports as an accountability document is diminished because of the variability in quality (JCPA, 1989; PAEC, 1999; PAC, 1996). Likierman (1992) acknowledges this when he identifies vicious circles arising from poor reporting, in so far as poor-quality reports themselves may cause a lack of stakeholder interest.

In an effort to improve the quality of public sector annual reporting in both the Commonwealth, States and territories, regulations covering the content quality and timeliness of annual reporting have been developed and refined since the late 1990s (Milazzo, 1992; PAC, 1996; PAEC, 1999). Further, to encourage improvement in the quality of reporting, organisations in Australia have organised annual report awards, believing that such awards provide incentives for improvements in quality through the publicity generated (PAEC, 1999; PAC, 1996). However, there is a lack of consistent empirical evidence regarding the quality of annual reports.

Those empirical studies which have attempted to address the quality of annual reports have been critical of their quality. These studies have tended to use three commonly recognised proxies of quality: extent of disclosures (length and level of detail); auditing of the reports; and timeliness of reporting (Magann, 1983). Magann (1983), however, introduces a fourth measure, that of 'evaluation by other credible external bodies' which he argues encompasses all three common proxies and has the added advantage of allowing an agency's annual report to be compared to other reports of similar agencies by independent experts. An annual reporting award is one example of this measure.

The promoters of annual reporting awards argue that entering an agency's report in an annual reporting award clearly demonstrates commitment to high quality reporting (ARA, 1997). This link between high quality reporting and annual reporting awards has motivated public sector researchers to investigate the incentives for entry into these annual reporting awards. US public sector researchers have investigated the incentives for entering annual report awards to discharge accountability to stakeholders and/or to signal the quality of management. Two studies investigate the incentives of municipalities to apply for a Certificate of Conformance (Evans and Patton, 1983; Evans and Patton, 1987). Evans and Patton (1983) develop monitoring and signalling propositions that predict that entry into an

award provides high quality management with a credible means of signalling that quality. They base their research on an assertion that the cost of entering the award for low quality managers would be prohibitive because of the extra time and effort needed to raise a low quality report to an acceptable standard. Using their logic, it follows that non entry into an award provides a signal of low quality management. The researchers ignore the possibility that the value of award entry as a signal may vary depending on the types of agency and on the type of stakeholders. While their results support their propositions, Evans and Patton (1987) acknowledge that the absence of a theory of public sector accounting that accommodates the complex accountability relationships in the public sector limits their research. In addition, their studies have the methodological limitation of only concentrating on one level of government. This restricts the generalisability of their findings to the different types of agencies within the public sector more broadly, as each different type of public sector agency has its own accountability structures.

There are several reporting awards that are available to Australian public sector agencies. This provides an opportunity to extend the prior research into an Australian setting and to address the theoretical and methodological limitations of prior US research. This research will focus on the Queensland public sector and the Queensland Annual Reporting Award (QARA). The research has two objectives. First, a series of case studies of a cross section of Queensland public sector agencies will be conducted to ascertain whether the annual report is perceived by account preparers to be an important tool for the discharge of accountabilities. Second, the proposition that entry into an annual reporting award provides a signal of the quality of management of an agency will be explored. More specifically, the study will investigate whether the value of the annual report and entry into annual reporting awards, varies depending on the type of relationship between the stakeholders. These questions will be explored within a theoretical framework that addresses the multiple accountability relationships in the different types of public sector agencies. While we acknowledge the complexity of the accountability concept as explored in the literature (for a recent appraisal see Parker and Gould, 1999), and understand Sinclair's (1995) caution that important dimensions of accountability may be sacrificed by developing such a framework, we do so not in an attempt to get an 'all-purpose' definition for accountability, but in order to provide a framework of analysis to address the issue of the value of the annual report as a mechanism of how accountability is delivered.

The research will aid in the understanding of the accountability relationships between various stakeholders in the different types of public sector agencies. The insights gained into the role of annual reports as a means of discharging accountabilities in the Queensland public sector, as well as the value of entry into the Queensland Annual Report Award (QARA), will contribute to the ongoing debate concerning the role of public sector annual reports. The results should be of interest to all public sector regulatory bodies and Parliamentary committees who have concern with the accountability of agencies in the public sector and the enhanced role that the annual reports play in the evolving Australian public sector.

The paper proceeds as follows. The next section develops the theoretical framework. The method for the study and the results are then reported. The paper concludes with its findings, areas for further research and limitations of the study.

2.0 THEORETICAL FRAMEWORK

Cheng (1992, p1) is critical of prior studies of public sector accounting because, she argues, they have failed to “focus on the unique aspects of the governmental institutional environment”. She expands previous work by arguing that public sector accounting researchers need to consider socioeconomic factors; political factors; the internal bureaucracy influences; and the external demands of actors; in any models which analyse accounting disclosures and practices in the public sector. Her concerns on this issue are supported by other public sector researchers in the UK (see for example, Hepworth and Vass, 1984) and in Australia (see for example Guthrie, 1994 and Parker and Guthrie, 1990). In her later work (Cheng, 1994), she develops these ideas further, by presenting a diagrammatic representation of the potential list of internal and external actors who are influential in the US public sector, and thus have an influence on accounting disclosures and practices. She considers Legislators, Chief Executives, and Bureaucratic Agents to be the key internal players in her politico-economic model. Her external actors include voters (taxpayers and clientele), interest groups and the media, creditors, accounting regulators, professional accounting associations, external auditors, and other governments. In addition to classifying the actors in terms of whether they are internal or external to the agency, the diagram outlines the links of influence between each of the actors. While Cheng’s model does address the complexity of the relationships between public sector actors, she fails to differentiate between the relative importance of the various links of influence. In her model, all influences are treated of equal

importance. A major advance would be made if the strength of those influences could be differentiated.

