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WHO USES PUBLIC SECTOR EXTERNAL REPORTS? AN EXPLORATION

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WHO USES PUBLIC SECTOR EXTERNAL REPORTS? AN EXPLORATION

An exploratory study examined the extent to which new requirements for public sector financial reporting met the needs of users and potential users. It was found that users and potential user groups did not strongly support reforms of the type introduced.

INTRODUCTION

Public sector management and financial reporting in New Zealand were comprehensively reformed in 1988 and 1989 (Whitcombe, 1989; Mascarenhas, 1990; Hood, 1990; Aucoin, 1990; Boston, 1991; Pallot, 1991). The changes to financial reporting requirements went further than those that have been taking place in many other countries, and they have received considerable international attention (Aucoin, 1990; Hood, 1990; Rowles, 1991; *Economist*, 1992; Hay, 1992; Jones, 1992; McCulloch and Ball, 1992; Bourn, 1993).

The reforms to public sector external reporting were intended to provide accountability to Parliament and the public (State Services Commission, 1990 p. 1; Finance and Expenditure Committee, 1991). Accountability has been associated in previous research and in professional statements with information that meets the needs of users (GASB, 1987; NZSA, 1987). Research into the needs of users and potential users is an accepted approach to public sector financial reporting (Drebin et al., 1981; Jones et al., 1985; Wrege and van Daniker, 1986; Gaffney, 1986; the FGRS, 1986 & 1987; Hay, 1988; Engstrom, 1988; Gaffney and Lynn, 1989; Daniels and Daniels, 1991; Ingram and Robbins, 1992). This paper reports an exploratory study that examined the views held by users and potential users about the New Zealand financial reporting reforms.

In addition to the financial reporting reforms, major changes have been made to many other areas of public administration in New Zealand (Sinclair, 1988; Douglas, 1989; Martin, 1990; Boston, 1991; Hay, 1991; Hay, 1992; McCulloch and Ball, 1992). Apart from the accounting reforms, the relationships between cabinet ministers and the chief executives (formerly permanent heads) of departments were changed (Scott and Gorringer, 1989; Martin, 1990; Scott et al., 1990; Pallot, 1991; McCulloch and Ball,

1992); a new basis for Parliamentary appropriations was formulated (Scott et al., 1990; Pallot, 1991; McCulloch and Ball, 1992); State-Owned Enterprises were created to manage central government trading activities, and some of them were sold (Scott and Gorringer, 1989; Scott et al., 1990; Pallot, 1991). Other economic reforms also occurred, including the de-regulation of financial markets and other industries, floating the exchange rate and extensive tax reforms (Bollard and Buckle, 1987; Sinclair, 1988; Douglas, 1989; McKinlay, 1990; Boston et al., 1991).

Some of those involved with the reforms regard the management aspects of the reform process as more important, and the accounting reforms as incidental to the other changes (Ball, 1992; McCulloch and Ball, 1992). However the accounting and external reporting reforms are also a distinct part of the new requirements. The objectives stated in the Public Finance Act 1989 included providing a framework for parliamentary scrutiny of government management; establishing responsibility for public financial resources; encouraging effective and efficient use of financial resources; and specifying financial reporting obligations. Government departments are now required to publish a corporate plan together with audited half-year and annual reports which include financial statements (prepared using accrual accounting and private sector accounting principles) and measurements of performance. These are also audited. The changes were part of a set of reforms embodied in the State Sector Act 1988 and the Public Finance Act 1989. They were preceded by the New Zealand Society of Accountants' Statement of Public Sector Accounting Concepts in 1987 (Sears, 1990; Pallot, 1991; Hay, 1991).

This paper concentrates on government departments. This part of the public sector was chosen for analysis because the new approach was first developed for

central government departments. The reforms were then applied to other public sector entities.

PRIOR RESEARCH

Research into the needs of users of government accounting reports in New Zealand was proposed by Ball (1981, p. 44) and again suggested by the Government Administration Committee (of Parliament) (1987). Despite these calls for it, empirical research into user needs has not previously been conducted in New Zealand. However, prior research outside New Zealand concerned with public sector accounting has frequently concentrated on users (Jones et al., 1985; Sutcliffe, 1985; Wrege and van Daniker, 1986; Gaffney, 1986; the FGRS, 1987; Hay, 1988; Engstrom, 1988; Gaffney and Lynn, 1989; Daniels and Daniels, 1991; Ingram and Robbins, 1992). Research in the private sector has also focused on users or usefulness (see Chambers and Clarke (1986) and Griffin (1987) for summaries). However private sector user groups (primarily investors and creditors) are distinct from those that are relevant in the public sector, and the research approaches that have been used are also different.

