

QUT Digital Repository:
<http://eprints.qut.edu.au/>



Stanley, Trevor A. and Jennings, Natalee K. and Mack, Janet (2008) An Examination of the Content of Community Financial Reports in Queensland Local Government Authorities. *Financial Accountability & Management* 24(4):pp. 411-438.

© Copyright 2008 Blackwell Publishing
The definitive version is available at www.blackwell-synergy.com

**AN EXAMINATION OF THE CONTENT OF COMMUNITY FINANCIAL REPORTS
IN QUEENSLAND LOCAL GOVERNMENT AUTHORITIES**

Trevor Stanley

Natalee Jennings

and

Janet Mack

School of Accountancy
Queensland University of Technology
BRISBANE, AUSTRALIA

Please address all further enquiries to:

Trevor Stanley

School of Accountancy

Queensland University of Technology

George Street

BRISBANE QLD 4000

AUSTRALIA.

Email: t.stanley@qut.edu.au

Phone: +61 7 3138 5291

Fax: +61 7 3138 1812

The authors gratefully acknowledge the insightful comments provided by two anonymous referees.

AN EXAMINATION OF THE CONTENT OF COMMUNITY FINANCIAL REPORTS IN QUEENSLAND LOCAL GOVERNMENT AUTHORITIES

ABSTRACT

Annual reports, including general purpose financial statements, have been adopted as a key mechanism by which public sector entities discharge their accountability. However, there is concern about the complexity of public sector general purpose financial statements and consequently their effectiveness as an accountability mechanism. In Australia, the Queensland government has moved to address this issue in local government authorities by introducing a Community Financial Report as a means of simplifying the financial statements. A feature of this initiative was the lack of prescription given to local government authorities in the preparation of this report.

This paper examines the form and content included in Community Financial Reports and also uses a disclosure index to determine the level of disclosure in the reports. The results of this research show that the form and content of the Community Financial Reports varied considerably. There was no definitive style, with each report being unique. The disclosure index revealed low levels of disclosure by local government authorities in the first year of the report as well as a lack of analysis of the Statements of Financial Performance, Position and Cash Flows. As well, there was a significant difference in the disclosures made by rural local government authorities compared with urban local government authorities.

The results of this research will be of interest to local government authorities and local government regulators as they aim to provide useful, understandable information for stakeholders.

Key words: community financial report, simplification of reporting, local government

INTRODUCTION

There is widespread acknowledgement that in the last three decades, there have been significant changes in the structure and practices of the public sector in Australia and internationally (Pollit, 1990; Broadbent and Guthrie, 1992; Ryan, 1995, Mack and Ryan, 2006; Carter and Mueller, 2006; Christensen and Skaerbaek, 2007). These changes have occurred in response to an increased emphasis on performance and accountability in the public sector (Chua and Sinclair, 1994; Ryan, 1998; Guthrie, 1998; Mack, 2004). This increased emphasis on performance and accountability has led to the adoption of general purpose financial reporting based on accrual accounting in the public sector worldwide and a greater awareness of the annual report as an appropriate mechanism by which governments can adequately meet increased accountability expectations.

However, it has been argued that the general purpose financial reports produced by the public sector are too complex for ordinary taxpayers (see for example, Jones et al., 1985; Collins et al., 1991; AICPA, 1994; Wallman, 1997; FASB, 2001; Lev, 2001; Priest et al., 1999; Queensland Audit Office, 2000, 2001; ICAEW, 2003; Mack, 2004; and Beattie et al., 2004). Worldwide, various approaches have been taken by regulators to address this issue. In the USA at both State and Local government levels, there has been a push by the Government Accounting Standards Board to simplify reporting to taxpayers as reflected in the move towards “Popular Reporting” in local governments (GASB, 1992) and performance reporting measures (GASB, 2002). In Australia, in New South Wales¹, the push towards “simplification” is reflected in the consideration of differential reporting in public sector entities (New South Wales Parliament Public Accounts Committee, 2004). In Queensland², the public accounts committee has initiated an enquiry into the effectiveness of general purpose financial reporting as a means of communicating with stakeholders. In response to similar concerns in the private sector in Australia, this issue of complexity has been addressed by regulating for the provision of a concise financial report which includes a management discussion and analysis.

Queensland has been at the forefront in terms of this issue of simplification in the public sector, where the Minister for Local Government and Planning has stated that ‘the public is entitled to receive better information about the overall performance of the council than it does at present’ (Cunningham, 2001 p.14). In response to this concern, the Queensland government introduced legislation requiring local government authorities to include a Community Financial Report (CFR) in their annual reports from the financial year ended 30th June 2003. This CFR must

contain a summary and an analysis of the financial performance and position of the authority and most importantly must be 'in a form that is readily understood by the community' (*Local Government Finance Standard (1994)* section 44). However, although this report is to be consistent with the audited financial statements, it is not subject to audit.

The legislation took a non-prescriptive approach with regard to the form and content of the CFR allowing local government authorities considerable discretion about the information to be included. Further, the Minister for Local Government stated that the lack of prescription should encourage 'accountants to express in plain language the meaning of the numbers and transactions they are dealing with everyday, and to become better at communicating their work to their customers, including management, councilors and their communities' (Cunningham, 2001 p.15). As a consequence, the form and content of these reports can be expected to vary from council to council.

Given the widespread concern about the complexity of general purpose financial reports, the uniqueness of this report in the Australian public sector reporting environment means that its implementation is of much interest. Consequently, the purpose of this paper is to investigate the form and content of the CFRs of Queensland local government authorities for the year ended 30 June 2003 to gain an understanding of how local government authorities responded to the simplification agenda. This research is important because the CFR may provide the public sector with a mechanism by which to reduce complexity and increase interest and use of annual reports including general purpose financial reports. The results of this research may also provide guidance for regulators internationally as they seek to address the issue of the complexity of financial reports. This study will use a disclosure index to analyse the content of the CFRs and assess the level of disclosures made by local government authorities.

The paper will proceed as follows. In the next section, a brief overview of the literature that has examined reporting in the local government sector will be provided as well as a review of literature that has used disclosure indices. The research method and results will then be discussed and the paper concludes with the findings, limitations of the study, and areas for future research.

INSIGHTS FROM PRIOR LITERATURE

Literature which has examined reporting in local government authorities has covered a broad array of issues. There are two broad categories of literature that provide insights into the relevant themes of this paper. The first relates to users of local government annual reports and their information needs including local government accountability, and the second relates to research which has investigated the quality of annual report disclosures and the methodological issues arising from an assessment of the quality of information in annual report disclosures using disclosure indices.

A number of studies have identified with some consistency users of local government annual reports which include elected officials, management, ratepayers, other resource providers, consumers of services and other like entities (see for example, Atamian and Ganguli, 1991; Collins et al., 1991; Alijarde, 1997; Priest et al., 1999 and Mack, 2004). The information needs of these users in terms of the information used and the purposes for requiring information have also been investigated in a local government context. Specifically, a number of studies have identified the importance to a wide range of users of information about financial and non-financial performance (see for example, Jones et al., 1985; Collins et al., 1991; Priest et al., 1999 and Mack, 2004).

The annual report is not only promoted as an important accountability document for public sector organisations (Shand, 1981; Davis et al., 1993; Senate Standing Committee on Finance and Public Administration, 1989; Management Advisory Board, 1993), but is regarded as the primary medium through which institutions communicate accountability information about their activities to stakeholders (Hyndman and Anderson, 1995). However, there is debate surrounding the effectiveness of the annual report as a means of discharging accountability particularly with regards to the complex financial statements contained within them. This is highlighted by a report prepared by the Local Government Association of Queensland (LGAQ) which stated “there is however widespread dissatisfaction with the useability of information provided to many elected members in local government and in terms of what is seen as overly complex financial reporting requirements” (LGAQ, 2002 p.iv).