That differentiation could be made by examining the accountability literature. There is general agreement that public sector accountability is more complex than that which exists in the private sector (Parker and Gould, 1999; Mulgan, 1997; Sinclair, 1995). Some researchers have made attempts to identify different types of accountabilities, arguing there is a diversity in the accountability relationships which affects the type of information given (see for example, Glynn and Perkins, 1997; Sinclair, 1995; Stewart, 1984). Other researchers have argued that new public management has meant a move from external accountabilities to internal accountabilities, and in particular a focus on the accountability to the customer as opposed to accountabilities to the Parliament and the public (see Parker and Gould, 1999).

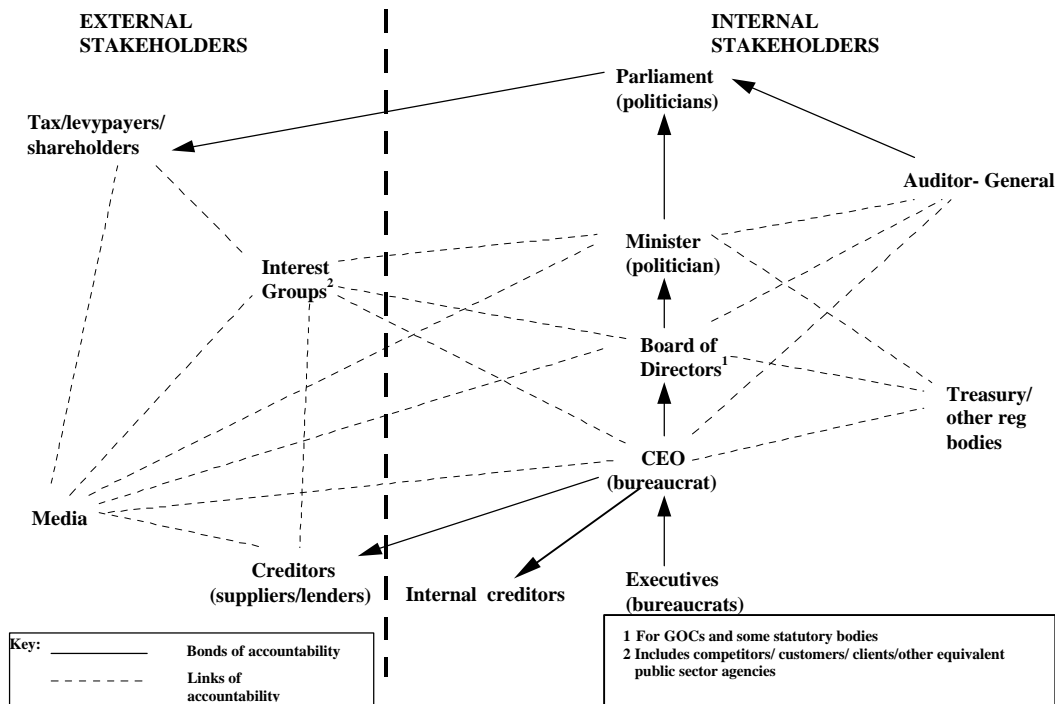
While the boundaries of accountability are debated, so is its meaning. Accountability only exists where there is a relationship of authority such as exists between a principal and agent; a person who is supervised and the supervisor, a representative and those represented; an accountor and the accountee, and the subordinate and the superior (Mulgan, 1997; Stewart, 1994). The relationship does not exist between persons of equal status (Mulgan, 1997). Mulgan (1997) argues that there are 4 processes or stages in the overall process of accountability. Only one of these, the reporting function is laid on the accountor, ie. the one who is held to be accountable. The other three processes; information seeking, assessment or verification, and direction or control are rights belonging to the accountee, ie the one to whom the account is owed. The crux of the accountability relationship is the ability of the accountee to assess and improve the quality of performance and have the power to make evaluations based on that report (Stewart, 1984; Hoskin, 1996). It is the element of power to evaluate, and capacity to exercise this power which is the true essence of accountability. To clarify this, Stewart (1984), distinguishes between two elements of accountability; that of a “bond of accountability” and a “link of accountability”. He argues that the bond of accountability is a recognition of responsibility of one party to another, whereas the links of accountability are a recognition of a mutual expectation of responsiveness often developed over time as a matter of custom. Thus, it is the bond of accountability, the being able to hold to account that is crucial. The element of power, which is essential to the bond of accountability, he argues is not present in those relationships that have a link of account.

The distinction between bonds of accountability and links of accountability and the fact that public accountability derives primarily from ownership and legal authorisation (Mulgan, 1997), provides the opportunity to differentiate the relative importance of the links of influence in Cheng's model. In addition, this differentiation and its application to the various internal and external stakeholders will be developed in accordance with the various institutional arrangements within the Australian public sector.