In general, research has found that there are relatively few users of public sector financial reports. For example, Gaffney (1986), Engstrom (1988) and Butterworth et al. (1989) found that there was a low level of public interest in the financial statements of US counties, US universities and British local authorities. One exception, the Federal Government Reporting Study (FGRS) (1986, 1987), reported that:

"Federal government financial reports are not an esoteric matter . . . many individuals use this information".

However, the study based this view on findings that people use financial information (not necessarily financial reports) and that users expected that proposed

improvements would be of value to them. Its conclusion was thus not founded on actual use of existing reports. Other published material has nevertheless reported on specific groups of users. Green (1987), Karvelis (1987), and Ward (1987) identified citizens groups, municipal securities analysts and trade unions as users. Further, according to Goldin (1987) the managers of public bodies should also be considered users. More detailed findings of user research has concentrated on issues, such as whether fund or consolidated accounting should be used, that are not relevant to the New Zealand setting.

RESEARCH APPROACH

User research in the public sector is sometimes criticized for conceptual weaknesses. This is partly because of the difficulty in identifying the appropriate groups to survey. Responses from hypothetical or potential users may be misleading, while responses from existing users do not take account of others who would use the reports if changes were made. (See Gaffney (1986); Henke (1986); and Herhold et al. (1987) for discussion of these limitations). The response rates to surveys have also usually been low, e.g. 10% in the Jones et al. (1985) study - see Ives (1987).

The research method adopted in this study therefore concentrated on interviews and document analysis. Information about the perceptions of users and potential users regarding external reports was obtained. I also considered the views of public sector accounting practitioners and standard setters.

Some studies, e.g. Hay (1988), have attempted to avoid problems by concentrating on the 'serious users' of existing financial statements. However, it is not possible to deal with the issue of accountability to the public by concentrating on specialised groups. Also, considering existing users exclusively would not be

appropriate in a setting in which the reports have been changed in an effort to improve accountability. In any event, it is doubtful whether there is a substantial group of 'serious users' of public sector financial reports in New Zealand. To avoid these problems, a relatively unstructured approach was taken in this exploratory study. In addition, the user groups studied were based on an authoritative professional pronouncement.

User study research requires that groups of users or potential users are identified in advance. Groups of such users that have included in previous research are summarized in Sutcliffe (1985) and Jones et al. (1985). However, as Anthony (1978) pointed out, arriving at such a list is simply a matter of judgment, and others could arrive at a different list that is just as plausible. The set of user groups for this study was drawn from a New Zealand statement, the Statement of Public Sector Accounting Concepts (New Zealand Society of Accountants, 1987). Previous authorities were also reviewed to ensure that it was reasonably consistent with those used in earlier research. The New Zealand list was:

"Citizens, whether classified as electors, taxpayers, ratepayers, or as recipients of the goods, services or benefits provided by public sector entities;

Providers of resources to these entities;

The elected or appointed representatives of the above groups through such bodies as local authorities and Parliament, and, by devolution, government departments;

Analysts and members of the media concerned with analysis, review and dissemination of the information provided in reports" (NZSA, 1987).

Interviews or other contacts were made with 35 users or potential users over about four months in late 1990 and early 1991. In addition, the Hansard reports of the Parliamentary debates on the Public Finance Bill were examined, as well as other

debates for references to accounting issues; the proceedings of the Select Committee consideration of the Bill; the submissions made to the Select Committee; and the proceedings of Select Committee examinations of expenditure by departments. The contacts ranged from brief discussions or letters, to lengthy interviews, sometimes with repeated follow-up discussions. Detailed records based on notes taken at the time were kept. However, in order to maintain the confidentiality of the people who provided me with information, the sources are not disclosed. News reports were also studied for other comments about the reforms or about public finance.

FINDINGS

The individuals contacted differed widely in their awareness of the new public sector external reporting requirements and their views of them. However, their views could often be readily identified with the other members of their category. In this section, the views of each group listed in the Statement of Public Sector Accounting Concepts (NZSA, 1987) are reported.

Citizens, electors, ratepayers, recipients etc.

Individual citizens or voters are not usually found to be users of government financial statements (Jones, et al., 1985; FGRS, 1987)¹. Interest groups that represent citizens' views on particular issues have been used as a surrogate for citizens in previous research (Jones et al., 1985; FGRS, 1987). However, the range and number of potential interest groups is still extensive, and those with sufficient interest in the issues to make a submission on the Public Finance Bill were selected.

