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**ACCOUNTABILITY DISCLOSURES BY QUEENSLAND
LOCAL GOVERNMENT COUNCILS: 1997-1999**

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ABSTRACT

The annual report is promoted and regarded as the primary medium of accountability for government agencies. In Australia, anecdotal evidence suggests the quality of annual reports is variable. However, there is scant empirical evidence on the quality of reports. The aim of this research is to gauge the quality of annual reporting by local governments in Queensland, and to investigate the factors that may contribute to that level of quality. The results of the study indicate that although the quality of reporting by local governments has improved over time, councils generally do not report information on aspects of corporate governance, remuneration of executive staff, personnel, occupational health and safety, equal opportunity policies, and performance information. In addition, the results indicate there is a correlation between the size of the local government and the quality of reporting but the quality of disclosures is not correlated with the timeliness of reports. The study will be of interest to the accounting profession, public sector regulators who are responsible for the integrity of the accountability mechanisms and public sector accounting practitioners. It will form the basis for future longitudinal research, which will map changes in the quality of local government annual reporting.

Keywords: local government accountability, public sector, local government performance

ACCOUNTABILITY DISCLOSURES BY QUEENSLAND LOCAL GOVERNMENT COUNCILS: 1997-1999

INTRODUCTION

The Australian public sector has been under an intensive period of reform since the early 1980s. A managerialist philosophy has been promoted. This philosophy, with its accompanying reforms, has focused on the efficiency of agencies, cost savings and streamlining of operations. Local government agencies once held accountable for compliance with spending mandates are now accountable for their performance (Davis et al., 1999; Parker and Guthrie, 1993; Gray and Jenkins, 1993). This performance emphasis in management has led to an increased awareness of the role of annual reporting in discharging accountability obligations.

In an effort to improve the quality of local government annual reporting, governments around the world have, to varying degrees, regulated the content of a local government's annual report. Jones and Pendelbury (1991) argue that in England disclosure practice has changed over 10 years and the threat of government regulation is the anchor around which policy-making revolves. Further, "the government's motives for threatening greater regulation appear to...[come from the fact] that the published accounts of local authorities can have and should have information content for users"(p32). In Australia, as elsewhere, local governments have developed and refined annual reporting disclosures since the mid 1980s (Milazzo, 1992; PAC, 1996; PAEC, 1999).

Despite the recognition that a quality annual report is necessary to discharge public sector accountability, there have been relatively few empirical studies on the quality of the information disclosures in local government annual reports. Studies of various aspects of local government reporting practices have been conducted in the UK and the US but there have been no detailed and sustained empirical studies on the quality of annual reports in Australian local government, nor any analysis of what contributes to that quality. In fact, in one jurisdiction in Australia, Ryan et al. (2000a) note that no local government council had ever received an "Award of Excellence" in the Public Sector Annual Reports Competition. While there may be

other interpretations of this situation, one possible conclusion is that the quality of reporting by Australian local governments is variable.

This research has two objectives. The first objective is to examine the quality of the disclosures by Queensland local governments.¹ The second objective is to investigate the factors that may contribute to the quality of disclosures by local governments. The paper will systematically identify the quality of reporting by local governments in Queensland and hence provide the means necessary to establish whether local governments are discharging their accountability obligations. The research will form the basis for future longitudinal research, which will map changes in the quality of Australian local government annual reporting. The results of this research should thus be of significance to accounting practitioners, public policy makers and the broader community. The paper proceeds as follows. The next section reviews the prior literature in the area. The research method and results are then reported. The paper concludes with the findings, areas for future research and limitations of the study.

INSIGHTS FROM PRIOR LITERATURE

The Role of Public Sector Annual Reporting

There are two commonly accepted objectives of public sector annual reporting - accountability and decision usefulness. While the decision usefulness objective for the private sector has been accepted with very little objection (but see for example, Ijiri, 1983; Roberts and Scapens, 1985; Williams, 1987; Coy et al., 2001), Rutherford (1992) argues that the elusiveness of what constitutes a decision in a public sector context, may explain why in public sector conceptual frameworks there is a tendency to introduce notions of accountability. Pallot (1992, p4) concurs, arguing that "the non-voluntary nature of the relationship between the providers and users of finance in government also makes *accountability* particularly important in the public sector".

However, the notion of 'accountability' is contested. 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 by government entities (see for example, Glynn and Perkins, 1997; Sinclair, 1995; Stewart, 1984). Sinclair (1995) identifies 5 forms of accountability, one of which is 'public accountability', the "more informal but direct accountability to the public, interested community groups and individuals" (p 225). Public accountability is premised on the "right to know" by society (Coy and Pratt, 1998). Public accountability is "rights based" not utilitarian, and as such relevant information is owed to the public (Pallot, 1992).

The presentation of annual reports is one stage in a cycle of accountability that begins with the budget process and ends with the presentation of reports to Parliament (English and Guthrie, 2000). As Coy and Pratt (1998) and Sinclair (1995) argue, annual reports need to be seen in their context as only one means of discharging accountability. However, they are regarded as the cornerstone of public and Parliamentary scrutiny (see for example, SSCFPA, 1989; Milazzo, 1992). Further they enable local governments to discharge their accountability obligations to a diverse group of stakeholders (JCPA, 1989; PAEC, 1999; Banks and Nelson, 1994; Coy et al., 2001). 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 [public sector] 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.

Some however, have argued that there is little public interest in the *financial reports* of public sector agencies (Jones 1992). While this view was of the financial reports of public sector agencies, those financial reports account for only one aspect of what is reported in an annual report. Mayston (1992) recognises the problems with public interest in annual reports, and argues that while information may not be used directly by taxpayers, information provided is used by intermediaries. The interest in annual reports and the quality of disclosures in those reports is really 'a chicken and egg' situation (Likierman, 1992). Public interest, he maintains, will improve when the disclosures and quality of annual reports improve over time. This view

is endorsed by Coy and Pratt (1998) who argue that as the general level of education across society and the quality of the reports improve, so more stakeholders may take an interest in the accountability processes.

The Content of Public Sector Annual Reports

There is a problem with what is included in a public sector annual report. The content of an annual report is decided upon by the author, and so the information which may cause difficulties and embarrassments can be omitted (Normanton, 1971). These thoughts are echoed by Coy and Pratt (1998, p541-542) who argue that "the content and presentation of annual reports may have less to do with what are the best technical approaches, and be more the result of political compromises between the various interested parties." Because of these concerns Normanton (1971) argues that the very essence of accountability must be assessed by others outside the organisation. This may be one reason why there is a prevalence of evaluation by external bodies (such as annual reporting competitions) to assess the quality of the information contained in annual reports (Magann, 1983).