Two different frameworks are developed of the "Chain of Accountabilities". Although the system of accountabilities are broadly similar in each, the context and stakeholders will change, and this can have important consequences for the operation of accountabilities. The first is applicable to three types of agencies in the Australian public sector; government departments, statutory bodies (SBs) and government owned corporations (GOCs), which operate within a Parliamentary system of government. A second framework is developed for local governments which work to another level of government. Both diagrams indicate the multiplicity of stakeholders for public sector agencies, a theme which is acknowledged in prior literature (see for example, Parker and Gould, 1999; Burritt and Welch, 1997; Sinclair, 1995).

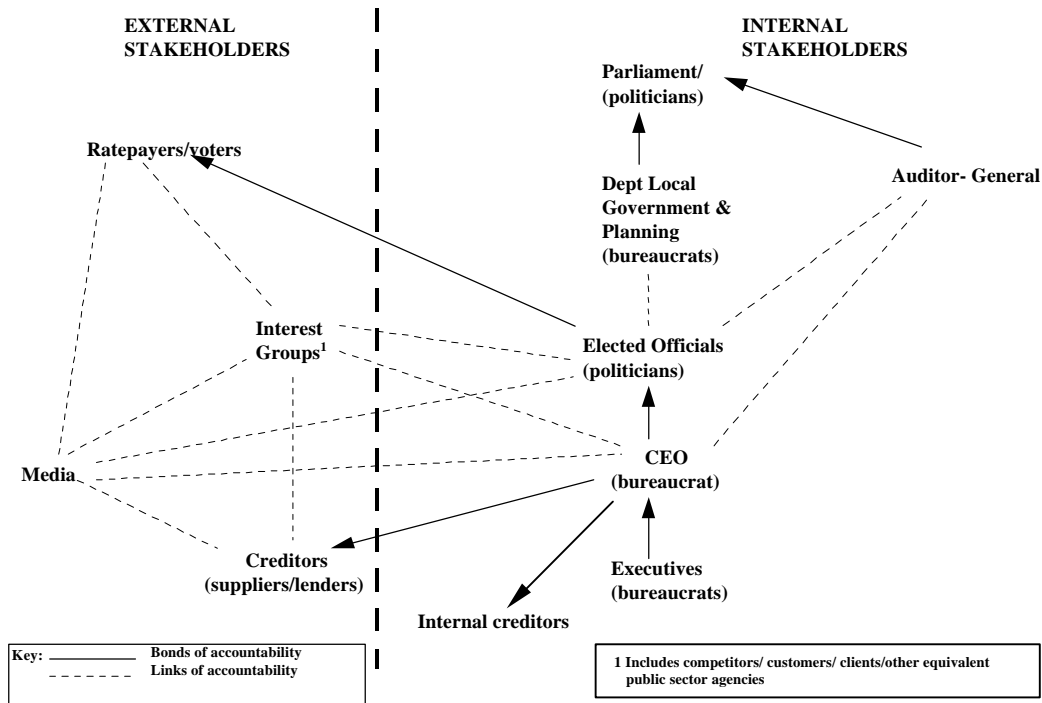
From Figure 1 it can be seen that in the case of government departments, SBs and GOCs, bonds of accountability can be identified between the internal stakeholders: the CEO; the Board of Directors (in the case of some SBs and GOCs), the relevant Minister and Parliament; internal creditors (other public sector agencies), and the Auditor-General. Links of accountability can be identified between the other internal stakeholders being Treasury and other regulatory bodies. Further bonds of accountability can be identified between the main external stakeholders: taxpayers/levypayers/shareholders; and external creditors (suppliers/lenders). All other external relationships have links of accountability.

Figure 1 Chain of Accountabilities for Departments, Statutory bodies, GOCs



The relationship for external stakeholders in the local government framework seems similar to that depicted in Figure 1. However, this is not the case for internal stakeholders. There are fewer bonds of accountability between the internal stakeholders. Most notably the bond ends with the elected officials (ie. the Councillors). In the case of local government councils, the main internal stakeholders with bonds of accountability are the CEO, the elected councillors, and internal creditors. These stakeholders and their relationships are depicted in Figure 2.

Figure 2 Chain of Accountabilities for Local Government Councils



As stated in the introduction to this study, one aim of the development of this theoretical framework was to aid in the understanding of the value of the annual report as the main accountability document for discharging obligations between the stakeholders. From Figure 1 and Figure 2 it can be seen that there are variations in the types of stakeholders and in the relationships between them. Specifically, bonds of accountability have been differentiated from links of accountability. Based on the premise that a bond of accountability arises through their being a power to hold to account, it is contended that the annual report has increased importance in these instances. In the instances where a link of accountability exists, which is merely an expectation of responsiveness, other means of communications, such as brochures, and advertisements may be adequate to satisfy stakeholders demands. In fact, it is possible that less formal details specifically targeted at the needs of these stakeholders would be more useful. This contention motivates Research Question 1.

Research question 1

Is it considered that the value of the annual report as a tool in discharging accountability obligations varies depending on the type of relationship between the stakeholders?