¹ It is reasonable that they would not be, since the information processing cost of analysing this information is high in proportion to the potential benefit of making a more informed voting decision. This is the 'Rational Ignorance Hypothesis' (Downs, 1957; Chan and Rubin, 1987).

Only five submissions were received spontaneously. These included two from public interest groups (The National Council of Women and the Environment and Conservation Organizations). Submissions were also made by an independent official body (the Legislation Advisory Committee;) by an economic consultancy; and by an accounts preparer/standard setting group, the New Zealand Society of Accountants. Three other submissions, from a bank, a sharebroker and an accounting firm, were commissioned by the committee.

The external submissions that were received spontaneously suggested a variety of ways in which the reforms could be extended. They did not regard the reforms as positively as some other groups did, especially in comparison with the standard setters or the politicians. They presented a variety of alternative views of what type of reform was required.

The National Council of Women supported the reforms in general. The Council's submission noted that "the proposed changes in accounting practice bring government departments into line with commercial practice and should make it possible for people to more readily understand government finance. This can only be beneficial." However, this group was also concerned that different management priorities were needed. Its submission commented that "efficiency is certainly highly desirable, but profits must not be allowed to become an over-riding concern".

The submission from the Environment and Conservation Organization was also concerned about another issue -- accounting for changes in national resource stocks and environmental quality in addition to financial reporting. In its oral submission, this group proposed a further innovation -- extending the reforms so that Ministers should be accountable for outcomes. (The requirements for performance measurement

are limited to outputs, equivalent to the goods and services produced by departments. Their effects on society, known as outcomes, are not reported on. The Audit Office submission also made this proposal). A group of economic consultants, Integrated Economic Services Limited, also presented a submission that suggested that a substantially different set of reforms was needed. Their proposals included specifying accounting standards (since current New Zealand standards were seen as 'too lax'); giving the Audit Office the power to assess the social and economic effect of government policies; and setting up a central budget office which would publish economic forecasts and five-year capital requirements forecasts. However, another group that made a spontaneous submission supported reforms of the kind proposed. The New Zealand Society of Accountants supported the bill, and made recommendations only on technical aspects of the changes. The remaining spontaneous external submission, from the Legislation Advisory Committee concentrated on definitions and technical matters concerned with the drafting of the bill.

The external organisations making submissions by invitation (a bank, a sharebroker and an accounting firm) generally supported the reforms. Their submissions made additional comments on the workings of the requirements. These also included suggesting that the budget should be presented earlier, before the financial year commences (i.e. before 30 June - it is currently required before 31 July). Another submission suggested that half-yearly accounts should not be required, or if required should not need to be audited.

Reviewing these external submissions indicated that there was not a high level of public interest in the reforms. However, there was some indication of the needs of

external users -- which mainly showed that if reform was needed by users, it ought to be somewhat different from that which was carried out.

Providers of resources

In previous studies in other settings, resource providers have been represented by lenders, or by market analysts in lending markets (Jones et al., 1985; FGRS, 1987; Hay, 1988). Since government departments in New Zealand are not permitted to borrow money individually, lenders did not represent a group of resource providers that could be considered in this setting. Employees are another substantial resource provider group that has been studied in other forms of research (eg Giroux, 1989), but has not previously been considered in user research. Two sources of the views of employees were considered: department submissions on the Parliamentary select committee's consideration of the Public Finance Bill, and discussions with public sector accountants.

Department submissions

Government departments and state-owned enterprises (SOEs) were encouraged by the committee to make submissions, although they would not normally do so (for constitutional reasons). As a result, 24 submissions from departments, SOEs and officers of Parliament were received. The submissions presented a management perspective of what should be required. They frequently argued for fewer accounting requirements and less constraint on expenditure. Six departmental submissions argued for less frequent financial reporting requirements (statements are required twice each year), or for the interim reports to be less detailed, or for a reduced requirement for auditing. Another six submissions from departments argued that they should have greater flexibility to shift resources between different functions. There were also seven submissions from state-owned enterprises arguing that they should be

excluded from the Bill's provisions since they already had other accountability requirements (the Bill was amended to remove the SOEs from its coverage).

Public Sector Accounting Practitioners and Standard Setters

The practitioners contacted frequently had involvement in establishing public sector accounting requirements, and the standard setters were generally involved in practice. As a result, these two categories were combined. The people in this group included Treasury and Audit Office officials, other public sector accountants and New Zealand Society of Accountants staff.

The practitioners and standard setters were very positive about the new requirements. Most believed that the reforms to public sector external reporting represented a major improvement over previous requirements and the standards that apply in other countries. They generally agreed with New Zealand Society of Accountants' president, Mr Jeff Chapman, that New Zealand has:

"the most outstanding financial management reform in the public sector in the world" (Chapman, 1990).