While there are few comprehensive studies of the content of local government annual reports, most studies concentrate on the disclosure of specific items. Some studies have focussed on the content of the *financial reports* of local governments. Daniels and Daniels (1991) argue that in the US, the current content of municipal financial reports is not sufficient to evaluate the financial condition of a municipality and changes are necessary to satisfy users' needs for adequate information. This view is reinforced in Australia where Priest et al. (1998) found that in addition to traditional accounting information, users have a preference for cost of service information. In the UK, Collins et al (1991) argue that simplified financial statements may assist external users. Lapsley (1992) concurred, arguing for the need for simplified financial statements to supplement the traditional general purpose statements.

Another item which has received attention is the timeliness of annual reports. It is generally agreed that the quality of an annual report depends on its timeliness as well as its comprehensiveness (Dixon et al., 1991). Shand (1981) argues that a late annual report is of limited use, and Boyne and Law (1991) concur, arguing that a delay in the publication of an

annual report undermines the role of an annual report in the local democratic process. The Royal Australian Institute of Public Administration (RAIPA, 1988) goes further, arguing that failure to produce a timely report is a visible case of mismanagement of an essential management activity. Carnegie (1990) conducted a review of the timeliness of Australian local government annual reports, and argued that while it is common to have a reporting lag of five months, there are no sanctions for untimely annual reporting. Both Dixon et al. (1991) in the case of New Zealand universities, and Smith and Coy (1999) in the case of New Zealand local councils found a positive correlation between the quality of reporting and the timeliness of the report. That is, they found that the higher the quality of the report, the more timely the report. However, Coy et. al, (1994) in a study of New Zealand universities found no relationship between timeliness and quality of disclosures.

Another aspect of local government reporting which has widespread acceptance in terms of discharging accountability is the reporting of performance information. Performance information examines the outcomes of the organisation by comparison to its objectives (MAV, 1999). It is widely agreed that both financial and non-financial measures are essential components of performance assessment and the discharge of accountability (Boyne and Law, 1991; Barton, 1999; Coy, et al., 2001). In an empirical examination of the quality of performance information supplied by Welsh Councils, Boyne and Law (1991) found that the quality of performance information was generally poor and had not improved over time. These results are mirrored in the university sector where disclosures relating to performance information was the weakest section of the reports in Australia, New Zealand and Canada (see Nelson et al., 1997b; Coy et al., 1994; Banks and Nelson, 1994).

The ability to provide accountability information is affected by the environment in which the organisation operates (Dixon et al., 1991; Cameron and Guthrie, 1993). One factor which may have a significant effect on the quality of disclosures is the size of councils. Taylor and Rosair (2000) in an examination of accounting disclosures in the annual reports of government departments found that the size of a department does influence the amount of accountability based disclosures. Further evidence along these same lines was provided by Mack et al. (2001), who found that the annual report dissemination lists and the distribution patterns of local

government annual reports were different depending on the size of the councils. This research raises the possibility that the use made of local government annual reports, and by implication the quality of information contained in them, may vary depending on the size of council.

In summary, the prior public sector literature acknowledges the role of annual reporting in the discharge of public sector accountability. However, "powerful high-level general theories of accountability provide only limited insight" into which particular disclosures should be reported (Rutherford, 2000). The empirical literature provides evidence that the financial disclosures, the timeliness of annual reporting, the reporting of performance information, and the size of public sector entities are all issues which may influence the quality of disclosures in the annual reports of local governments.

METHOD

There are two main approaches to measuring disclosures in annual reports. The first approach is by content analysis, which is a method of codifying the content or text of a piece of writing into categories based on chosen criteria (Weber, 1988). "Form oriented" analysis counts words or specific references; and "meaning oriented" analysis focuses on analysing the underlying themes (Smith and Taffler, 2000). This method is often applied to a particular disclosure, for example social and environmental disclosures, and conclusions drawn about the importance of the item using these disclosures as a proxy.

The second approach is the use of disclosure indices which calculate an index score as an indication of the extent of disclosure of certain preselected items (Marston and Shrives, 1991). Those items are usually selected by prior research and empirical analysis. Items in the index can be weighted to take into account that some items might be considered more important than others. However, if items are weighted, it is advisable to calculate unweighted scores to see the effect of the weighting. The method has been in wide use since the 1960s, and has persisted over time despite the acknowledged deficiency that it can be subjective (Marston and Shrives, 1991).

The concept of a disclosure index has been used in a significant body of prior research to investigate the quality of disclosures in annual reports of public sector agencies. This work has been carried out in the university sector. The initial work was conducted in New Zealand by Dixon et al. (1991), who used an index based on a dichotomous system to rank the New Zealand universities in terms of their reporting practices. They concluded that reporting had improved over the 4 year period (from 1985 to 1989). Subsequent researchers improved this index by allowing for differences in the quality of individual disclosures (that is, by weighting the criteria in the index). The Modified Accountability Index (MAD) was thus developed from the accountability literature, analysis of annual reports, and practitioner advice. The index was initially used in New Zealand (Coy et al., 1994), but has subsequently been externally validated using data from Australian (Nelson et al., 1997a), Canadian (Banks and Nelson, 1994) Scottish (Fisher et al., 1996) and English, Welsh and Northern Ireland universities (Banks et al., 1997). A comparative study of Australian and Canadian university disclosures was published by Nelson et al., in (1997b). Nelson et al. (1997b) argue that accountability disclosures are similar across nation states, and consequently the MAD index has been widely used in different countries in the university sector. Banks and Nelson (1994, p288) argue that its method of derivation give "an a priori reliability to the scale in terms of its expected ability to measure the quality of disclosures". These same arguments are relevant to local government accountability disclosures.

Development of the Index

The concept of a disclosure index is used for this research. The index used has been based on the MAD index because of its external validation in a number of public sector settings. However, the index has been modified to include further criteria that have relevance for local government. To avoid confusion with the MAD index, the resultant criteria that have been developed in this study will be called the Local Government Accountability (LGA) Index. As its name suggests, it has been specifically designed for local governments. The development of the index will be briefly outlined.

The MAD index has four major sections: 'Overview', 'Service Performance', 'Financial Performance', and 'Physical and Financial Condition'. These four sections have been collapsed

to three in the local government index. The 'Overview' section gives information of a general nature, and correlates with that in the MAD index. The 'Performance' section has expanded the MAD 'Service Performance' section and the section on 'Physical and Financial Condition' to include both aspects of performance - financial and non-financial. This reflects the increasing importance of both aspects of performance in local councils (see for example, Sinclair, 1995; Boyne and Law 1991; Ryan et al., 2000b; Douglass, 1996). The third section is 'Financial Information' which relates to the reporting in financial statements and other financial information. Within each of these sections, there are various individual criteria.