The framework also provides a useful framework for the analysis of the value of entry into the QARA as a signal of the quality of management. It is reasonable to expect that public sector agencies may wish to signal the quality of their reporting and of management. Similar to the motivation for research question 1, it is contended that the value of a signal of the quality of management will vary depending on the level of accountability between the stakeholders. Moreover, in the absence of the market as a means of supplying information about the quality of an agency, this raises the potential, that alternative signals of management performance assume even greater importance. An investigation of research question 2 will address this issue.

Research question 2

Is it considered that the value of entry into the QARA as a signal of the quality of management varies depending on the type of relationship between the stakeholders?

The next section provides an outline of the method adopted to address these 2 research questions.

3.0 METHOD

The Queensland Annual Reporting Awards (QARA) provides the point of focus for this study. The stated aim for instigating the QARA was to improve the quality of public sector reporting (QARA, 1997). The number of entries since the inception of the award in 1981 has steadily increased. In 1981 there were only 16 entries as compared to a total of 50 entries in 1996. Table 1 summarises the 1996 (the year of focus for this study) entries by type of agency.

Table 1 Analysis of QARA Participation by Type of Agency

<i>Type of Agency</i>	<i>Number of Entries</i>	<i>Total Number of Agencies</i>	<i>Rate of Participation</i>
Government Departments	15	25 ^a	60%
Statutory Bodies	20	201 ^a	10%
Government Owned Corporations	9	21 ^a	43%
Local Government	6	150 ^b	4%
Total	50	397	13%

a QAO, 1996

b ABS, 1997

Despite the increased participation in the awards it can be seen that only 13% of the total eligible entrants chose to enter. When analysed on the basis of type of agency it is evident that the rate of participation varies considerably. A high proportion of departments, 60%, chose to enter the award in 1996. The second most highly participating type of agency was the GOCs where 43% of total possible GOCs chose to enter. This contrasts sharply with the participation rate for SBs and local governments that were much lower, 10% and 4% respectively. The implications of the different rates of participation will be considered further in the results section.

The data source for this study is a series of case studies of Queensland public sector agencies across the four types of agencies; government departments, SBs, GOCs and local governments. The selection of the subjects for the case studies was made on a number of criteria. The first criteria was that the agencies must have been identified as material by the Queensland Audit Commission (FitzGerald, 1996) or the Australian Bureau of Statistics (ABS, 1997). Second, all agencies selected must have been Brisbane based to enable sufficient accessibility for the researchers. Third, the agencies were selected by choosing at least one “QARA enterer in 1996” and one “QARA non-enterer in 1996”, from each state government agency type (departments, SBs, and GOCs); and from local government councils. Fourth, all of the selected agencies must have entered the QARA in at least one prior year. This criteria was included to ensure a depth of understanding regarding the benefits and costs of QARA entry. Enterers had decided that entry was beneficial whereas non-enterers who had previously entered had made a deliberate decision to not enter and had therefore decided that the net value of their entry would be negative having already

experienced the outcomes from entry. One extra SB that was a QARA enterer was included in an attempt to obtain a broader coverage of the sector, which is diverse in terms of revenue source, and degree of commercialisation. The three agencies chosen were the Queensland Building Services Authority which receives income primarily from industry levies; the Queensland Tourist and Travel Corporation which was partially budget-funded (approximately 40%); and Queensland Treasury Corporation which receives income primarily from investments. It was expected that selecting agencies with different revenue sources, would result in information regarding whether revenue source type provides different benefits to entering the QARA.

All agencies that were selected readily agreed to take part in the study. This high level of interest supports the contention of Davis et al (1992) that public sector agencies are very interested in issues concerning accountability and annual reporting. The agencies chosen as case study subjects are identified in Table 2.

Table 2 Public Sector Agencies Selected for Interview

<i>Agency Type</i>	<i>1996 QARA Entry</i>	<i>1996 QARA Non-entry</i>
Departments	Transport Department	Education Department
SBs	Qld Building Services Authority Qld Tourist & Travel Corporation	Qld Treasury Corporation
GOCs	Qld Industry Development Corporation	Qld Investments Corporation
Local Government Councils	Pine Rivers Shire	Logan City

The primary source of data for this study was obtained through semi-structured interviews with a nominee from each agency. Semi-structured interviews were employed in an attempt to allow the researchers to direct the conversation while providing the respondent with every opportunity to freely express their views. King (1994) claims that to gain access into the underlying perceptions of the respondent it is imperative to strike a balance between the need to structure an interview with the need to provide the respondent with optimal opportunity to express their views without restriction through an abundance of open-ended questions. This need to unearth the underlying perceptions of respondents rendered less personal approaches such as mail questionnaire unsuitable.

All interviews were conducted in person on the premises of the agency. The interviewees have not been identified for confidentiality reasons, however, all agencies provided permission to be identified. To ensure transcription accuracy, all interviews were taped (with the interviewee's permission) and transcribed in full. Interview time ranged from thirty minutes to seventy minutes, with an average time of forty minutes. The results of the interviews pertaining to the two research questions are outlined in the next section.

4.0 RESULTS AND DISCUSSION

Research question 1

Is it considered that the value of the annual report as a tool in discharging accountability obligations varies depending on the type of relationship between the stakeholders?