In the United States, there has been a move towards simplification of reporting to users of local government reports. GASB (1992) investigated “Popular Reporting” which looked at how local governments could develop reports that were more understandable to citizens and useful in

providing an overall view of finances. These reports included such things as general purpose financial statements, state-of-the-city reports, corporate-style annual reports, summarised financial statements, financial trend reports, budget summaries, and narrative descriptions of efforts and accomplishments. Although not directly related to local government but the government sector in general, a very relevant report is GASB (2002) which looked at feedback on users' experiences with, and perceptions of, performance measures. Nineteen discussion groups were held across the United States in order to ascertain findings based on such things as what and how performance information can be reported and communicated.

The second broad category of literature investigates the quality of annual report disclosures and the methodological issues that arise. A proven technique that is able to compare disclosure levels between annual reports is the disclosure index (Marston and Shrivess, 1991). Disclosure indices have been used extensively since the 1960s by a number of researchers and have been used in a significant body of prior research on annual reports in public sector entities, both in the university sector and in the local government sector.

In the university sector, the first study was conducted by Dixon et al. (1991). The study examined the reporting practices of the seven universities in New Zealand from 1985-1989 and applied an unweighted, dichotomous index to 45 items that were selected for inclusion in the index. They concluded that although the reporting had improved over the four year period, 'the university sector still has a long way to go if it is to comply with new legislation' (Dixon et al., 1991:176).

The study by Dixon et al. (1991) was followed by Coy et al. (1994) who investigated disclosures in New Zealand tertiary education institutes' annual reports for the period 1990-1992. This study went beyond Dixon et al. (1991) by including analysis of annual reports for all tertiary education institutes such as polytechnics and colleges. Coy et al. (1994) also further developed the index which was used to measure disclosure in annual reports. The number of items in the index was reduced to 26 in total, a 5-point system of evaluating individual disclosures was introduced, and four index categories were introduced, namely overview, service performance, financial performance, and physical and financial condition. This revised index was called the 'Modified Accountability Disclosure score (MAD) Index' (Coy et al., 1994:255). Coy et al. (1994:256) were able to evaluate the annual reports based on this MAD index and acknowledge that 'although the limitation about the index's lack of interval power stands, the nearly seven fold increase in the MAD-score over the eight year period (1985-1992) is in accord with the conspicuous improvement in the reports'. The MAD index was externally validated by studies in

Australian (Nelson et al., 1997a), Canadian (Banks and Nelson, 1994), Scottish (Fisher et al., 1996), English, Welsh and Northern Ireland universities (Banks et al., 1997) and a comparative study between Australian and Canadian universities (Nelson et al., 1997b). A further study (Coy and Dixon, 2004) using the annual reports of New Zealand universities between 1985 and 2000 builds on the MAD index and tries to overcome some of its shortcomings. This new index, called a Public Accountability Index (PAI), is more comprehensive with 58 items instead of 26 and was found to be superior to the MAD index.

In a local government context, a study carried out by Ryan et al. (2002) examined the quality of the disclosures by Queensland local government authorities for the period 1997-1999. Annual reports of the local government authorities were similarly used to determine the quality of disclosures. The authors used a disclosure index in order to measure the level of disclosure in annual reports. As there was no existing index, a Local Government Accountability (LGA) Index was developed. This index was based largely on the MAD index but differed in two fundamental aspects. The LGA index only had three index categories of overview, performance, and financial information; and the number of items in the index was reduced to 23 in total. The authors found that councils did not adequately disclose all financial and non-financial information despite legislative requirements for them to do so. However, individual analysis of each local government authority found that 'significant improvement had occurred over the three year period from 1997-1999' (Ryan et al., 2002:273).

The results found in each of the studies reviewed indicate that a disclosure index is a useful tool for examining annual reports. However, as this research is not seeking to address accountability but rather is investigating the simplification of reporting, the previously reviewed studies, while providing the methodological basis, cannot inform what to include in this particular index. Therefore guidance from elsewhere is required. The concept of simplifying reports to constituents in local government is not new. As previously mentioned, the Governmental Accounting Standards Board (GASB) in the United States released a research report in 1992 entitled *Popular Reporting: Local Government Financial Reports to the Citizenry* by Carpenter and Sharp. This report highlighted a number of factors that should be considered when developing a Report to the Citizenry (RTC). Another GASB research report was released in 2002 entitled *Report on the GASB Citizen Discussion Groups on Performance Reporting* by Fountain et al. The findings of the citizen discussion groups were expected to help identify elements that are important to include in a performance report and ways to communicate performance information effectively. These two reports will form part of the theoretical basis for the criteria that make up the disclosure index in this study.

RESEARCH METHOD

This research uses a disclosure index to analyse and assess the disclosures made in CFRs by Queensland local government authorities. In this section, the development of the disclosure index will be outlined, the source of the data will be identified, and the data collection methods will be discussed.

The Development of the Community Financial Report (CFR) Index

According to Marston and Shrives (1991), a three step process is used to develop a disclosure index: selection of the criteria, determining weights, and developing a scoring methodology.

Selection of the Criteria

The first step in developing the Community Financial Report (CFR) index was to select the items to be included in the index. Although the legislation relating to the CFR was non-prescriptive, the Queensland government Department of Local Government and Planning (DLGP) released a bulletin in September 2003 (DLGP, Local Government Bulletin 17/03) which, as well as indicating the background and current status of the CFR, included a number of guidelines set out as bullet points to ‘assist local governments in the preparation of their first CFRs’ (Bulletin 17/03). Item selection for the index was primarily based on the legislation, this Bulletin, and the two GASBs research reports on Popular Reporting and Performance Reporting.

Table 1 sets out the major items selected for inclusion in the CFR index.

Table 1

The 11 Criteria Items that Comprise the CFR Index.

Item	Criteria Name
1	Statement of Financial Performance Summary
2	Statement of Financial Performance Analysis
3	Statement of Financial Position Summary
4	Statement of Financial Position Analysis
5	Statement of Cash Flows Summary
6	Statement of Cash Flows Analysis
7	Understandability
8	Illustrations (graphs and charts)
9	Financial Performance Indicators (ratios)
10	Purpose, Achievements, Targets, Operational Plan and Feedback
11	Appeal (colour, tables, pictures, page length, set-out, font)

There were a number of reasons why these items were selected. Under the legislative requirements, a CFR must be produced each financial year and be consistent with, but not part of, the financial statements of the local government authority. It is mandated to be ‘a report containing a summary and analysis of the local government’s financial performance and position

for the financial year' and 'in a form that is readily understood by the community' (*Local Government Finance Standard 1994*, 44(4) and 44(2)). Bulletin 17/03 released by the Department of Local Government and Planning expands and simplifies the requirements of the legislation by stating that:

In effect this means that, as a minimum requirement, each local government must publish a commentary on, and a summary of its Statement of Financial Performance, Statement of Financial Position, and its Statement of Cash Flows. It may also publish additional information in the CFR to further explain these matters.

The CFR is intended to give members of the community who may not readily understand formal financial statements a better understanding of the financial performance and the financial position of the council.

This approach is consistent with the GASB (1992:35) approach to Popular Reporting which proposes that the content included be abbreviated operating information; abbreviated information on financial condition; explanation of commitments and expenditure on major capital improvements; debt position, major changes and terms of repayment; and explanation of major changes in revenues and expenditures. The importance of explanatory information is also highlighted in GASB (2002:24). Comparative historical data was also emphasised in GASB (1992:36) and a call 'for analysis of all available information and an honest, straightforward presentation of successes and problems indicated from that analysis' (GASB 1992:34). Based on the above, the initial six items to be included in the index, that is, a summary and analysis for each of the Statement of Financial Performance, Statement of Financial Position and the Statement of Cash Flows, was determined

A 'summary' with reference to the Statement of Financial Performance was determined to mean that the report provided an overview for the current and previous year of the local government authority's financial performance by showing both the major forms of revenues and expenses (based on accrual accounting) and the net result in dollar or percentage terms. For the Statement of Financial Position, a 'summary' meant an overview for the current and previous year of the local government authority's major forms of assets, liabilities and equity in dollar or percentage terms. It was also further specified that the major forms of assets and liabilities disclosed should be in the form of current and non-current at least. However all forms of equity were to be disclosed separately. With respect to the Statement of Cash Flows, a 'summary' meant an overview for the current and previous year of the local government authority's major forms of cash flows as well as the beginning and ending balance of cash. The major forms of cash flows

were further defined to mean those forms normally disclosed as activities on the Statement of Cash Flows, namely operating, investing and financing activities.