Normanton (1971) argues that the very essence of accountability means that outside bodies must determine the content of annual reports. By and large the individual criteria used in the MAD index are still relevant to local government. This conclusion is supported by an examination of the best practice guidelines produced by independent bodies (see for example, QARA, 2000; MAV, 1999; PAEC, 1999; PAC, 1996). By way of example, the Municipal Association of Victoria (MAV1999, 6.6) recommends 8 key elements of disclosures in public sector annual reports. These relate to; overview, highlights, review of operations, performance, the future, people, financial information and compliance with statutory requirements. The element on "People" encompasses, amongst other things, disclosures on councillors, corporate governance, senior management, staff, organizational (structural) matters, occupational health and safety, and equal opportunity requirements.

However, two specific items that are not included in the MAD index, but are present in best practice guidelines, are reporting on the environment and reporting on corporate governance. Both of these elements has been included in the LGA Index.

Local governments have a long-term relationship with the environment, and a significant management role in environmental activities such as waste management, health services, infrastructure management, salinity control and community care (Douglass, 1996). There is an expectation on the part of local communities that public sector organisations lead the way in disclosing environmental activities to stakeholders through their annual report (Burritt and Welch, 1997; Douglass, 1996). In relation to local governments, the reporting of environmental

matters is considered to be of such importance that for the past three years the Australian Bureau of Statistics has been surveying local governments around Australia to collect information on their expenditure and management. It is expected that a schedule detailing environmental items will be attached to the reports of local governments in the near future (Tegart, 2001). The concept of the environment has thus been included in the criteria.

In addition, the concept of corporate governance has been included. Corporate governance in local government has two elements - performance and conformance (see Ryan and Ng, 2000). CIPFA (2000, p.12) define corporate governance in local government as “the system by which local authorities direct and control their functions and relate to their communities”. This is reflected in the different dimensions of a local authority’s business, namely their community focus, service delivery arrangements, structures and processes, risk management and internal control, and standards of conduct. CIPFA (2000, p.30) further argue that councils should “publish on a timely basis, within the annual report, an objective, balanced and understandable statement and assessment of the authority’s risk management and internal control mechanisms and their effectiveness in practice”. There are two criteria on corporate governance in the index - 'corporate structure' and 'internal control'. Both corporate structure and internal control (including internal audits and risk management) have been recognised as key components of local government accountability (CIPFA, 2000; ARA, 2000; QARA, 2000; Ryan and Ng, 2000).

The LGA Index is shown in Table 1.

Table 1
LGA Index Subjective Weights by Criteria

Overview	
Statement of Objectives	3
Mayor's Report	2
CEO's Report	2
Corporate Structure	1
Internal Control	2
Environment Report	2
Personnel	2
Occupational Health & Safety	2
Equal Employment Opportunity	2
Summary Facts	1
Performance	
Performance Measurement	3
Actual to Budget Comparison	3
Financial Performance Ratios	3
Financial Information	
Financial Review	1
Statement of Financial Performance	3
Statement of Financial Position	3
Statement of Cash Flows	3
Accounting Policies	2
Non-Current Assets	1
Investments	1
Commitments and Contingencies	1
Remuneration	<u>2</u>
Sum of Weights	45

The MAD index also assigns weights to each of the criteria with a 1 for low importance, 2 for medium importance and 3 for high importance. The criteria and weights were originally developed by Dixon et al. (1991) and externally validated by reference to practitioners in the area and by reference to a review of the literature (Banks and Nelson, 1994). Consistent with this approach, the modifications to the criteria and weights in this index have been validated by an analysis of local government literature, statutory requirements, accounting standard requirements, best practice recommendations from bodies such as the MAV and the Public Estimates and Accounts Committee and consultation with practitioners. Following the guidelines originally set by Banks and Nelson (1994) and Smith and Coy (1999), the overall

guiding principle in this determination has been the public accountability of local government to the constituency and users of annual reports. The weights for each of the criteria are also shown in Table 1.

The assignment of weights to each of the criteria can have a subjective element. Marston and Shrives (1991, p.203), argue that to ascertain whether or not the weightings are biasing the results, they could also be determined on an unweighted basis. Both the weighted and unweighted results for this study are reported later.

Having developed the index, the local governments to be examined were then determined.

Data Collection

In 1998, there were 125 local government councils in Queensland. These councils range in size from Brisbane City Council which had total revenue of \$1.0 billion to Perry Council with total revenue of \$1.9 million. All councils have been required to prepare an annual report with accrual financial statements since 1995, under the provisions of the *Queensland Local Government Finance Standard 1994*.² Neilsen (1993) argues that the generation of information and publication of accounting reports with full accrual accounting concepts is a costly exercise for local governments. Boyne and Law (1991) suggest that the major constraint on the production of an annual report was “scale” including the low number of staff employed and the lack of financial resources to cover the costs of producing reports. Because the objective of this study is to examine the quality of reporting, the decision was taken to only examine larger councils as it was more likely that they had the resources to commit fully to developing the necessary systems to prepare annual reports that fulfil their accountability obligations.

Local government councils in Queensland must comply with the guidelines set down under National Competition Policy (NCP).³ These guidelines divide councils into two groups: those that must meet the requirements of NCP because they provide commercial services; and those that do not have to meet the requirements. In Queensland, 18 councils come under the NCP guidelines. These councils must separate their commercial services and separately report the results of such services.⁴ This degree of segment reporting necessitated that the NCP councils

install more sophisticated accounting systems which provide this detailed information. Data was collected from these 18 NCP councils. In addition, data was also collected from the next largest 18 councils in order to investigate whether size was a determinant in the quality of reporting.

Consequently, the data base for this study are the largest 36 councils in 1998.⁵ It is argued that this sample of reports should provide an insight into the quality achieved by the councils that can best afford the cost involved in preparing annual reports. It is acknowledged that this is not a representative sample of reporting throughout the jurisdiction. However it is suitable for the purposes of this study, as the study's aim is to describe practice, and not infer conclusions to the whole local government population.

Local governments in Queensland were required to prepare an annual report using accrual financial reporting from 1 June 1995 (*Queensland Local Government Act 1993, Queensland Local Government Finance Standard 1994*). However, generous transition provisions were available for the valuation of most non-current assets until 30 June 1996. Because the financial year ending 1997 was the first year that all councils were preparing accrual financial reports, this became the starting date for this study. The annual reports for the financial years ended 30 June 1997, 1998 and 1999 for the 36 councils were analysed.