The interviewees from all agencies agreed, in principle, that the annual report provided a valuable mechanism to discharge accountabilities. However, the usefulness of the annual report was perceived to vary for different stakeholders for the various types of agencies.

The interviewees from the government departments, SBs and GOCs perceived that the annual report was an important accountability tool for their internal stakeholders. From Figure 1 it can be seen that these agencies have a long chain of accountability with numerous internal stakeholders having the power to hold agencies accountable for their performance. In these circumstances the use of an annual report provides a formal, and more complete document which reports on all aspects of an agency's performance. These results are consistent with the normative research (see for example, PAEC, 1999), which holds that Parliament is the primary target audience for annual reports. These results are also consistent with New Zealand research by Hay (1994) who concluded that in the case of tertiary institutions, internal stakeholders were the main users of annual reports.

In the case of local government, representatives agreed that the annual report was a valuable accountability tool for internal users, however, they perceived that supplementary methods of communication were necessary. The interviewees saw councillors as the main internal stakeholder to which local governments are accountable and felt that they were able to tailor specific information to meet their needs. The interviewees therefore thought that the

supplementation of the information within the annual report with other more specific information was a cost effective means of discharging accountabilities.

In the case of the external stakeholders, all interviewees agreed that the annual report was a necessary accountability tool for external creditors. However, they did not agree that the annual report was a suitable tool for the discharge of bonds of accountability to all external stakeholders. GOCs and those SBs which are externally funded also agreed that the annual report was the main accountability document given to their fundproviders (shareholders and levyholders). This contrasts with government departments, budget funded SBs and local governments who did not see the annual report as the appropriate accountability document for their fundproviders (taxpayers and ratepayers). While accountability remains paramount for these groups, other means of communication through informal publications, brochures and media releases were thought to be more appropriate. This result supports the research of Kloot & xxx, (forthcoming), which showed that for local government ratepayers, news articles, radio segments, and community consultations are used to demonstrate accountability to ratepayers and the wider community.

An explanation for this result lies in the diverse nature of fund providers to public sector agencies. In the case of government departments and budget funded SBs, the primary fund providers are taxpayers, while ratepayers are the primary fund providers for local governments. Taxpayers and ratepayers constitute a diverse group of ordinary citizens whose concerns are likely to be different to the shareholders and levyholders of GOCs and externally funded SBs. Thus it would appear that in those agencies where the external stakeholders are a diverse group (taxpayers and ratepayers) and where the agencies are dependent on these stakeholders for the provision of funds, the annual report is replaced by more specific accountability devices. This is consistent with the research by Sinclair (1995), which argued that alternative mechanisms to demonstrate accountability such as newspaper reports, other media channels and public hearings were used. In contrast, and consistent with private sector research (see for example, Watts and Zimmerman 1978, 1986), agencies which obtain funds from a small and well defined group (levy funded statutory bodies and GOCs) use the annual report as an accountability tool for communication. One explanation for these results across the different agencies, is that the annual report contains the basic audited statutory financial information, but limited performance information (FitzGerald et al, 1996). Indeed, in some cases, the financial information comprises around 50% of the annual report.

If the primary emphasis of an agency is on service provision and not on primary financial information (as in the case of government departments, budget funded statutory bodies and local governments), then a small, more concise, specifically written document which highlights service achievements is more likely to be a more effective communication device in discharging accountabilities. Indeed, the results of this study bear out this position.

In summary, this research has confirmed the value of the annual report as a tool in discharging accountability obligations. In addition, the value of that annual report was found to vary depending on the type of relationship between the stakeholders. In some circumstances alternative means of communication were thought to provide a more appropriate means of discharging accountability. The next section will apply the same framework and the insights gained from research question 1 to address the second research question.

Research Question 2

Is it considered that the value of entry into the QARA as a signal of the quality of management varies depending on the type of relationship between the stakeholders?

The most cited benefit of receiving an annual reporting award was the positive publicity created. All interviewees agreed that the major benefit of entry into the QARA was that it provided an opportunity to gain external validation of the quality of reporting. They also all agreed that the external validation provided by the receipt of a QARA was regarded as an independent (credible) signal of the overall quality of management to the stakeholders. This result provides external validation of prior US studies which identify that the major benefit of value of entry into annual reporting awards is that it provides a credible signal of both the quality of financial reporting and the quality of management.

While all interviewees agreed that the receipt of an award was a powerful signal of the quality of management, the decision to enter was not always cost effective. This is borne out by the low participation rate reported in Table 1. The interviewees cited both direct and indirect costs of entry. The direct costs of entry are low, being an entry fee of \$100, and were not thought to be an important factor in the decision of whether to enter. The indirect costs were considered to be greater in magnitude and included both the cost of improving the annual report to a standard suitable for entry, and the cost of being exposed as a low quality

reporter should the entry be unsuccessful. These indirect costs would be higher for those agencies that produce low quality reports. This fact provides the basis for the signalling model provided by Evans and Patton (1987). They argue that entry into an award is a credible signal of high quality management because the indirect costs incurred by poor managers would make entry prohibitive. That is, poor quality managers are expected to have lower quality reports, and therefore the indirect costs of getting their reports to a standard suitable for entry would be very high. Whereas high quality managers are already expected to generate reports of sufficient quality to enable entry without incurring further costs.