For the Statement of Financial Performance and the Statement of Financial Position, 'analysis' was determined to mean a commentary on items contained in the report in order to add meaning to the figures disclosed. Similarly, 'analysis' in the Statement of Cash Flows meant a commentary on the major forms of cash flows as well as the ending cash balance.

The remaining items that formed the CFR index were also derived from Bulletin 17/03 and the GASB reports. Given that the CFR is aimed at the community, the ability of the report to communicate information that people will be able to understand and comprehend was therefore deemed important and included in the index as a separate item. Therefore, the seventh item to be included in the index was termed 'understandability'. This encompasses both the legislative requirement that the CFR be 'in a form that is readily understood by the community' (*Local Government Finance Standard 1994*, 44(2)) and also the guideline in Bulletin 17/30 which suggests that preparers 'write in plain language which most readers will understand' and avoiding technical and professional jargon. This is further emphasised by GASB research: 'The citizenry is largely a group of low-involvement consumers of financial information. Thus accountability requires presentation of relevant information in a manner thatis understandable to the citizenry' (GASB 1992:32); the importance of 'readability' as reading ease enhances understanding (GASB 1992:34); and 'participants in several groups urged that written communications on performance - particularly the more widely disseminated information - be easy to read, easy to understandand appear accessible to an average citizen who sees or hears it' (GASB 2002:34)

Preparers were also encouraged to disclose information in the CFR through a variety of visual aids. The use of such instruments as graphs, charts or other visually informative aids was encouraged to 'illustrate the important messages' (Bulletin 17/03). GASB also identifies 'variety' as a key factor which among other things includes 'many types of graphical presentation; and interspersions of narratives with tables, pictures and graphs.....Effective nonverbal presentations, such as graphs, simplify information, thus encouraging retention and use' (GASB 1992:33). Thus index item eight titled 'illustrations' was developed based on the use of illustrations within the CFR to convey important information. This meant that the illustrations used had to be visually informative to users, as opposed to just a picture which had no information content to readers. In order to be deemed as informative, the illustrations had to have an appropriate title and show a trend or provide an explanation in a way that was clear to

the reader. The illustrations used also had to be unique in that they did not replicate information that was presented elsewhere in the CFR.

Disclosure of high level financial performance indicators over 5 or more years with explanations of trends was also suggested in Bulletin 17/03. Financial performance indicators were not mentioned in GASB (1992) which is unusual considering that they are major elements used in the accounting discipline to analyse performance and position in the private sector. However, GASB did indicate that 'revenue and expenditure trend data' should be included (GASB 1992:35) and comparisons of performance levels over time were important (GASB 2002:21) Index item nine was developed based on the use of financial performance indicators. High level financial performance indicators were interpreted to be ratios, such as those commonly used in the private sector. In order to add meaning to the figures disclosed, financial indicators had to be accompanied by explanations of meanings (such as explaining the items that were used to derive a certain percentage) and also some explanation of trends over the five years that the indicator was illustrating.

A number of suggestions derived from the guidance in Bulletin 17/03 and GASB were combined and used to develop a single index item. This item aimed to capture pieces of information within the CFR that were individually unique and important to the CFR. This index item includes:

- stating the purpose of the CFR which must be more detailed than a simple restatement of the applicable legislation. A clear purpose must be stated that in some way aims to inform the reader that the CFR is a simplified version of the financial statements. Bulletin 17/30 also highlights that the CFR's purpose is to clearly identify the reasons why a CFR is being published. This is consistent with setting the objectives of the report in GASB (1992:31)
- disclosing the achievements of the local government authority over the past year. This was included despite the fact that the disclosure of such achievements neither formed part of the legislation nor was specifically suggested to preparers in Bulletin 17/03. However information on 'relevant service efforts and accomplishments data' was specifically mentioned in GASB (1992:35). Upon an initial examination of a number of CFRs, it was found that disclosure of such achievements was common. Many preparers sought to include information on projects undertaken or completed by the local government authority during the year which directly impact on the community, such as the purchase of new equipment, sealing of roads, and construction or completion of infrastructure assets. Disclosure of such information was deemed important as it directly communicates to the community what the local government authority has accomplished during the year

- encouraging a clear link to the local government authorities' Operational Plan in order to 'show how the matters mentioned in the CFR have been linked to the implementation of the Operational Plan for the year' (Bulletin 17/03). This could be achieved through the use of a visual representation, such as a flow diagram, or simply by making reference to the Operational Plan in the prose of the CFR. This is very much in line with comparisons of performance with goals and targets as outlined in GASB(2002:21).
- disclosing targets for the next financial year was also encouraged by Bulletin 17/03. This is consistent with the approach taken by GASB (2002:21). It is important for the constituency to know what the future targets are. They therefore know what the local government authority is aiming for and can see if this was accomplished the following year (see Boyne and Law (1991:193)). These targets were to be financial in nature, but precisely which targets were disclosed and how they were disclosed was at the discretion of the preparers. This meant that targets could be disclosed all together in a particular section of CFR dedicated to that purpose, or disclosed in addition to other related information, such as showing a trend in financial indicators and what the expected indicator would be for the following year.
- encouraging readers to provide feedback on the effectiveness of the CFR and any improvements they felt could be made was also suggested in Bulletin 17/03. This is consistent with GASB (2002) which goes so far as to urge feedback on performance by way of public forums (GASB 2002:32-3). This meant that some sort of contact details needed to be present within the CFR specifically, not just the annual report as a whole.

Thus index item 10 related to purpose, achievements, links to the operational plan, targets and feedback.

A final index item was developed based on the legislative requirement that 'the community financial report must be in a form that is readily understood by the community' (*Local Government Finance Standard 1994*, 44(2)). The ability of the CFR to appeal to readers and users is as important as the information it conveys to them. A visually exciting and stimulating CFR that shows the use of many facets of design, communication and innovation, is more likely to appeal to users. This is consistent with the approach taken on visual appeal in GASB (1992:32). As well, the report length suggested by GASB (1992) is a 'critical factor' and 'must be short enough to be digestible within a relatively short period of time' (GASB, 1992:33). Thus this index item is based on the requirement that the form of the CFR is 'readily understood' and was expanded to incorporate and recognise techniques used by preparers to make the CFR interesting, unique and user-friendly. These techniques include:

- the use of colour in the CFR to enhance visual appeal and add dimension to illustrations

- the use of headings and sub-headings which clearly and correctly show specific sections of the CFR as well as initially identifying the CFR in the annual report as a separate report, but not forming part of the financial statements
- the use of pictures (though in this instance they need not be informative as discussed above) to increase visual appeal
- the use of tables to convey information in a concise yet understandable and clear manner
- the use of a suitable font style and size so that the presentation of prose or figures can be clearly seen and read without hindrance
- appropriate set out of the CFR which means that the information content flows logically and clearly with appropriate incorporation of illustrations
- the length of the CFR kept to a reasonable number of pages. However this is highly dependent on the information disclosed and discussed by each individual local government authority. A 'readily understandable' form cannot be achieved if community users must wade through a large report to derive information or the report is so small the information content suffers as a result. Therefore the report is bound by the constraints of using a suitable page length to encourage community users to read the report.

The discussion above outlines the reasons why items were selected to be part of the CFR index. A full list of the criteria used is shown in Appendix A.

Weighting of the Criteria Items

Upon selection of the index items, the second step is to determine the weight of the items. The process of weighting index items allows 'different items of information (to) be perceived as having varying degrees of importance' (Marston and Shrivess, 1991:203). While the content of the items in the index varies greatly to include both financial information and also aspects of presentation and design, due to the nature of the CFR, all elements included in the index are considered important in order for the CFR to achieve its purpose. The target user group, being the community, must not only be able to derive information from the CFR but also be interested enough to use the CFR to gain information in the first place. Therefore in this study, the CFR index items will be unweighted indicating that no item is of more importance than any other item in the index.