In terms of the scoring process, two researchers independently analysed all of the reports, and scored each criteria in the LGA Index on a 0-5 scale (see Appendix A).⁶ The resultant scores of each researcher were then compared, and each instance of disagreement was discussed between the two researchers. All discrepancies were able to be resolved to the satisfaction of both parties through clarification of the criteria.

RESULTS AND ANALYSIS

Quality of Reporting on the Basis of Criteria

Table 2 shows the LGA Index scores by criteria. The first section, the 'Overview' section is the weakest area of reporting with a mean of 1.93 out of a possible 5. The reason for this is the

low scores recorded for several of the individual criteria: internal control mechanisms (.48) which is a key component of corporate governance; details of personnel (.87); occupational health and safety initiatives (.88); equal employment opportunity programs (1.51); and summary facts (1.08). In relation to reporting on equal employment opportunity programs, these results confirm those of Smith and Coy (1999) who found that EEO disclosures were simply a statement of the organisation's policy, with no descriptive or performance details of how or whether the goals of these policies were achieved. None of this information in the overview section is confidential and so it could be argued that there is no impediment to reporting this data

Table 2
LGA Index Summary of Scores Attained by 36 Councils by Criteria
Rated out of 5

	Total Possible	1997	1998	1999	Mean
Overview					
Statement of Objectives	5	2.72	2.31	2.36	2.46
Mayor's Report	5	2.56	2.56	2.78	2.63
CEO's Report	5	2.39	2.25	2.61	2.42
Corporate Structure	5	3.25	3.42	3.67	3.45
Internal Control	5	0.33	0.50	0.61	0.48
Environment Report	5	3.33	3.44	3.67	3.48
Personnel	5	0.86	0.92	0.83	0.87
Occupational Health & Safety	5	0.97	0.75	0.92	0.88
Equal Employment Opportunity	5	1.56	1.44	1.53	1.51
Summary Facts	5	1.03	1.14	1.08	<u>1.08</u>
<i>Overview Mean</i>	5				1.93
Performance					
Performance Measurement	5	2.81	2.72	2.67	2.73
Actual to Budget Comparison	5	2.75	3.94	3.94	3.54
Financial Performance Ratios	5	1.89	2.03	2.25	<u>2.06</u>
<i>Performance Mean</i>	5				2.78
Financial Information					
Financial Review	5	2.42	2.36	2.19	2.32
Statement of Financial Performance	5	4.00	3.97	4.00	3.99
Statement of Financial Position	5	4.97	4.92	4.92	4.94
Statement of Cash Flows	5	5.00	4.94	4.94	4.96
Accounting Policies	5	4.72	4.69	4.75	4.72
Non-Current Assets	5	4.75	4.89	4.92	4.85
Investments	5	4.28	4.42	4.53	4.41
Commitments and Contingencies	5	4.28	4.36	4.61	4.42
Remuneration	5	2.81	2.69	2.58	<u>2.69</u>
<i>Financial Information Mean</i>	5				4.14

In the second section, the 'Performance' category, the overall mean is 2.78 out of 5. This is consistent with prior research in the area of performance reporting in Australian universities where Nelson et al. (1997a) found that disclosures of financial and service performance were weak. The main reason for the low scores in this study is that councils failed to report their achievements against their non-financial and financial targets. The results indicate that councils are not disclosing their objectives for the next year (2.46) and then also fail to report how the council has performed in relation to achieving those objectives the following year (2.73). This is one of the key elements in the recommendations by MAV (1999 s 6.6) and reinforced in the case of Welsh councils by Boyne and Law (1991, p193) who argue that:

“the greatest weakness of current annual reports is the failure to state explicit priorities and targets. It does not seem unreasonable to require local councils to specify what they expect to achieve and to report on their progress towards such achievements. If objectives are vague or unstated, then accountability is lost in a fog that serves the interests of politicians and officials much better than the interests of the public.”

CIPFA (2000) concur with this view, highlighting the need to monitor performance and report against agreed standards and targets. The results indicate that councils do not disclose this financial and non-financial information, despite the fact that the *Queensland Local Government Act 1993* (s52) states that “a local government’s annual report also must contain an assessment of its performance in implementing its corporate and operational plans.”

The area in the performance category which has the strongest result is that of the actual to budget comparison (3.54). One possible explanation for this is that there is a legislative requirement under the *Queensland Local Government Finance Standard 1994* to report this comparison (s52). Kloot et al. (1999) have found that budget variance analysis has been shown to be the most common form of performance reporting for Australian local governments. The stronger result here is also consistent with the results of Dixon et al. (1991) and Gray et al. (1987) who found high conformance in relation to professionally required promulgations.

A further weakness in reporting on performance is in the area of financial performance ratios (2.06). The main problem is that the performance trends over several years are not disclosed, making it difficult to judge how the council is performing financially. Providing a range of ratios with appropriate trends and explanations as to what information these ratios are trying to portray, gives the reader a much clearer picture of the council's financial performance (Ryan et al. 2000b).

In the third category of 'Financial Information', local governments received the highest score (with an overall mean of 4.14 out of 5). A possible explanation for this higher result is that the area of financial reporting in local government has received consistent attention from the regulators since the early 1990s (Nielsen, 1993) and most councils throughout Australia have implemented an accrual accounting system. The areas which have resulted in a low score are the financial review (2.32) and remuneration provisions (2.69). The 'financial review' criterion shows the overall financial summary of the council for the year in a snapshot. Prior research has shown that as accounting information becomes more complex, information of this type is valued by the average reader (Ryan et al., 2000b). The other area of weakness is the disclosure of the remuneration of councillors and executive staff. Remuneration of councillor's salary and the policies used were generally revealed. However, the salaries of higher management in councils are generally not made public.⁷ The PAC (1996) argue that related party disclosure, for agencies with boards of management, and remuneration to public sector officials should be reported in annual reports. Milley (1999) concurs with this view, arguing for the disclosure of public sector executive salaries. Only one council in one year reported this executive salary information.