A literal interpretation of the Evans and Patton (1987) model would mean that all high quality managers will have high quality reports and would therefore be expected to enter annual reporting awards because the direct costs of entry are immaterial. It could therefore be concluded that the low participation rate identified in Table 1 provides evidence that the quality of reporting and hence management of Queensland public sector agencies is low. However, such a conclusion is based on the assumption that costs drive the decision to enter and that the benefits that accrue from signalling the quality of management through entry are constant. If instead the benefits vary across agencies as shown in research question 1, and the decision is driven by consideration of both the costs and benefits then the low rate of participation may be explained if the net benefits for some agencies are too low to warrant entry.

The comments of the interviewees support the contention that the decision to enter depends on a cost/benefit analysis. The interviewees who were 1996 enterers all agreed that benefits of entering QARA exceeded the costs in that year. The non-enterers contended that the excessive costs of entry were not justified given the benefits that were to be obtained. They either argued that the quality of reporting required by QARA was excessive or that they had a better means of obtaining external validation for their performance. In support of this position, one interviewee stated that:

the costs of producing QARA reports is far higher than that that is adequate for accountability.

A further interviewee stated:

we have another means of reflecting quality management through the achievement of a AAA rating rather than reliance on quality reporting.

The findings for research question 1 confirmed that the annual report was perceived as a valuable tool for the discharge of accountability, where a bond of accountability existed between the stakeholders. It was argued that for government departments, SBs and GOCs, there was a longer chain of accountability with numerous internal stakeholders having the power to hold agencies to account and that it was in these circumstances that the annual report was a valuable tool to discharge accountability. Where the annual report is considered to be the primary tool for discharging accountability it would be expected that the receipt of an award would provide external validation of the quality of reporting and hence the quality of management. This raises the expectation that these types of agencies have the most to gain from entering an annual reporting reward. Table 1 partially supports this position with government departments and GOCs having the highest rates of participation in QARA. However, the rate of participation for SBs is significantly lower at 10%. While this low level of participation seemingly contradicts the expectations it should be noted that this group is highly diverse in terms of revenue and functions. In fact of the 201 SBs, only 34 are material trading, or financial enterprises or universities as identified by FitzGerald et al (1996), with most of the rest being comprised of very small agencies such as area water and drainage boards. The appropriate participation rate for this group if only material agencies are considered is therefore closer to 59%.

In instances where the accountability focus is placed on alternative means of communication, the external validation of the quality of reporting in the annual report could be expected to be a less effective means of signalling the quality of management. For local governments it was argued that the annual report was not the key tool in discharging accountability, and that alternative means of communication are more appropriate. Following the logic used above a QARA award would be a less valuable signal of the quality of management for local governments than for the other 3 types of agencies. This is supported by the data in Table 1 from which it can be seen local governments had the lowest participation rate of the four types of agencies.

The interviewees also identified benefits of QARA entry that were not directly associated with signalling the quality of management. Some of these did accrue to the agency. For

example, employee motivation, promotion of the agency within the public sector, benchmarking of results and targeting of clients and prospective clients for business generation were identified as benefits. Other benefits mentioned were personal benefits for individuals rather than the agency as a whole. These benefits were thought to accrue to the CEO, the preparer of the accounts, or the relevant Minister and included self promotion in the external and internal market for executive/political positions, and improved remuneration packages. The importance of the value of the signal for personal gain by these individuals was emphasised particularly by the interviewees from government departments and GOCs. A possible explanation for this emphasis is that executives within these agencies are more mobile within their sectors and therefore they are able to influence their transferability with this signal. This position is confirmed by one interviewee who stated:

The CEO is the driving force in entering the award in our agency. It makes him look good in the Minister's eyes and improves his chances for a promotion.

Interviewees who were non-enterers were the most critical of entry being driven by personal benefits. They felt that the incurring of organisational costs for the benefit of individuals within the agency was bordering on an unethical practice. In fact, one interviewee claimed that:

Ambitious supervisors placed excessive performance demands on employees to ensure that the reports were of high enough quality to win an award to enhance their reputation.

In summary, while entry into the QARA was seen to be a credible signal of the quality of management, the direct and indirect costs of entry provide disincentives to enter the award. In addition, the benefits associated with QARA entry were found to vary depending on the type of relationship between the stakeholders. For agencies that relied on the alternative forms of communication to discharge accountability, the gaining of external validation of the content of the annual report was thought to be less valuable. One caveat to the value of the annual reporting award is that the findings suggest that managers are able to capture personal benefits through entry. This may be problematic for an agency if the benefits accrue mainly to the individual while the agency bears the costs.