Scoring Methodology

The final step is the actual scoring of the items in the index based on their respective disclosure in the CFR. In terms of the scoring process, each local government authority's CFR was

analysed and scored on a 0-5 scale for each item in the CFR index (see Appendix A). It was necessary to include a score of 0 in this index as it was possible that a local government authority may not have included in their CFR an item that is present in the CFR index. This situation may arise as a result of the non-prescriptive language used in the legislation and the relative discretion of the preparers of the CFR on what is and is not included in the CFR. Disclosure was rated by using the 0-5 scale with each number representing a higher level of disclosure than the number below it. As a result, the maximum score for the 11 criteria in the CFR index is 55.

Data Source

Queensland local government authorities form the sole focus for this paper as they are currently the only public sector entities within Australia legislatively required to produce a Community Financial Report for inclusion in the annual report. The data source for the study was therefore the published annual report for the financial year ended 30 June 2003 for all local government authorities within Queensland. This was the first year in which the relevant and applicable data was available to undertake this study.

Data Collection

There were 125 local government authorities within the Queensland jurisdiction at the time of publishing the 2002/2003 annual report. However, despite various attempts to obtain all of the annual reports, some were not able to be collected. As a result, a total of 105 local government authority 2002/2003 annual reports were received and analysed in this study. This represents 84% of the total population available.

Each annual report was analysed in two ways. First there was an examination as to the placement, form and content of each CFR. Second, the CFR was then analysed according to the disclosure index and scores determined for each disclosure criteria as per appendix A. To increase the validity of the scoring process, all CFRs were scored by the first researcher. A second researcher, independent of the author team, also scored the reports. Each instance of disagreement was discussed between the two researchers and all discrepancies were able to be resolved through clarification of the criteria.

RESULTS, DISCUSSION AND ANALYSIS

1. Form and content of Community Financial Reports prepared by local government authorities

Although legislatively required to produce a CFR, it was found that 12 local government authorities, representing 11.4% of the sample, did not include a CFR in their annual report. The results therefore relate to the 93 local government authorities that did include a CFR in the annual report.

All but one local government authority satisfied the legislative requirement that the CFR not be part of the financial statements. There was a significant difference in where the other 92 local government authorities placed their CFR, with 28 positioned near the front, the majority (59) falling somewhere in the middle, 3 positioned near the end, and 2 being included as part of the appendices of the annual report.

In terms of identifying where the CFR was located within the annual report, 78 local government authorities did disclose the CFR as a separate report in the annual reports' table of contents. However this practice of identifying the CFR in the table of contents was not consistent between local government authorities, with 15 not disclosing its presence at all. In addition to this, 13 local government authorities did not use the heading 'Community Financial Report' to further identify their CFR in the annual report. These 13 instead opted to either leave the report untitled or use an alternative heading such as 'Financial Overview', 'Community Financial Statement' or 'Financial Summary' to identify the report.³

The constraints of using a suitable page length in order that community users would be willing to read the report appear to have been adhered to. While the CFR's varied greatly in length, with the number of pages ranging from one to 14, the average page length was 3.97 pages. This meant that on average, preparers achieved the objective of making the CFR more readily understandable by ensuring that page length was neither too high nor low.

On aggregate, local government authorities did provide a summary and analysis of the local government's financial performance and position for the financial year. Surprisingly, three CFRs used incorrect names for statements (such as the Statement of Financial Performance being incorrectly called the Statement of Financial Position). In terms of presenting a 'summary

and analysis', many local government authorities did attempt to present a financial overview through a variety of financial disclosures as well as a commentary which related to the disclosures made. However 10 local government authorities only met part of the requirement of the legislation, providing only a summary of their financial performance and position. Of these 10, six local government authorities provided a summary without any accompanying analysis, while four provided a summary with limited analysis. This is important because it indicates that while local government authorities readily disclose financial information, there is a significant decline in their ability to add meaning to those disclosures through the use of commentary. This is consistent with the results discussed later using the CFR index.

While local government authorities consistently presented the required information for the Statement of Financial Performance and Statement of Financial Position, this was not the case for the Statement of Cash Flows. Indeed, in 31 CFRs, no information on the Statement of Cash Flows was presented. Not disclosing Statement of Cash Flows information could be considered a direct result of the wording of the legislation. Due to the use of the words 'financial performance and position' in the legislation, a narrow interpretation may have been made relating this wording specifically and exclusively to the Statements of Financial Performance and Position. This may explain why Statement of Cash Flows information was not as well disclosed as other financial statement information.

Financial indicators (ratios) were also commonly used by local government authorities as a means by which to disclose financial information. The relationship between the disclosure and commentary on ratios was similar to that observed for the Financial Statements. 68 local government authorities were able to provide high level financial indicators but significantly less (only 18) were able to provide an adjoining commentary explaining the ratios disclosed and any trends evident. 26 local government authorities provided 5 year disclosures, with 42 opting to use disclosures ranging from 1 to 3 years.

One method of disclosing information used consistently by local government authorities was visual aids. Aids such as graphs and charts were predominately used to disclose financial information both in dollar and percentage terms. 85 local government authorities incorporated the use of illustrations successfully in their CFR. Only seven local government authorities either did not use illustrations in the CFR, or illustrations were used but deemed to be non-informative. Those illustrations considered to be non-informative were because they were incomplete, poorly labelled, or the graph used was not appropriate for conveying the information contained within it. Predominately, visual aids were appropriately used and incorporated into the CFR. The

importance of disclosing performance information was analysed by Clark (2003) who found that pictorial presentation of information was rated higher by users than other presentation techniques, such as statistical, monetary or narrative.

Occasionally within the CFR, it was also found that preparers had made spelling and grammatical errors. Generally these errors were neither highly significant nor detracted from the overall quality of the CFR, but they did reduce the understandability of the CFR. Incorrect spelling and poor grammar were found in 12 CFRs. On the other hand, it was also found that three local government authorities used language in their CFR that explained technical jargon exceptionally well. One local government authority in particular was able to express, through their commentary, a number of complex terms, such as 'accrual accounting' and 'depreciation' in a readily understandable form.

In summary, the form and content of the Community Financial Report varied greatly with 12 local government authorities not producing a CFR for inclusion in their annual report. Disclosures by local government authorities ranged from simplistic one page reports with a heavy financial focus and no narrative; other local government authorities produced mainly narrative reports giving little focus to financial figures; while three local government authorities produced lengthy reports over 10 pages in length, attempting to incorporate many aspects of the local government authority's financial performance and position. There was no definitive style to the CFR with each report being unique and having a diverse range of form and content.

2. Level of disclosure in Community Financial Reports prepared by local government authorities

This research is based on the results of all 105 annual reports received, regardless of whether a CFR was present or not. In the 12 instances where a CFR was not present in the annual report of a local government authority, a score of zero was awarded. Table 2 shows the CFR Index scores by criteria, sorted by the highest scoring criteria to the lowest scoring criteria for both samples of annual reports: 105 local government authorities which included those annual reports with no CFR; and 93 local government authorities which consisted of only those annual reports that included a CFR.

Table 2

CFR Index Scores: Sorted by Average.

Item	Criteria	Average Score (105 local governments) Range: 0 – 5	Average Score (93 local governments) Range: 0 – 5
1	Understandability	2.66	3.00
2	Statement of Financial Performance Summary	2.65	2.99
3	Illustrations (graphs and charts)	2.65	2.99
4	Appeal (colour, tables, pictures, page length, set-out, font)	2.58	2.91
5	Statement of Financial Position Summary	1.68	1.89
6	Financial Performance Indicators (ratios)	1.49	1.68
7	Statement of Cash Flows Summary	1.15	1.30
8	Statement of Financial Performance Analysis	1.01	1.14
9	Statement of Financial Position Analysis	0.93	1.05
10	Purpose, Achievements, Targets, Operational Plan and Feedback	0.88	0.99
11	Statement of Cash Flows Analysis	<u>0.68</u>	<u>0.76</u>
TOTAL (OUT OF MAXIMUM 55)		18.34	20.71

In examining the total sample of 105 local government authorities' CFRs, it can be seen that the highest average score for an individual criteria was 2.66, while the lowest was 0.68. The highest average score of 2.66 for understandability was only slightly above half of the total maximum possible of 5. The lowest average score of 0.68 for the Statement of Cash Flows analysis was relatively close to a score of 0 indicating a complete lack of disclosure for this criterion. Three index items achieved average scores of less than 1, indicating a very low result for those index items.