Quality of Reporting by Individual Councils

The LGA Index weighted score by council is shown in Table 3. Each of these scores is obtained by multiplying the score for each criteria by the weighting, summing the resultant scores and expressing this as an index with the total possible score being 100. In other words, the score is a percentage of the total possible score that could be obtained.⁸

Table 3
LGA Index Weighted Scores by Council (Normalised to 100)
Sorted on 1999

	1997	1998	1999
Redcliffe	56.0	63.6	76.0
Cairns	70.7	70.7	72.9
Brisbane	70.7	65.8	68.4
Hinchinbrook	66.7	67.1	68.4
Logan	68.0	67.6	68.0
Mackay	64.9	69.8	67.1
Maroochy	68.4	64.9	66.2
Toowoomba	53.8	59.6	65.8
Pine Rivers	57.3	64.0	65.3
Caloundra	57.8	64.9	65.3
Cooloola	58.2	64.4	65.3
Johnstone	65.8	61.3	64.9
Warwick	55.6	62.7	64.4
Caboolture	54.7	56.0	64.0
Townsville	55.6	61.8	62.7
Thuringowa	61.3	60.4	62.2
Livingstone	58.7	60.0	61.3
Bowen	61.8	62.2	61.3
Whitsunday	53.3	53.8	60.9
Maryborough	60.9	56.9	60.4
Ipswich	52.4	59.1	60.0
Beaudesert	71.6	65.3	58.7
Burdekin	56.9	57.8	58.7
Banana	53.8	48.4	58.7
Calliope	55.6	56.9	58.7
Gladstone	55.1	52.4	57.8
Gold Coast	54.7	65.8	57.3
Noosa	65.8	61.3	56.4
Mareeba	49.3	48.9	56.4
Bundaberg	52.0	54.2	55.6
Redland	56.9	56.9	52.4
Rockhampton	55.6	52.4	51.1
Douglas	54.2	50.2	51.1
Mt Isa	56.4	54.2	50.2
Hervey Bay	44.9	44.9	48.0
Emerald	48.4	51.1	46.7
Mean	58.43	59.37	60.80
Standard Deviation	6.60	6.42	6.73
Range - Minimum	44.9	44.9	46.7
Range - Maximum	71.6	70.7	76.0

From the data in Table 3, it would appear that there has been an improvement in the scores obtained by the councils over the three years. To test the significance of this, a paired sample of means was conducted and the results are shown in Table 4. The results show that a significant improvement has occurred over the three year period from 1997 to 1999. A duplicate set of tests was calculated on the unweighted scores for each council to ascertain if the criteria weightings were biasing the results. The resultant mean and standard deviations are very similar to those obtained in Table 3⁹ and the significance of the paired sample of means is similar to that obtained in Table 4.¹⁰

Table 4
Paired Sample t-Test
LGA Index Weighted Score with a maximum of 100
36 Councils Showing Paired Sample of Means

Year	Difference in Means	Degrees of Freedom	t-statistic	Probability (Sig 2-tailed)
1997-98	.94	35	1.267	0.213
1998-99	1.43	35	1.923	0.063
1997-99	2.37	35	2.295*	0.028

* significant at the 0.05 level

While this data is for a short period of time, it is consistent with the results in the university sector, where a sevenfold increase in the MAD scores over the 8 year period from 1985 to 1992 was reported (Coy et al., 1994). Future research on local governments could map these trends over a longer period of time.

Prior research has argued that timeliness of annual reports is a key component of the discharge of accountability obligations (see for example, Coy et al., 1994; Carnegie, 1990, Smith and Coy, 1999). At the time of the study the *Queensland Local Government Finance Standard 1994* s53(1) stated that the financial statements must be given to the Auditor General by 15 September and the *Queensland Local Government Act 1993* s531(2) stated that the annual report must be presented to the local government for adoption by November 30. Therefore the maximum time that should elapse between the end of the financial year and presentation to the

public is 5 months (153 days). Using the approach taken by Dixon et al.(1991), this study used the number of days between June 30 and the date of the Auditor's Report as a proxy for timeliness. The results, as shown in Table 5 and Appendix B, indicate that in 1997 and 1998, the average time taken was approximately 4.5 months (139.3 and 136.6 days) and in 1999, the result was nearly 5 months (146.8 days). In 1999, approximately 36% of councils did not meet the 153 day deadline.¹¹ These results are consistent with the findings of Carnegie (1990) who found that a reporting lag of 5 months was not uncommon. Coy et. al's ., (1994) eight year study of various aspects of the reporting of New Zealand universities found that the timeliness of annual reports has improved over time, and this may happen with local government councils in the future.

Table 5
Timeliness as measured by the number of days from June 30
to the date of the Auditor's Report

	1997	1998	1999
Mean Days	139.3	136.6	146.8
Standard Deviation	24.2	34.6	40.5
Range - Minimum Days	71	41	69
Range - Maximum Days	200	226	268

Factors Influencing the Quality of Disclosures

The second objective of this study was to examine the factors that influence the quality of disclosures in the annual reports of local governments. Prior research has shown the size of the entity and the timeliness of their reports may influence quality.

This study examines the top 36 councils as it was argued they were the most likely to have the resources to produce a quality annual report. In other words, it is to be expected that the larger organisations will be able to commit more resources to the process, and hence produce a higher quality report (Boyne and Law, 1991; Neilsen, 1993). Both total revenue and total assets are often used as a proxy for size. However, because the valuation of assets in the local government sector is still contentious (Barton, 1999), in this study, total revenue was chosen as a proxy for size.

Table 6 shows the correlation between the LGA Index scores and total revenue.¹² No correlation was found in 1997. One explanation for this is that 1997 was still too close to the accrual accounting transition periods, and the larger councils (with their large asset base) were struggling with implementing full asset valuation and so did not have the resources to apply to their annual reporting disclosures. However, in 1998 and 1999, there was a significant correlation between the LGA Index scores and total revenue. This result may be explained by the fact that by this time, the accounting systems had been bedded down, and attention and resources could be diverted to accountability disclosures. Thus, from this limited range of data, it appears as if the size of the local government does influence the quality of their disclosures.

Table 6
Non-Parametric Tests of Differences for 36 LGA Index Scores and Total Revenue

	Kendall's Tau_b		Spearman's Rho	
	Correlation	Probability (Sig 2-tailed)	Correlation	Probability (Sig 2-tailed)
Score 1997				
Total Revenue	.175	.137	.266	.118
Score 1998				
Total Revenue	.361**	.002	.520**	.001
Score 1999				
Total Revenue	.277 *	.018	.373 *	.025

* Correlation is significant at the .05 level (2 tailed)

** Correlation is significant at the .01 level (2 tailed)

Some modifications were then made to the data, in order to counter any bias. First, outliers were deleted. Because Brisbane and the Gold Coast have much larger revenues than the other councils, their inclusion in the data could mask the results.¹³ To test if these outliers distorted the above results, both councils were excluded from the correlation calculations and the statistics recalculated. The results were similar to Table 6 with a significant correlation between the LGA Index scores and total revenues for 1998 and 1999, but no significant correlation for 1997.