5.0 CONCLUSION

In Australia, despite the considerable diversity in public sector entities, public sector annual reports have been promoted as a key mechanism to discharge accountabilities to stakeholders. It has been assumed that the annual report is valuable in discharging accountabilities for all stakeholders in each of the different types of public sector agencies. This contention though, has not been examined empirically. Further, the value of the public sector annual report is intertwined with notions of their quality. Prior US empirical research has focused on entry into annual reporting awards as a means to gain external validation of annual reporting quality and hence perceptions of the quality of management. However, the results of prior research have not considered the impact of the relationships between the various stakeholders and differences between stakeholders in different types of public sector entities

This study attempted to redress limitations of prior research by developing a framework of the chain of accountabilities that exist within the different types of public sector agencies in Australia. This framework provided a synthesis of the work of Cheng (1992, 1994) and Stewart (1984) and adapted it to the Australian context to make explicit the nature of the accountabilities that exist between the various stakeholders. This enabled the distinction to be made between bonds of accountability (responsibility) and links of accountability (responsiveness) for both internal and external stakeholders. After consideration of the 4 different types of agencies in Australia, two frameworks were developed. The first pertained to government departments, SBs and GOCs, where a long and complex chain of accountability exists; the second pertained to local governments where the chain of accountability was much shorter. Two research questions were developed. The first question concerned the value of annual reports as a tool to discharge accountabilities to stakeholders; the second question concerned the value of entry into annual reporting awards as a credible signal of the quality of management.

In relation to Research Question 1, respondents from all areas agreed *in principle* that the annual report provided a valuable mechanism to discharge accountabilities. However, the usefulness of the annual report varied depending on the type of agency and the different stakeholders. In relation to internal stakeholders, while the annual report was used by departments, GOCs and statutory bodies, local government respondents preferred the use of more informal, 'brochure-type' documents, media releases, and personal contact with

councillors, over a formal annual report. This finding is consistent with the differences identified in the theoretical frameworks for these agencies. For external creditors, all agencies agreed that the annual report was used as an accountability device. GOCs and SBs which were externally funded also used the annual report to discharge accountability obligations. The exception was for government departments, budget-funded SBs and local governments, where the fund providers were a diverse group, the annual report was replaced by other means of communication such as informal publications, brochures and media releases. The findings for question 1 suggest that government departments, SBs and GOCs value the annual report as a means of discharging accountability more than local governments. Following the theoretical framework developed in this study, it would be expected that the value of entering QARA would be greatest for those agencies which use the annual report to signal the quality of annual reporting and hence quality of management. The entry statistics for the 1996 QARA are consistent with this finding with government departments, SBs and GOCs having the highest rates of participation. Local governments were least likely to enter.

In relation to Research Question 2 all respondents agreed that the major benefit of entry into the QARA was that it provided external validation of the quality of reporting and that this was regarded as an independent signal of the overall quality of management to stakeholders. However, the interviewees also agreed that the decision to enter was not always cost effective. They cited both direct and indirect costs of entry that represented a deterrent to enter. In addition, some interviewees argued that the quality of reporting required by QARA was excessive, or that they had a better means of obtaining external validation of management performance.

The study has some limitations. The first occurs as a result of the restrictions on the scope of the study. By focussing on an annual reporting award in one jurisdiction in one year only (1996), it is possible that the data is unique to that jurisdiction in that particular year. In addition, the representative faithfulness of the perceptions of the research subjects is limited due to the very small and potentially biased sample. All interviewees were middle managers, and a different perspective may have been gained by interviewing Chief Executive Officers. These would be overcome by extending the study to other years in different jurisdictions and by using a larger data set.

The implications of the study are interesting. The research identified cross sectional variation in the perceived value of annual reports to discharge accountability depending on the relationship between stakeholders. For some stakeholders alternative means of communication were thought to be more appropriate. This finding should be of interest to regulators who have emphasised the promotion of the quality of reporting in the annual report. The findings of this study suggest that these policy makers might also need to address the content of the informal communications that are being used to discharge accountabilities for many stakeholders of the agencies. Indeed, for those agencies that place low emphasis on the annual report perhaps a short form annual report would be more suitable. This would mirror the recent moves in the Australian private sector where the provision of a full annual report to shareholders is no longer mandatory.

The findings also have implications for the promoters of annual reporting awards. The seemingly low participation rates could be posited as an indicator that the quality of reporting is low. However, the findings of this study indicate that even high quality reporters will not enter unless they can identify direct benefits from entry. Therefore, while entry may be perceived to supply a credible signal of management quality, the alternative conclusion cannot be drawn from non-entry. That is, there is no unilateral criteria for the measurement of the quality of management based on award entry. In addition, our results imply that QARA does provide a service by enabling high quality managers to signal that quality in situations where they deem appropriate. One caveat to this conclusion is that it was thought that in some circumstances that QARA entry was a means for individuals to capture private benefits at the expense of their agency that bore the costs of entry.