The people interviewed in this group perceived the reforms as primarily directed towards improved financial management. The parts of the reforms associated with improved external reports were frequently seen as secondary, but nevertheless valuable. However some recognized that the needs of users of external reports were an important consideration. A number of people suggested that more research should have been done to take account of the views of users; or that users will be considered to a greater extent in future stages of the reforms.

While some standard setters agreed that user needs were important, they did not appear to have much information about who the users of reports are. Most of the standard setters were unable to tell me of any users to whom government department annual reports are sent. (In many cases, there are very few names on the mailing lists). However, these individuals were sure that there would be users of the reports. It was also suggested that users might not emerge until the new form of reporting is more well known. "At this stage, the public is not discerning enough", one man said.

Standard setters suggested that users would include Parliament (regarded as the most important user), together with the news media, government officials, the general public, special interest groups and international financial institutions.

Elected representatives

I reviewed the records of Parliamentary proceedings concerned with the introduction of the reforms, as published in Hansard, and in select committee minutes and other documents. Recurring themes in the speeches of MPs included recognition from both sides of the House that reform was needed. The National Party Opposition charged that the Labour Government's reforms were 'partial and incomplete', while Government members criticized the National Party for not having made the reforms when National was in office. The reforms were almost always seen as directed towards better financial management and providing improved accountability to Parliament. The provision of information for citizens, and direct accountability of departments (instead of through Parliament) did not appear to be regarded as being as important.

The performance of each department was reviewed by a Parliamentary select committee, through the examination of each vote allocated in the annual estimates of expenditure. The reviews were generally conducted department by department, even

where, as in some cases, a department was responsible for more than one vote. I reviewed all the reports of these examinations for the year ended 30 June 1990. The review showed that the committees were definitely interested in financial and accounting issues. Financial performance of the departments was nearly always included as an item in the reports. The committees enquired into individual areas of expenditure or expenditure items, as well as the considering the financial statements and results as a whole. The accounting procedures used, and when the departments planned to move to using accrual accounting were also often discussed. The Members of Parliament that make up these committees can be considered users of the annual reports of departments. However, it is important to note that they also received a considerable quantity of other information. For most examinations, the committee called a number of members of the department's top management as witnesses, also received written responses to questions, and reviewed other reports and documents. Thus their position as users is somewhat different from the position of external users as it has usually been seen in professional statements. For example, after presenting the list of users which has been used in this paper, the Statement of Public Sector Accounting Concepts commented that:

"It is recognised that many of these users individually lack the authority necessary to demand and achieve satisfaction of their particular information needs" (NZSA, 1987).

That statement does not apply to Members of Parliament in Select Committees.

Information obtained from Parliamentary proceedings has certain limitations. The New Zealand Parliament is regarded as a forum for debate, not for decision making (Palmer, 1987). However, while this information did not provide an in-depth analysis of the issues, the Parliamentary debates gave an indication of the matters that were considered important by those in the political process.

Some of the members of other groups were concerned that members of Parliament would lack the time and resources to be able to review the new forms of external report adequately. This concern was reflected in Pallot's (1991, p. 217) questioning of whether Parliament has the resources, skill and time to evaluate the more comprehensive and detailed reports. In the United Kingdom, it has also been reported that MPs were unwilling to devote their time to the 'difficult and uninteresting' area of finance (Flegmann, 1985; Jones and Pendlebury, 1988).

I also contacted six minor political parties and asked for their views regarding the performance of public sector organizations and the reform of annual reporting by government departments. Only one group was sufficiently concerned about the issues to respond. The views expressed were strongly in favour of more information being available. "Information is power", I was told. However, the availability of other types of information, and knowledge about what could be obtained, for example under the Official Information Act, were seen as more important than publication of information in annual reports.

Analysts and members of the media

Members of the media did not appear to receive the new information with enthusiasm. A Parliamentary press gallery journalist told me "it presents a welter of information which no doubt is very good, but we just don't have the time or the expertise to work through it". Others told me that they do not consider that they have sufficient understanding to critically analyze the matters covered in reports. An education reporter told me she received the annual report of the Ministry of Education. But she said:

"There could be a major embezzlement on the first page, and I wouldn't even know."

Journalists also expected reports to be sent to them. They were not accustomed to having to order (or purchase) reports. However many departments do not have mailing lists for their annual reports, and some make a charge (Hay and Duggan, 1991).

Examining news reports also indicated that there is a low level of journalistic interest in external reports. With the help of an assistant I examined the daily newspapers published in the three largest cities in New Zealand over the period in which the 1990 annual reports of government departments were released. We found only seven news items discussing department annual reports.