Second, tests were done to see if the criteria weightings biased results, that is, tests were also performed on the unweighted scores for each council. The results of the correlation between the unweighted index scores and total revenue were similar to those reported in Table 6, with significant correlations resulting in 1998 and 1999.¹⁴ This indicates that the weightings did not influence the results, adding an extra degree of certainty about the results obtained.

The 1998 and 1999 results will need to be extended before any conclusions can be drawn. However, this Australian evidence that the quality of disclosures is correlated with the size of local councils is contrary to that in New Zealand universities where both Dixon et al. (1991) and Coy et al. (1994) found no relationship between the size of an entity and the quality of their disclosures. However, this difference in the results may be partially explained by the fact that there is not the variation in size in universities that there is in the local governments being studied.

A further factor that may influence the quality of reporting that has been examined in the prior research is that of timeliness. Some argue that the higher the quality of the report, the more timely the report. Prior research has produced inconsistent results on this relationship between the quality of reporting and the timeliness of the report. This study found no correlation between the quality of disclosures as measured by the LGA Index scores and timeliness of the 36 Queensland local government annual reports for the three years examined.

Another factor that may influence the quality of reporting that has not been examined in prior research, is the sophistication of the accounting systems in place. As previously mentioned, local government councils in Queensland must comply with the guidelines set down under National Competition Policy (NCP). It is arguable that the NCP councils have access to more detailed information on their activities and will thus be able to report this in their annual report. A t test and a Mann-Whitney test were conducted to see if there was a relationship between the quality of reporting and the type of council – NCP or not NCP. The results for all three years were not significant and so it appears as if there is no relationship between reporting under NCP guidelines and producing a quality annual report.

CONCLUSION

It is widely agreed that local government councils are accountable to the electorate for the conduct and results of their operations. The annual report is regarded as the main mechanism used to convey information on councils and hence discharge their public accountability obligations. Although the rendering of accountability by local governments through general purpose annual reports is viewed of fundamental importance, there remain gaps in the literature about the more precise ways accountability can be measured. There is no independent published accountability index for local governments. This makes it difficult to evaluate, in a systematic way, whether the publicly-available information a local government provides renders it sufficiently accountable. If the degree to which accountability is rendered through annual report disclosures can be reliably measured, then the issues which need to be addressed in order to improve accountability disclosures can be more meaningfully investigated, both by academics and public policy practitioners who are responsible for the integrity of accountability mechanisms.

The aim of this research has been to examine the quality of disclosures in annual reports by Queensland local governments, and to investigate the factors that may contribute to that quality. Consistent with prior public sector research, an accountability index was developed which reflects the key features of 'best practice' disclosures by local governments. This index was then used to identify the quality of reporting by local governments in Queensland from 1997 to 1999. Results show that on average, the quality of report disclosures has increased over the three year period. However, while the financial disclosures were more complete than the non-financial disclosures, the disclosures relating to aspects of corporate governance, remuneration of executive staff, personnel, occupational health and safety, equal opportunity policies, and performance information are particularly scant. The research confirms prior research in the public sector that the timeliness of reporting is a problem. In relation to the factors that may contribute to that quality, the research shows a positive correlation between the size of the local government and the quality of disclosures. This is in contrast to prior research in the university sector in New Zealand. This study also provides Australian local government data on the timeliness of reporting. The study found no correlation between the

quality of reporting and timeliness, whereas the prior New Zealand research has produced inconsistent findings on this point.

The results of this preliminary research show that while overall quality of reporting has improved over time, there are certain elements in which the disclosures are weak. The identification of these areas may allow public policy regulators to focus on the components of annual report disclosures. Further, the insights from this paper may assist when policy guidelines are being proposed, or may merely be the catalyst to the raising of the awareness of the entire spectrum of accountability which has the potential to lead to an improvement in the accountability disclosures.

While providing some useful insights into the annual reporting practices of local governments, the research does have limitations. Councils prepare many documents; formal plans (including corporate plans and budgets) and informal documents (such as short information brochures, etc) and these have not been studied in this project. The main assumption in this research is that the annual report is the key public accountability document which contains comprehensive details of all aspects of the council's operations. Because of the heterogeneous nature of entities in local government (as well as the public sector more broadly), future research could investigate this assumption that the annual report is the main accountability document used by local governments. A further limitation lies in the subjective nature of any accountability index. This subjectivity is widely recognised in the disclosure literature, but equally well recognised is the view that these indices are the most widely adopted method used when information disclosure is the focus of the research (Marston and Shrides, 1991). Thus, while every attempt has been made to minimise the subjectivity of the index used by basing it on an analysis of local government literature, statutory requirements, accounting standard requirements, best practice recommendations, and indices used in prior research which have been subjected to extensive scrutiny, subjectivity remains a limitation to this research.

The findings of this study indicate directions for future research on public sector accountability disclosures. The development of an accountability index for local government raises the potential that this index be used to examine the disclosures by local governments throughout Australia. The data base for the study could be extended to local governments in other

Australian jurisdictions. Moreover, consistent with research conducted in the university sector, comparative studies of the disclosures of local governments in different countries would be beneficial to map any cross jurisdictional differences in the quality of reporting by local governments.