REFERENCES

- ABS (1997) Australian Bureau of Statistics. *Queensland Pocket Year Book 1996 and 1997*, No. 47, Watson Ferguson and Company.
- Burrit, R. and Welch, S. (1997) 'Accounting for environmental performance of the Australian Commonwealth public sector', *Accounting, Auditing and Accountability Journal*, Vol. 10, No. 4, pp.532-561.
- Cheng, R.H. (1992) 'An Empirical Analysis of Theories on Factors Influencing State Government Accounting Disclosure', *Journal of Accounting and Public Policy*, vol. 11, pp. 1-42.
- Cheng, R.H. (1994) 'A Politico-Economic Model of Government Accounting Policy Choice', *Research in Governmental and Nonprofit Accounting*, vol. 8, pp. 39-68.
- Davis, G., Wanna J., Warhurst, J., and Weller, P. (1993) *Public Policy in Australia*, Second Edition, Allen & Unwin Australia, Pty Ltd, North Sydney.
- Evans III, J.H. and Patton, J.M. (1983) 'An Economic Analysis of Participation in the Municipal Finance Officers Association Certificate of Conformance Program', *Journal of Accounting and Economics*, vol. 5, pp. 151-175.
- Evans III, J.H. and Patton, J.M. (1987) 'Signaling and Monitoring in Public-Sector Accounting', *Journal of Accounting Research*, vol. 25 (Supplement), pp. 130-158.
- FitzGerald, V.W., Carmichael, J., McDonough, D.D. and Thornton, B. (1996) *Report of the Queensland Commission of Audit - Volume 1*, June, Queensland Government Printer, Brisbane.
- Glynn, J. and Perkins, D 1997, Control and accountability in the NHS market: a practical proposition or logical impossibility? *International journal of public sector management*, Vol. 10 , No. 1/2 pp. 62-75.
- Gray, A. & Jenkins, W. (1993) 'Codes of Accountability in the New Public Sector', *Financial Accountability & Management*, Vol. 2, No. 3, Autumn, pp. 171-186.
- Guthrie, J. (1994) Understanding Australian Federal Public Sector Accounting Developments in Their Context, *PhD Thesis*, University of New South Wales.
- Hay, D. (1994) 'Who Uses Public Sector External Reports? An Exploration', *Accounting Forum*, vol. 17(4), March, pp. 47-65.
- Hepworth, N. and Vass, P (1984) "Accounting Standards in the Public Sector" in *Issues in Public Sector Accounting*, eds. Anthony Hopwood & Cyril Tomkins, Philip Allan Publishers, Limited, Oxford, pp. 35-60.

Hoskin, K. (1996) The 'Awful idea of accountability': inscribing people into the measurement of objects. In *Accountability: power, ethos and the technologies of managing*. Eds. R. Munro and J. Mouritsen, London: International Thomson Business Press.

JCPA, (1989) Joint Committee of Public Accounts *Guidelines for Departmental Annual Reports*, Report 304, Parliament of Australia, November.

King, K. (1994) in Cassell & Symon (1994), *Qualitative methods and analysis in organisational research – A practice guide*,. British Library, Cambridge.

Kloot and xxx (forthcoming)

Likierman A (1992) 'Financial Reporting in the public sector' in *Public Sector Accounting and financial Control*, eds. D. Henley, A. Likierman, J. Perrin, M. Evans, I. Lapsley and J. Whiteoak, Chapman and Hall, London.

Magann, J.H. (1983) 'Municipal Financial Disclosure: An Empirical Investigation', *Research for Business Decisions, Number 58*, Ann Arbor, MI: UMI Research Press.

Milazzo, C. (1992) 'Annual Reports: Impediments to Their Effective Use as Instruments of Accountability', *Australian Journal of Public Administration*, vol. 15(1), March, pp. 35-41.

Mulgan, R. (1997) 'The Processes of Public Accountability' *Australian Journal of Public Administration* 56 (1) pp. 25-36.

PAC (Public Accounts Committee of NSW) 1996, *The truth, the whole truth and nothing but the truth? Annual Reporting in the NSW Public Sector*, NSW Government Printer, Report No. 95, March 1996.

PAEC (Public Accounts and Estimates Committee) 1999, *Report on the Inquiry into Annual Reporting in the Victorian Public Sector*, Government Printer for the State of Victoria, May 1999.

Parker L and Gould G. (1999) 'Changing Public Sector Accountability: Critiquing New Directions' *Accounting Forum*, Vol. 23, No. 2, pp. 109-136.

Parker, L.D. and Guthrie, J. (1990) "Public Sector Accounting and the Challenge of Managerialism" in *Budgetary Management and Control*, eds. John Forster & John Wanna, Macmillan, Melbourne, pp. 114-127.

Parker, L.D. and Guthrie, J. (1993) ' "The Australian Public Sector in the 1990s": New Accountability Regimes in Motion', *Journal of International Accounting Auditing & Taxation*, vol. 21(1), pp. 59-81.

QAO, (1996) Queensland Audit Office. *First Report of the Auditor-General on Audits Performed for 1995-1996*, November, Queensland Government Printer, Brisbane.

QARA, (1997) *Queensland Public Sector Annual Report Awards - 1996, 1997 Adjudicator's Report*, The Institute of Internal Auditors - Australia, Queensland Branch, Brisbane.

QFMS, (1994) Queensland Financial Management Strategy: Improving Financial Management in the Leading State, Queensland Treasury , June, Queensland Government Printer, Brisbane.

Sinclair, A. (1995) The Chameleon of Accountability: Forms and Discourses, *Accounting Organisations and Society*, Vol. 20, No. 2/3 pp. 219-237.

Stewart, J. D. (1984) "The Role of Information in Public Accountability" in *Issues in Public Sector Accounting*, eds. A. Hopwood & C. Tomkins, Philip Allan Publishers Limited, London, pp. 13-34.

Watts, R.L. and J.L. Zimmerman (1978), 'Towards a Positive Theory of the Determination of Accounting Standards', *The Accounting Review*, Vol. 53, No. 1, pp. 112-34.

Watts, R.L. and J.L. Zimmerman (1986), *Positive Accounting Theory* (Prentice-Hall, Englewood Cliffs, NJ).