It can be seen from this table that for each of the major financial statements presented in the CFR, the summaries (with scores of 2.65, 1.68 and 1.15) were consistently of a higher standard than the accompanying analysis (with scores of 1.01, 0.93 and 0.68). It is also evident that the Statement of Financial Performance was the most well presented statement both in terms of summary and analysis, with scores of 2.65 and 1.01 respectively. The Statement of Cash Flows was most poorly presented both in terms of summary and analysis, with scores of 1.15 for the summary and the analysis scoring poorest of all the criteria with 0.68. Illustrations were well used overall by local government authorities and this is reflected in the average score achieved of 2.65. Understandability averaged the highest overall with 2.66, indicating that local government authorities who included prose in their CFR generally did so in a readily understandable way by using plain language which was easy to read and avoided use of technical jargon. Interestingly, all three of the top scoring criteria were within 0.01 of each other,

meaning that understandability, the Statement of Financial Performance summary, and the use of illustrations were all of an equal standard.

In terms of an overall result, the total average score for the sample was only 18.34 out of a total maximum possible of 55. This score is well below half of the total possible and is a low result.

In order to examine the effects of those local government authorities that did prepare a CFR, Table 2 also indicates the scores for those 93 local government authorities. These results therefore do not include any effect of zero scores for non-inclusion of a CFR in an annual report. As can be seen by these results, there is only marginal improvement. The total average score of 20.71 is still very low considering the total maximum possible was 55. In relation to each individual item average score, only a marginal increase resulted which does not reflect any significant positive change overall.

Although the overall result was low, Table 3 indicates those local government authorities scoring 28 and above (half of 55), in descending order from highest to lowest.

Table 3

Local Government Authorities that Scored 28 and above
on the CFR Index.

Local Government Authority	CFR Index Score (out of 55)
Wondai	41
Booringa	39
Bungil	36
Redcliffe	35
Gold Coast	32
Cooloola	31
Nanango	31
Ipswich	30
Maroochy	30
Burnett	29
Caboolture	29
Pine Rivers	29
Dalby	28
Inglewood	28
Laidley	28
Redland	28

As can be seen in Table 3, the top scoring local government authority scored 41. With only 16 of the 105 local government authorities scoring 28 and above, this means that 89 local government authorities (84.76%) scored below 28. This further indicates the overall low standard of the CFRs in their first year of mandatory inclusion in the annual report. Appendix B shows the

results for each local government authority in the sample scored in descending order from highest to lowest.

3. Differences in the level of disclosure between rural and urban local government authorities

The difference between rural and urban local governments is based on the 2003 National Office of Local Government (NOLG) Appendix F⁴ which details the classification of all Australian local government authorities. This classification is based on 22 categories which are symbolised by a three letter character code.⁵ Classification into rural (R) or urban (U) is the initial step in the classification process and is dependent on population size, population density, or whether 90% or more of the local governments' population is urban.

As stated previously, it was found that 12 local government authorities did not include a CFR within their annual report. Upon examination of these local government authorities and their respective classifications, ten (83.33%) were rural local government authorities and two (16.67%) were urban local government authorities. There appears to be *prima facie* evidence of a difference between rural and urban local government authorities in terms of the inclusion of a CFR in the annual report.

A more reliable measure is whether the CFR index scores achieved bore any relationship to whether the local government authority was classified as rural or urban. The NOLG classification system was used to determine if any significant relationship existed.

A parametric independent samples t-test was used to determine if there was any correlation between 105 CFR index scores and the classification of rural or urban. The mean scores for group 1 (rural) and group 2 (urban) were 16.91 (sd = 9.13) and 21.77 (sd = 8.58) respectively. The results of the independent samples t-test indicate that group 1 (rural) scores were significantly lower than that of group 2 (urban) ($t_{(103)} = 2.54$, $p = 0.013$). These results show that as a group, those local government authorities classified as urban achieved a higher score on the CFR index than those local government authorities classified as rural. Non-parametric tests were also done in order to determine if the parametric test had any bias on the result. Similar results were found with no difference in the overall result obtained.

Because of the significant difference between rural and urban classifications and CFR index score, a further test was done to see whether there was a correlation between the CFR index scores achieved and the individual population size of the local government authority. Population

for each local government authority was established through the Department of Local Government and Planning website.⁶ In determining whether any relationship existed between these two variables, the local government authority of Brisbane was omitted from the calculation.⁷

Because of the skewed distribution of the various local government authorities' population, a non-parametric test in the form of a Spearman's rho was used to determine if any correlation existed between CFR index score and local government authority size based on population. A strong statistically significant correlation was detected between population and scores ($r = 0.43$, $p = 0.000$). This result indicates that as the population increases, so did the CFR index score of the local government authority. Parametric tests were also done in order to determine if the non-parametric test had any bias. No difference in the overall result was found.

CONCLUSIONS

The move by the Queensland government to require local government authorities to produce a CFR was aimed to alleviate arguments that the financial statements prescribed by the accounting standards for public sector entities in Australia are increasingly difficult to understand. This is consistent with the move in the United States towards "Popular Reporting" where reports have been produced with the aim of making the finances of local government authorities more easily understood. The lack of prescription in guiding the production of the CFR meant that each individual local government authority had significant discretion in the form and content used in the CFR. This situation, where each local government authority was in significant control of the information to be included, and the means by which that information was to be disclosed, provided a unique opportunity to examine the form and content of the CFR and the information choices of local government authorities.

The results show that the form and content included in the CFR by local government authorities varied greatly. There was no definitive style to the CFR with each report being unique and having a diverse range of form and content. The overall level of disclosure as measured by the CFR index was low. In terms of disclosure of each item in the CFR index, on average, this was also low. However, Understandability, which was a key driver for the development of the CFR, was the highest scoring criteria. It was also apparent that information relating to the Statement of Cash Flows was the least disclosed financial statement by local government authorities. As well, all criteria relating to analysis of each financial statement was not only low but ranked in the bottom third of the index.

In determining whether there were any differences in the level of disclosure between rural and urban local government authorities, a significant difference in CFR scores was found between those local government authorities classified as rural and those classified as urban. In addition to this, correlation was found between the CFR index score and population in that as population increased, so did the CFR index score.

The findings of this research on the development of the CFR by local government authorities have two major implications. The first implication concerns the form used and content included in the CFR, and the level of disclosure by local government authorities as measured by the disclosure index. The findings that local government authorities recorded low scores for the disclosure index cast doubt on whether the introduction of CFRs was successful.

In particular, low scores for analysis of the financial statements indicate that this first CFR implementation had limited success. The provision of narrative analysis to accompany financial statements has been a major thrust of the moves to make financial statements more understandable (GASB 1992:34; GASB 2002:34). Further empirical literature has found that narrative information is important to users. Daniels and Daniels (1991) found that community users preferred information in an easy-to-understand written form. Additionally Clark (2003) found that users had a preference for descriptive information over financial information, with an additional emphasis placed on the need for that information to be understandable.

These findings could be explained in terms of the response of local government authorities to regulation in an environment of uncertainty. For example, while the legislation specifically targeted 'analysis', there was no guidance as to what constitutes analysis. Overall, whilst the guidelines provided some aid to preparers of CFRs in terms of suggested content, they were not sufficient to ensure a completely successful first time implementation. The lack of prescription in terms of preparing and presenting the CFR, together with there being little opportunity to compare what other local government authorities had done, meant that local government authorities had difficulties in achieving the desired goal. Public sector regulators both in Australia and internationally may be interested in these findings as they continue to look at ways to simplify financial statements and make the information contained within annual reports more useful to stakeholders.