Appendix A Qualitative Ranking Criteria

	Score		Score		Score
<p>1. Statement of Objectives</p> <p>5 Separate statement including vision/mission/values objectives/ goals future performance targets/objectives specific, concise, understandable and realistic terminology all together at front</p> <p>4 Not all together at front</p> <p>3 Deficient in one (other than not together)</p> <p>2 Deficient in more than one (other than not together)</p> <p>1 Brief (rhetorical), incomplete.</p>		<p>6 Environment Report</p> <p>5 Clearly titled statement outlining relevant environmental protection programs such as: land use planning waste management water quality</p> <p>4 As per 5, but lacking some substance</p> <p>3 As per 5, with all or part of one set omitted</p> <p>2 Two of the items in 5 only</p> <p>1 One of the items in 5 only</p>		<p>11 Performance Measurement</p> <p>5 Separate titled section comparing non-financial and part financial performance with objectives for key activities some indication of benchmarking meeting perform indicators derived from objectives</p> <p>4 As per 5, but lacking some significant feature.</p> <p>3 Comprehensive one-year summary only (lacking two sig features.</p> <p>2 One-year summary but lacks comprehensiveness</p> <p>1 Sparse information</p>	
<p>2. Mayor's Report</p> <p>Report by Mayor or equivalent.</p> <p>5 Thorough yet inviting to read full review reference to broad spectrum of activities and achievements, set in context of social, economic, and political environment.</p> <p>4 As per 5, but lacking some of its substance.</p> <p>3 Broad discussion or sub-classifications</p> <p>2 Brief Description only</p> <p>1 Bare discussion.</p>		<p>7 Personnel</p> <p>5 Clearly titled statement showing numbers of staff classified into major functions and/or departments classified by job type at least 3-year comparisons</p> <p>4 As per 5, but lacking one sig feature</p> <p>3 As per 4, but lacking two sig features.</p> <p>2 As per 3, but lacking three sig features.</p> <p>1 Sparse reference.</p>		<p>12 Financial Review</p> <p>5 Separate, titled section providing review of revenues, expenses, assets, liabilities, capital projects and any other significant financial issues At least three year comparisons Explanation of trends possibly illustrations</p> <p>4 As per 5, but lacking one feature.</p> <p>3 Titled, brief review.</p> <p>2 Brief review as part of another section/ report.</p> <p>1 Sparse</p>	
<p>3. CEO Report</p> <p>5 Thorough yet inviting to read full review reference to broad spectrum of activities and achievements, set in context of planning and responsible management.</p> <p>4 As per 5, but lacking some of its substance.</p> <p>3 Broad discussion or sub-classifications</p> <p>2 Brief description only</p> <p>1 Bare discussion.</p>		<p>8 Occupational Health and Safety</p> <p>5 Clearly titled statement showing safety record at least 3-year comparisons with descrip descriptions of program(s) for occupational health and safety</p> <p>4 As per 5, but lacking one sig feature</p> <p>3 As per 4, but lacking two sig features.</p> <p>2 As per 3, but lacking three sig features.</p> <p>1 Sparse reference.</p>		<p>13 Operating Statement/Statement of Financial Performance</p> <p>5 An Operating Statement showing all revenues and expenses (either in the report or by note) not more than 10% of total in any single unanalysed item one year comparative subheadings and other aids to understanding abnormal items, extraordinary items overall increase/decrease in operating capability in Notes revenue and expenses by program/function and comparison with previous year</p> <p>4 As per 5, but either lacks some detailed disclosure or is more aggregated.</p> <p>3 As per 5, but lacks some detailed disclosure and is more aggregated.</p> <p>2 A Summary Operating Statement, but lacks any further attributes as described in 5 above</p> <p>1 A Summary Statement(s) by input items (eg. salaries, consumables).</p>	
<p>4. Corporate Structure</p> <p>5 Composition of Council and senior administrators contact information organisational and decision structure linkages from council to CEO etc</p> <p>4 As per 5, with all or part of one set omitted</p> <p>3 As per 5 with all or part of two sets omitted</p> <p>2 Two of the items in 5 only</p> <p>1 One of the items in 5 only</p>		<p>9 Equal Employment Opportunities</p> <p>5 Separate titled section, disclosing quantitative and descriptive information about appropriate groups (eg. Gender, ethnic, disabled), Level of positions Illustration(s) Comparatives.</p> <p>4 As per 5, but lacking illustration(s).</p> <p>3 As per 4, but lacking comparatives.</p> <p>2 As per 3, but descriptive information only.</p> <p>1 Sparse reference.</p>			
<p>5. Internal Control</p> <p>5 Statement of the internal control mechanisms review of control systems risk management the use of an audit committee internal audit</p> <p>4 As per 5, with all or part of one set omitted</p> <p>3 As per 5 with all or part of two sets omitted</p> <p>2 Two of the items in 5 only</p> <p>1 One of the items in 5 only</p>		<p>10 Summary Facts and Figures/Key Statistics</p> <p>5 Separate, titled section key facts and figures at least three year trends and comparatives possibly illustrations.</p> <p>4 As per 5, but lacking some significant feature.</p> <p>3 More than one-year summary.</p> <p>2 One-year summary but lacks comprehensiveness</p> <p>1 Sparse information.</p>			

	Score		Score		Score
<p>14. Statement of Financial Position</p> <p>5 Detailed statement, disclosing all assets and liabilities in major categories. Details of reserves and movements on reserves</p> <p>Comparatives extensive footnotes subheadings, appropriate classifications not more than 20% of assets in a single item</p> <p>in Notes assets analysed by function/ program</p> <p>4 As per 5, but missing some detail</p> <p>3 As per 4, but more than 20% of assets disclosed in a single analysed item.</p> <p>2 Basic, includes comparatives and some foot notes, but over-aggregated.</p> <p>1 Poor or no classification, major assets omitted, sparse footnotes</p>		<p>17 Non Current Asset Acquisition and Disposal/Depreciation</p> <p>5 Comprehensive disclosure of asset acquisition and disposal, and depreciation of all assets in use.</p> <p>Includes policies and amounts analysed by asset type with movement on accumulated depreciation account(s).</p> <p>4 As per 5, but some assets used are omitted or over-aggregated.</p> <p>3 As per 4, but limited policy disclosure and/ or analysis.</p> <p>2 As per 3, but movement on accumulated depreciation account(s) omitted.</p> <p>1 Minimal information, depreciation not shown as operating expenses.</p> <p>18 Investments (Look in Cash as well)</p> <p>5 Separate schedule showing all holdings investment income Basis of valuation.</p> <p>4 As per 5, but omitting one significant component.</p> <p>3 As per 4, but omitting two significant components.</p> <p>2 Separate schedule but lacking in detail.</p> <p>1 Minimal disclosure.</p>		<p>21 Financial Performance Ratios</p> <p>5 Separate section including financial performance ratios with some indication of benchmarking showing at least 5 items (ratios) with at least three-year trends and explanations.</p> <p>4 As per 5, but lacking explanations, at least 4 items and less than 3-year trends.</p> <p>3 As per 5 but at least 4 items and less than 3-year trends.</p> <p>2 As per 5 but only three items and only two-year comparatives.</p> <p>1 Sporadic, incomplete disclosure only.</p> <p>22 Remuneration of Councillors/Executive Officers</p> <p>5 Councillors remuneration listed by person including allowances and other entitlements, councillors attendance summary remuneration policy comparative information for councillors remuneration, remuneration of senior employees (CEO, Dept heads etc) by \$ bands</p> <p>4 As per 5, but lacking some significant feature.</p> <p>3 As per 5, but lacking 2 significant features.</p> <p>2 Only 2 features.</p> <p>1 1 feature</p>	
<p>15. Statement of Cash Flows</p> <p>5 Cash flow format comparatives, subheadings, informative footnotes and other aids to understanding clear reconciliation with surplus/ deficit.</p> <p>4 As per 5, but lacking one significant feature.</p> <p>3 Basic statement with comparatives.</p> <p>2 Basic statement without comparatives.</p> <p>1 Minimal reference.</p>		<p>19 Commitments and Contingencies</p> <p>5 If no commitments and contingencies then clear statements to this effect.</p> <p>If commitments: separate statement with full disclosure, stating purpose/ project and showing total expected expenditure and expenditure to date, with expected completion date.</p> <p>A clear statement that all items disclosed.</p> <p>If contingencies: separate, clear statement disclosing individual items with financial impact, clearly stating that all items disclosed.</p> <p>4 As per 5, mentioning both and financial impact but incomplete for either commitments or contingencies.</p> <p>3 As per 4, but incomplete for both OR complete for one & other not mentioned</p> <p>2 Commitments and contingencies referred to but no disclosure of financial impact.</p> <p>1 Sparse reference to either commitments or contingencies.</p>		<p>Council Size</p> <p>Total Assets \$.....</p> <p>Total Liabilities \$.....</p> <p>Total Revenues \$.....</p> <p>Revenues – Own source \$..... (Total Revenue - Donations, Contributions, Subsidies, Profit/Loss on Sale of NonCurrent Assets))</p>	
<p>16. Notes to Financial Statements</p> <p>5 Statement of Significant Accounting Policies with excellent detail, showing full basis of presentation.</p> <p>If a change, reason for change, detailed explanation, with quantitative impact clear statement that all changes have been disclosed and consistent application of all other items stated.</p> <p>Specific notes relating to all major items</p> <p>4 As per 5, but one section only with significant deficiency.</p> <p>3 As per 5, but under changes, limited reference to quantitative impact.</p> <p>2 As per 5, but two sections with significant deficiency.</p> <p>1 Any reference which fails to meet criteria in 2</p>		<p>20 Actual to Budget Comparison</p> <p>5 Comprehensive disclosure of actual, budget and variance line by line in total and by program showing details of Operating Revenue, Operating Expenses, Abnormal items and increase/decrease in operating capability.</p> <p>Explanation of significant differences</p> <p>4 As per 5, but variances excluded.</p> <p>3 Summary operating statement only with variances.</p> <p>2 Summary operating statement only.</p> <p>1 Sporadic, incomplete disclosure only.</p>		<p>Timeliness - number of days between end of financial year and date on Audit Report</p>	