The news items nearly always concentrated on a particular area of detail within a report, usually one that provided information about a specific issue of public spending. For example, a story about the report of the State Services Commission concentrated on public service salaries (The Press, 1990b); an item on the Ministry of Education's annual report discussed outstanding maintenance estimates (The Press, 1990a); and an article about the Inland Revenue Department's annual report covered changes in the level of debt owed by taxpayers (Tattersfield, 1990). A report of a select committee hearing into spending by the Department of Internal Affairs was concerned with accusations that the Prime Minister had requested a special discount on the price of a barbecue (Press, 1991a).

Most news reports discussing the changes in general terms were supportive of the reforms in general. (Cunninghame, 1990; MacLennan, 1990). However, there was at least one exception. The Christchurch Press (1991b) criticized the reforms as 'a local version of the Chinese cultural revolution'. It suggested that the functions of

government departments had been 'slewed' towards activities that are easy to measure.

The lack of journalistic interest in the information provided by the new reports is consistent with an authoritative view of the media's role in New Zealand. Palmer (1987) described the media in this country as a 'reporter of events', with a 'less highly developed' capacity to probe and question. In his view, the news media in New Zealand have not reached the stage where they can be considered as a 'fourth estate of government'. None of the submissions on the Public Finance Bill were made by people or organisations representing news media interests.

In addition to news media, accounting academics were selected as a group of potential users that was likely to be able to conduct informed analysis of public sector financial reports and accounting requirements. Academics were not as supportive of the reforms as the standard setters and practitioners. The concerns of "users" in particular were not considered to have much relevance by some academics. In addition, they did not see themselves as users.

Some academics saw the issue as concerned with the abstract notion of accountability, not necessarily with user needs. One professor described public sector financial reports as "a kind of accountability ritual". Others were sceptical about the issue of user needs simply because they believed there are very few users in New Zealand. However, the views of this group varied. Some of the people in this group were convinced that user needs were important, and that a user study should have been carried out before the reforms. However, academics were not themselves users of government department external reports. Even the specialists in public sector accounting did not see themselves as analysts or users. At two of the seven

universities there was no one with an active interest in public sector external accounting reports.

When the Public Finance Bill was introduced into Parliament, it was suggested by the Associate Minister of Finance that there would be few submissions to the select committee. However, he said "there are probably two professors of public sector accounting in the country who may write in and make conflicting points about the Bill" (Neilson, 1989). But, in fact, no academics made submissions.

SUMMARY

The parts of the reforms that were concerned with financial reporting by government departments were intended to improve accountability. Previous literature has examined accountability by reference to the information needed by users who do not have access to other information. This study also obtained information about the needs of users. However, examining the perceptions of what information was needed or used by people representing the categories of users showed little demand from users for the new information.

There was little evidence that users outside Parliament or the bureaucracy were dissatisfied with existing external reports, or wanted them to improve. The groups that did propose changes, by making submissions on the Public Finance Bill, made suggestions that were quite different from those that were adopted.

There was a high level of support from public sector accountants for the reforms to public sector financial management and external reporting. Other groups such as politicians appeared also to support the principles of the reforms. However, the potential users of the reports (apart from accountants) did not show a high level of

interest in the details of the changes and did not appear to make use of the reports. In addition, Parliamentarians, and some standard-setters, viewed the new reports as directed almost exclusively to providing better information for Parliament itself. But Members of Parliament have access to extensive other sources of information as well as these reports. And there were some doubts about whether Parliamentarians would have the resources to use the reports.

CONCLUSIONS

Although user studies are an established approach to research, the users of government external reports are somewhat chimerical. It is difficult to make contact with them and obtain their views. In this situation, the relatively unstructured research approach that was used appears to have been the most appropriate to obtain information, particularly for an exploratory study.

By exploring this issue, this study also explored the value of 'user needs' research in the context of external reporting for government departments in New Zealand. However, the results show that a user survey of the type conducted in other countries would not be appropriate or useful at this stage in the reform process.

This paper asks "who uses external reports?" It appears that there is little place for external users of the external reports of government departments at this stage of the reforms. The new requirements were designed with very little reference to users. In addition, there were very few users at the time the reforms were introduced. Perhaps the lack of users is itself an important clue in understanding public sector accounting. The reforms have an effect, by requiring annual reports to be produced in a form that was not required before. Presumably the new reports incur additional costs. However, explanations for the changes must be sought elsewhere -- perhaps as

another part of the operation of the system of government, or even as a consequence of the self-interest of public sector accountants.

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