The second implication of this research concerns the finding that rural local government authorities achieved significantly lower results as compared to urban local government authorities. This is consistent with prior research by Mack et al. (2001) who found differences

between rural and urban locations in terms of identified users of annual reports of local government authorities. Kloot and Martin (2001) also found differences existed between rural and urban local government authorities in terms of accountability, as perceived by managers within the local government authority. The consistency of the findings of this research with prior empirical analysis signifies differences in how rural and urban local government authorities perceive users, information and their accountability. These findings appear to imply that rural local government authorities operate under different agendas to urban local government authorities.

This may be of interest to local government authorities, community users of annual reports, local government regulators and policy makers worldwide in consideration of the legislation and its 'one shoe fits all' approach to the production of the CFR. Consideration of the different agendas that appear to drive rural and urban local government authorities, as suggested by Kloot and Martin (2001), may require policy makers and regulators to consider the alternative methods which rural local government authorities may use to disclose information to their community. This is consistent with the findings of Ryan et al. (2004:14,15) who found that despite being legislatively required to prepare a CFR, one local government authority had deliberately chosen not to, stating that they 'give everything the community needs...we are unique that we are so small that we know everyone and everyone can obviously see what happens'. The ability of rural local government authorities to interact with their community in ways that urban local government authorities cannot, may necessitate that regulators and policy makers take into consideration these alternative communication mechanisms used by rural local government authorities.

Whilst providing some valuable insight into the forms used and disclosures made by local government authorities within the CFR, this research does have limitations. The main limitation lies in the subjective nature of the disclosure index used. Every attempt has been made in the construction of the CFR disclosure index to limit subjectivity. This was achieved mainly through the use of the requirements of the legislation, the Local Government Bulletin 17/03, and the two GASB research reports on Popular Reporting and Performance Reporting to establish the criteria used in the CFR index. As well, the scores awarded were also completely verified by an independent party.

The findings of this study indicate areas of future research for public sector accountability and disclosures. Development of the CFR index for local government authorities allows potential future research using this index to examine the disclosures by local government authorities in the

CFR over a number of years. Further, if the CFR were to be incorporated into other jurisdictions within Australia, then it could also be used to examine the level of disclosures in other jurisdictions and make comparisons between different jurisdictions.

Another area of future research also lies in determining why local government authorities classified as urban performed better than those local government authorities classified as rural. This research may look at factors such as revenue base, assets base and the needs of these particular groups of users in order to determine the difference between urban and rural results.

APPENDIX A

**Community Financial Report (CFR) Index –
Qualitative Scoring Criteria**

Criteria	Score
<p>1. Statement of Financial Performance Summary</p> <p>5 The report provides an overview of the local government’s financial performance for the financial year and the previous year, by showing both the major forms of revenue and expenditure and the net result in dollar or percentage terms.</p> <p>4 The report provides an overview of the local government’s financial performance for the financial year, by showing both the major forms of revenue and expenditure and the net result in dollar or percentage terms.</p> <p>3 The report provides an overview of the local government’s financial performance for the financial year and the previous year, by showing either the major forms of revenue or expenditure in dollar or percentage terms.</p> <p>2 The report provides an overview of the local government’s financial performance for the financial year, by showing either the major forms of revenue or expenditure in dollar or percentage terms.</p> <p>1 Little attempt is made to provide an overview of the local government’s financial performance in dollar or percentage terms.</p> <p>0 No overview of the local government’s financial performance in dollar or percentage terms.</p> <p>2. Statement of Financial Performance Analysis</p> <p>5 The report provides a commentary on the local government’s major forms of both revenue and expenditure and net result for the current financial year and the previous financial year.</p> <p>4 The report provides a commentary on the local government’s major forms of both revenue and expenditure and net result for the current financial year.</p> <p>3 The report provides a commentary on the local government’s major forms of either revenue or expenditure for the current financial year and the previous financial year.</p> <p>2 The report provides a commentary on the local government’s major forms of either revenue or expenditure for the current financial year.</p> <p>1 Little attempt is made to comment on the local government’s revenue and expenditure for the financial year.</p> <p>0 No attempt is made to comment on the local government’s revenue and expenditure for the financial year.</p> <p>3. Statement of Financial Position Summary</p> <p>5 The report provides an overview of the local government’s financial position for the financial year and the previous year by showing the major forms of assets, liabilities and equity in dollar or percentage terms.</p> <p>4 The report provides an overview of the local government’s financial position for the financial year by showing the major forms of assets, liabilities and equity in dollar or percentage terms.</p> <p>3 The report provides an overview of the local government’s financial position for the financial year and the previous year by showing total assets, liabilities and equity in dollar or percentage terms.</p> <p>2 The report provides an overview of the local government’s financial position for the financial year by showing total assets, liabilities and equity in dollar or percentage terms.</p> <p>1 Little attempt is made to provide an overview of the local government’s financial position in dollar or percentage terms.</p> <p>0 No overview of the local government’s financial position in dollar or percentage terms.</p>	

4. Statement of Financial Position Analysis

- 5 The report provides a commentary on the local government's major forms of assets, liabilities and equity for the current financial year and the previous financial year making specific reference to relevant impacts.
- 4 The report provides a commentary on the local government's major forms of assets, liabilities and equity for the current financial year.
- 3 The report provides a commentary on the local government's total assets, liabilities and equity for the current financial year and the previous financial year.
- 2 The report provides a commentary on the local government's total assets, liabilities and equity for the current financial year.
- 1 Little attempt is made to comment on the local government's assets, liabilities and equity for the financial year.
- 0 No attempt is made to comment on the local government's assets, liabilities and equity for the financial year.

5. Statement of Cash Flows Summary

- 5 The report provides an overview of the local government's cash flows by showing the major forms of cash flow (operating, investing and financing) as well as the beginning and ending balance of cash for the financial year and the previous year in dollar or percentage terms.
- 4 The report provides an overview of the local government's cash flows by showing the major forms of cash flow (operating, investing and financing) as well as the beginning and ending balance of cash for the current financial year in dollar or percentage terms.
- 3 The report provides an overview of the local government's cash flows by showing the major forms of cash flow (operating, investing and financing) and either the beginning or ending balance of cash for the financial year and the previous year in dollar or percentage terms.
- 2 The report provides an overview of the local government's cash flows by showing the major forms of cash flow (operating, investing and financing) and either the beginning or ending balance of cash for the financial year in dollar or percentage terms.
- 1 Little attempt is made to provide an overview of the local government's cash flows in dollar or percentage terms.
- 0 No attempt is made to provide an overview of the local government's cash flows in dollar or percentage terms.

6. Statement of Cash Flows Analysis

- 5 The report provides a commentary on the local government's major forms of cash flows (operating, investing and financing) as well as the ending cash balance for the current financial year and the previous financial year.
- 4 The report provides a commentary on the local government's major forms of cash flows (operating, investing and financing) as well as the ending cash balance for the current financial year.
- 3 The report provides a commentary on the local government's major forms of cash flows (operating, investing and financing) for the current financial year and the previous financial year.
- 2 The report provides a commentary on the local government's major forms of cash flows (operating, investing and financing) for the current financial year.
- 1 Little attempt is made to provide a commentary of the local government's cash flows or ending cash balance.
- 0 No attempt is made to provide a commentary of the local government's cash flows or ending cash balance.