Appendix B

**Timeliness as measured by the
number of days from June 30
to the date of the Auditors Report
Sorted on 1999**

	1997	1998	1999
Warwick	126	41	69
Livingstone	172	114	70
Pine Rivers	115	107	106
Caloundra	129	226	111
Bundaberg	100	113	112
Bowen	155	121	112
Toowoomba	126	161	113
Redcliffe	150	141	113
Beaudesert	101	87	114
Brisbane	123	122	121
Douglas	135	133	121
Logan	123	134	128
Cooloola	128	115	128
Noosa	114	101	133
Maroochy	164	161	141
Whitsunday	136	115	141
Mt Isa	113	146	147
Calliope	154	198	147
Rockhampton	144	211	149
Hinchinbrook	149	142	149
Mareeba	165	163	149
Johnstone	200	146	152
Ipswich	147	127	153
Cairns	165	175	156
Hervey Bay	151	140	156
Maryborough	122	115	156
Redland	142	148	160
Caboolture	134	147	160
Gladstone	156	148	163
Townsville	142	149	167
Emerald	71	146	176
Thuringowa	147	114	189
Burdekin	150	150	205
Banana	170	105	209
Gold Coast	158	157	239
Mackay	136	97	268
Mean Days	139.3	136.6	146.8
Standard Deviation	24.2	34.6	40.5
Range - Minimum Days	71	41	69
Range - Maximum Days	200	226	268

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Endnotes

¹ Queensland is one jurisdiction in the nation state of Australia.

² The *Local Government Finance Standard 1994* sets out provisions relating to financial management, corporate and operational plans, funds and accounting procedures, budgets, accounts, annual report, full cost pricing, commercialisation and code of competitive conduct. In relation to the annual report, provisions relate to financial reporting being under the accrual method, and provides details of what financial statements must be in the annual report

³ The application of National Competition Policy to the public sector means that public sector entities should be operating under the same commercial principles as the private sector, if they are to become more economic, efficient, and effective (Guthrie, 1999; Funnell, 2001).

⁴ NCP councils have to report the results from their various business activities such as cleansing services, water and sewerage services and public transport services.

⁵ One council (Burnett) failed to supply their annual reports despite repeated requests and were therefore removed from the study. The next largest council was included.

⁶ The 0-5 rating scale is an ordinal scale and is not a level of interval measurement. The resultant scores for the LGA index are ordinal.

⁷ This contrasts with the position for companies where there is a basic requirement to disclose this information to shareholders through accounting standard AASB 1034 par. 6.

⁸ Coy et al. (1994, p261) debate the interpretation power of the index, as they acknowledge the index does not have interval power. They state "this means that an item given a score of 5 is deemed to be better than one with 4, but an item with a score of 5 is not necessarily 5 times better than an item with a score of 1. It would be wrong to conclude that a report with a score of 60 is twice as good as a score of 30".

⁹ The unweighted mean score for the 1997 was 57.88, for 1998 was 58.79 and for 1999 was 60.32 with standard deviations being 6.57, 6.79, and 7.03 respectively.

¹⁰ To test if there was a significant improvement in the unweighted means from 1997 to 1999, a paired sample t-test was performed. The results were significant. The difference in means was 2.44, degrees of freedom 35, t-statistic of 2.557 and .015 probability (sig 2-tailed).

¹¹ From the data in Appendix B, it can be seen that in 1999, 13 of the 36 councils did not meet the 153 day deadline.

¹² The dollar amounts for total revenue were plotted and these did not correspond to a normal distribution. Therefore non-parametric tests were deemed to be the most appropriate.

¹³ For example in 1999, total revenue for Brisbane was \$1,098,405,000 and Gold Coast was \$374,687,909 with the next council's total revenue being Logan with \$134,065,780.

¹⁴ Kendall's Tau_b results were 1997 – correlation coefficient .159 and sig 2-tailed .184; for 1998 - correlation coefficient .370 and sig 2-tailed .002; for 1999 - correlation coefficient .265 and sig 2-tailed .025. Spearman's Rho results were 1997 – correlation coefficient .266 and sig 2-tailed .116; for 1998 - correlation coefficient .519 and sig 2-tailed .001; for 1999 - correlation coefficient .374 and sig 2-tailed .024.