- | | |
|--|--|
| <p>7. Understandability</p> <p>5 Plain language is used, is easy to read and comprehend, avoids technical words which are not widely used, and explains terms with little technical jargon.</p> <p>4 As per 5 above but lacking 1 item.</p> <p>3 As per 5 above but lacking 2 items.</p> <p>2 As per 5 above but lacking 3 items.</p> <p>1 Prose used but difficult to comprehend.</p> <p>0 No prose used.</p> <p>8. Illustrations (graphs and charts)</p> <p>5 Five or more visual aids which are informative (appropriate title, show trend or provide explanation) and show information that has not been duplicated elsewhere.</p> <p>4 Four visual aids which are informative and show information that has not been duplicated elsewhere.</p> <p>3 Three visual aids which are informative and show information that has not been duplicated elsewhere.</p> <p>2 Two visual aids which are informative and show information that has not been duplicated elsewhere.</p> <p>1 One visual aid which is informative and shows information that has not been duplicated elsewhere.</p> <p>0 No use of visual aids.</p> <p>9. Financial Performance Indicators (ratios)</p> <p>5 Five or more financial ratios over 5 or more years with an explanation of meaning of ratios and trends.</p> <p>4 Three to four financial ratios over 5 or more years with an explanation of meaning of ratios and trends.</p> <p>3 Three or more financial ratios over 3-4 years with an explanation of meaning of ratios and trends.</p> <p>2 At least three financial ratios with no explanation of meaning of ratios and trends.</p> <p>1 One to two financial ratios with no explanation of meaning of ratios and trends.</p> <p>0 No financial ratios.</p> <p>10. Purpose, Achievements, Targets, Operational Plan and Feedback on CFR</p> <p>5 Separate statement within the CFR that includes;</p> <ul style="list-style-type: none"> • A purpose stating why the CFR is published, • Disclosure of achievements over the last year, • Disclose next year's financial targets, • A link between your Operational Plan and the CFR, and • The seeking of feedback on the published CFR. <p>4 Deficient in one of the above.</p> <p>3 Deficient in two of the above.</p> <p>2 Deficient in three of the above.</p> <p>1 Deficient in four of the above.</p> <p>0 None of the above is mentioned.</p> | |
|--|--|

11. Appeal

- 5 The CFR shows the use of at least six of the following;
- Use of colour in the CFR to good effect,
 - Headings and subheadings are used (areas of the CFR are easily and clearly identified),
 - Pictures (such as photographs) and/or tables,
 - Appropriate set-out so that the information contained in the report flows logically and clearly,
 - Font size and style used in the CFR is adequate (i.e. able to clearly read font without hindrance of size or style used),
 - Attractive, and
 - Page length 2-7 pages.
- 4 Any of the five items above.
- 3 Any of the four items above.
- 2 Any of the three items above.
- 1 Any one to two of the items above.
- 0 None of the above items.

APPENDIX B

Local Government Authorities Included in the Sample – Sorted in Descending Order by CFR Index Score (Maximum Score = 55)

Wondai	41	Mount Morgan	22	Murweh	15
Booringa	39	Calliope	21	Banana	14
Bungil	36	Fitzroy	21	Winton	14
Redcliffe	35	Gatton	21	Barcoo	13
Gold Coast	32	Jericho	21	Boulia	13
Cooloola	31	Peak Downs	21	Herberton	13
Nanango	31	Aramac	20	Tambo	13
Ipswich	30	Atherton	20	Thuringowa	13
Maroochy	30	Caloundra	20	Wambo	13
Burnett	29	Gayndah	20	Burke	11
Caboolture	29	Kilcoy	20	Chinchilla	11
Pine Rivers	29	Mackay	20	Isisford	11
Dalby	28	Belyando	19	Isis	10
Inglewood	28	Biggenden	19	Flinders	9
Laidley	28	Bundaberg	19	McKinley	9
Redland	28	Clifton	19	Paroo	9
Logan	27	Douglas	19	Mount Isa	7
Miriam Vale	27	Hinchinbrook	19	Brisbane	0
Balonne	26	Kingaroy	19	Carpentaria	0
Milmerran	26	Quilpie	19	Croydon	0
Townsville	26	Rockhampton	19	Diamantina	0
Beaudesert	25	Toowoomba	19	Emerald	0
Broadsound	24	Waggamba	19	Monto	0
Bulloo	24	Tara	18	Mundubbera	0
Mirani	24	Cook	17	Murgon	0
Murilla	24	Gladstone	17	Pittsworth	0
Noosa	24	Johnstone	17	Richmond	0
Stanthorpe	24	Rosalie	17	Roma	0
Burdekin	23	Warroo	17	Sarina	0
Cairns	23	Whitsunday	17		
Kolan	23	Bauhinia	16		
Livingstone	23	Cardwell	15		
Warwick	23	Crow's Nest	15	Count	105
Woocoo	23	Eidsvold	15	Average	18.34
Bowen	22	Goondiwindi	15	Standard	
Cambooya	22	Jondaryn	15	Deviation	9.20
Hervey Bay	22	Kilkivan	15	Minimum	0
Mareeba	22	Mornington	15	Maximum	41

References

AICPA (1994), *Improving Business Reporting – A Customer Focus: Meeting the Information Needs of Investors and Creditors, Comprehensive Report of the Special Committee on Financial Reporting (The Jenkins Report)*, New York, NY, American Institute of Certified Public Accountants.

Alijarde, M.I. (1997), 'The Usefulness of Financial Reporting in Spanish Local Governments', *Financial Accountability & Management*, Vol. 13, No. 1, Feb. pp. 17-34.

Atamian, R. and G. Ganguli (1991), 'The Recipients of Municipal Annual Financial Reports: A Nationwide Survey', *The Government Accountants Journal*, Fall, pp. 3-21.

Banks, W. and M. Nelson (1994), 'Financial Disclosures by Ontario Universities: 1988-1993', *Journal of International Accounting Auditing and Taxation*, Vol. 3, No. 2, pp.287-305.

Banks, W. et al. (1997), 'University Accountability in England, Wales, and Northern Ireland: 1992–1994', *Journal of International Accounting, Auditing and Taxation*, Vol. 6, No. 2, pp. 211-226.

Beattie, V., et al. (2004), 'A Methodology for Analyzing and Evaluating Narratives in Annual Reports: A Comprehensive Descriptive Profile and Metrics for Disclosure Quality Attributes', *Accounting Forum*, Vol. 28, pp.205-236.

Boyne, G. and J. Law (1991), 'Accountability and Local Authority Annual Reports: The Case of Welsh District Councils', *Financial Accountability & Management*, Vol. 7, No. 3, pp. 179-194.

Broadbent, J. and J. Guthrie (1992), 'Changes in the Public Sector: A Review of Recent "Alternative" Accounting Research', *Accounting Auditing & Accountability Journal*, Vol. 5, No. 2, pp. 3-31.

Carter, C. and F. Mueller (2006), 'The Colonization of Strategy: Financialisation in a Post-Privatisation Context', *Critical Perspectives on Accounting*, Vol. 17, Iss. 8, pp. 967-985.

Christensen, M. and P. Skaerbaek (2007), 'Framing and Overflowing of Public Sector Accountability Innovations – A Comparative Study of Reporting Practices', *Accounting, Auditing & Accountability Journal*, Vol. 20, No. 1, pp. 101-132.

Chua, W.F. and A. Sinclair (1994), 'Interests and the profession-state dynamic: explaining the emergence of the Australian Public Sector Accounting Standards Board', *Business Finance and Accounting*, Vol. 21, No. 5, pp. 669-705.

Clark, C. (2003), 'The Performance Information Needs of Users of the Annual Reports of Government Departments'. Paper presented at the *Accountability Symposium, Accounting and Finance Association of Australia and New Zealand*. July 2003, Brisbane.

Collins, W. et al. (1991), *Local Authority Financial Accounting – Communication Sophistry or Obfuscation*, The Chartered Institute of Public Finance and Accountancy.

Coy, D. and K. Dixon (2004), 'The Public Accountability Index: Crafting a Parametric Disclosure Index for Annual Reports', *The British Accounting Review*, Vol. 36, pp. 79-106.

Coy, D. et al. (1994), 'Public Sector Reform in New Zealand: The Progress of Tertiary Education Annual Reports, 1990-1992', *Financial Accountability & Management*, Vol. 10, No. 3, pp. 253-264.

Cunningham, A. (2001), *Speech to CPA Australia Local Government Intensive Day*, Brisbane, 21 August.

Daniels, J. and C. Daniels (1991), 'Municipal Financial Reports: What Users Want', *Journal of Accounting and Public Policy*, Vol. 10, No. 1, pp. 15-38.

Davis, G. et al. (1993), *Public Policy in Australia*, 2nd edition, Sydney: Allen and Unwin.

Dixon, K. et al. (1991), 'External Reporting by New Zealand Universities 1985-1989: Improving Accountability', *Financial Accountability & Management*, Vol. 7, No. 3, pp. 169-178.

DLGP (2003), Department of Local Government and Planning, Queensland, *Local Government Bulletin: Community Financial Report for 2002/03. Ref17/03*. Local Government Services, 8 September 2003.

DLGP website (2004), Department of Local Government and Planning, Local Government Directory. Retrieved 8 October 2004, from <http://www.lgp.qld.gov.au/applications/lgDirectory/>.

FASB (2001), *Improving Business Reporting: Insights Into Enhancing Voluntary Disclosures*. Steering Committee Report, Business Reporting Research Project. Financial Accounting Standards Board.

Fisher, J. et al. (1996), 'Accountability in Scottish Universities', *Certified Accountant* (May), pp. 46-47.

GASB (1992), Governmental Accounting Standards Board, *Popular Reporting: Local Government Financial Reports to the Citizenry*, by Carpenter, F. and F. Sharp, Norwalk.

GASB (2002), Governmental Accounting Standards Board, *Report on the GASB Citizen Discussion Groups on Performance Reporting*, by Fountain, J., Campbell, W., Epstein, P. and Robinson, B., Norwalk.

Guthrie, J. (1998), 'Application of Accrual Accounting in the Australian Public Sector - Rhetoric or Reality?', *Financial Accountability & Management*, Vol. 14, No. 1, pp. 1-19.

Hyndman, N. and R. Anderson (1995), 'The Use of Performance Information in External Reporting: An Empirical Study of UK Executive Agencies' *Financial Accountability & Management*, Vol. 11, No. 1, pp.1-17.

ICAEW (2003), *New Reporting Models for Business*, London: Institute of Chartered Accountants in England and Wales.

Jones, D. et al. (1985), *The Needs of Users of Governmental Financial Reports*. (Governmental Research Report). Stamford, Connecticut: Governmental Accounting Standards Board.

Kloot, L. and J. Martin (2001), 'Local Government Accountability: Explaining the Differences', *Accounting, Accountability & Performance*, Vol. 7, No. 1, pp. 51-72.

Lev, B. (2001), *Intangibles: Management, Measurement and Reporting*, Brookings Institution Press.

LGAQ (2002), Local Government Association of Queensland, *Report on Best Practice Simplified Internal and External Reporting for Local Governments in Queensland*.

Local Government Finance Standard (1994), Queensland Parliament.

Mack, J. (2004), *An Investigation of the Information Requirements of Users of Australian Public Sector Financial Reports*. Unpublished PhD Thesis, Queensland University of Technology, Brisbane.

Mack, J and Ryan, C. (2006), 'Reflections on the theoretical underpinnings of the general-purpose financial reports of Australian government departments', *Accounting, Auditing & Accountability Journal*, Vol. 19, No. 4, pp. 592-612.

Mack, J. et al. (2001), *Local Government Annual Reports: Australian Empirical Evidence on Recipients*. Paper presented at the APIRA Conference. July 2001, Adelaide.

Management Advisory Board (1993), *Accountability in the Commonwealth Public Sector*, Report no. 11 MAB-MIAC publication Series, Canberra, AGPS.

Marston, C. and P. Shriver (1991), 'The Use of Disclosure Indices in Accounting Research: A Review Article', *British Accounting Review*, Vol. 23, pp. 195-210.

Nelson, M. et al. (1997a), 'University Accountability in Australia: 1993-1995', *Accountability and Performance*, Vol. 3, No. 2, pp. 1-19.

_____ et al. (1997b), 'A Comparison of University Accountability in Australia and Canada', *Journal of Contemporary Issues in Business and Government*, Vol. 4, No. 1, pp. 36-46.

New South Wales Parliament Public Accounts Committee (2004), , <http://www.parliament.nsw.gov.au/prod/parlment/committee.nsf/0/7B863A265F0AFE1ACA256F6300140DB5>. Retrieved 7 November 2005.

NOLG (2003), National Office of Local Government, *Report on the Operations of the Local Government (Financial Assistance) Act 1995: Appendix F Australian Classification of Local Governments*. Australian Government Printing Service.

Pollitt, C. (1990), *Managerialism and the Public Services: The Anglo-American Experience*, London: Basil Blackwell.

Priest, A. et al. (1999), 'Users of Local Government Annual Reports: Information Preferences', *Accounting, Accountability & Performance*, Vol. 5, No. 3, pp. 49-62.

Queensland Audit Office (2000), *Auditor-General of Queensland Report No. 3 2000-2001*.

_____ (2001), *Auditor-General of Queensland Report No.1 2001-2002*.

Ryan, C. (1995), *Australian Public Sector Financial Reporting 1976 to 1993: Reforming Policy Agendas*. Unpublished PhD Thesis, Griffith University.

_____ (1998), 'The Introduction of Accrual Reporting Policy in the Australian Public Sector: An Agenda-Setting Explanation', *Accounting, Auditing & Accountability*, Vol. 11, No. 5, pp. 518-539.

Ryan, C. et al. (2002), 'Accountability Disclosures by Queensland Local Government Councils: 1997-1999', *Financial Accountability & Management*, Vol. 18, No. 3, pp. 261-289.

_____ (2004), 'Community Financial Reports of Queensland Local Government Authorities'. Paper presented at the AFAANZ Conference. July 2004, Alice Springs.

Senate Standing Committee on Finance and Public Administration (1989), *The Timeless and Quality of Annual Reports*, AGPS, Canberra.

Shand, D.A. (1981), 'The Annual Reports of Government Organisations', *The Australian Accountant*, May, pp.251, 254-256, 258.

Wallman, S.M.H. (1997), "The Future of Accounting and Financial Reporting. Part IV. "Access" Accounting", *Accounting Horizons*, Vol. 11, No. 2, pp.103-116.

ENDNOTES

¹ New South Wales is one of six states in Australia.

² Queensland is one of six states in Australia.

³ This finding is consistent with Ryan et al. (2004) who also identified a local government authority who opted to use the heading of 'Financial Summary' as opposed to 'Community Financial Report'. When reasons behind the use of 'Financial Summary' were sought, the local government authority stated that 'the CFR was located under the heading 'Financial Summary' as it is both a financial summary and CFR' (Ryan et al., 2004: 19). Therefore any CFR's that were not specifically titled 'Community Financial Report' were still considered to be a CFR if their title or content in some way represented what a CFR would reasonably be expected to include.

⁴ NOLG publication 2002-2003 Report on the Operation of the Local Government (*Financial Assistance) Act 1995* Appendix F – Australian classification of local governments. The local governments included in the classification system are those that receive general purpose financial assistance grants as defined under the *Local Government (Financial Assistance) Act 1995*.

⁵ The classification system involves three steps with each step allocating a letter character to develop the three letter identifier code for each class of local government. There are 22 categories in total. Urban and rural are the two initial categories, which are then further subdivided. Urban are subdivided into Capital City (CC), Metropolitan (M), Regional (R) and Fringe (F). Rural are subdivided into Significant Growth (SG), Agricultural (A) and Remote (T). These categories are then again subdivided based on population size into Extra Small (X), Small (S), Medium (M), Large (L) and Very Large (V). It should be noted however that the population size classification is dependent upon the previous two classifications. This means that a large urban regional local government does not have the same population as a large rural agricultural local government.

⁶ DLGP (Department of Local Government and Planning) website: <http://www.lgp.qld.gov.au/applications/lgDirectory/>. Directory link to each individual local government authority, Population and Housing facts sheet found under the Statistics sub-heading. Population was established by using the Facts Sheet.

⁷ Due to its significantly large population, Brisbane (the capital of Queensland) represented an outlier in the data and as a result would have impacted on the calculation of the correlation of the variables were it to be included. It is for this reason that Brisbane was excluded from the calculation of this statistic and it is believed that a more representative result has been achieved because of this. Non-parametric tests were also done including Brisbane and there was no significant difference found in the results.