

Consolidation accounting issues in the Australian public sector



Victoria Jane Wise

B.Com(Auckland), M.Econ.Fin(Macquarie)

A thesis submitted in fulfilment
of the requirements for the degree of
DOCTOR OF PHILOSOPHY

School of Accounting and Finance

Faculty of Business and Law

Victoria University, Melbourne.

May 2004

CIT THESIS
657.30994 WIS
30001008546170
Wise, Victoria J
Consolidation accounting
issues in the Australian
public sector



Contents

	Page location
List of Figures	i
List of Exhibits	ii
List of Tables	iii
Acknowledgment	v
Declaration	vi
List of Abbreviations	vii
Abstract	x
Chapter 1 Introduction	1
1.1 Objectives and structure	1
1.2 Origins of the research	3
1.2.1 Ownership, Control	3
1.2.2 Commander theory	4
1.2.2.1 Definitions	6
1.2.3 Consolidated financial reporting	6
1.2.4 Reaction to new accounting standards	7
1.2.5 Harmonisation theory	8
1.2.6 Institutional theory	10
1.2.7 Generalisability of consolidated financial reporting.....	11
1.3 Accountability and usefulness	12
1.3.1 Accountability	13
1.3.2 Usefulness	14
1.4 Research questions and study objectives	14
1.5 Importance of the topic	17
1.5.1 The public sector	17
1.5.2 Research streams	20
1.6 Methodology	21
1.7 Contribution of the study	23
1.8 Organisation of the study	26
Chapter 2 Whole-of-government financial reporting framework	29
2.1 Objectives and structure.....	29
2.2 Structure of the Australian public sector.....	30
2.2.1 Overview.....	30
2.2.2 Accountability.....	34
2.2.2.1 Commandership and accountability.....	37
2.2.3 Sector of interest.....	41
2.3 Institutional regulatory framework.....	41
2.3.1 Introduction.....	41
2.3.2 Overview.....	42
2.3.3 Statutory financial reporting requirements.....	44
2.3.3.1 Completeness of consolidated financial reports.....	48

2.3.3.2	Asset valuation and wealth accumulation.....	50
2.3.4	Commonwealth financial reporting requirements.....	54
2.3.4.1	Australian Capital Territory.....	56
2.3.4.2	New South Wales.....	58
2.3.4.3	Northern Territory.....	58
2.3.4.4	Queensland.....	58
2.3.4.5	South Australia.....	59
2.3.4.6	Tasmania.....	59
2.3.4.7	Victoria.....	59
2.3.4.8	Western Australia.....	60
2.3.5	Regulatory evolution.....	60
2.4	Recent reforms in financial reporting.....	62
2.4.1	Introduction.....	62
2.4.2	Accrual accounting.....	63
2.4.3	Professional accounting regulation.....	67
2.4.4	Whole-of-government financial reporting.....	68
2.4.5	AAS31:Financial Reporting by Governments.....	71
2.4.6	Budget reporting – Accrual Uniform Presentation Framework.....	73
2.5	Characteristics of whole-of-government reporting entities...	75
2.5.1	General Government Sector (GGS).....	76
2.5.2	Public Financial Enterprises Sector (PFE).....	76
2.5.3	Public Trading Enterprises Sector (PTE).....	77
2.5.4	Consolidated entities.....	77
2.5.4.1	Control.....	79
2.5.5	Control and the EEC Seventh Directive.....	88
2.6	Summary.....	90
Chapter 3	Literature review	92
3.1	Objectives and structure	92
3.2	Review of accountability literature	93
3.2.1	Introduction	93
3.2.2	A political viewpoint	93
3.2.3	An agency perspective	97
3.2.4	A market explanation	101
3.2.5	Accountability and Harmonisation theory	103
3.2.5.1	Historical background	105
3.2.6	Accountability and professional regulation	107
3.2.7	Accountability and Commander theory	108
3.2.8	Summary	109
3.3	Review of relevant literature on usefulness	110
3.3.1	Introduction	110
3.3.2	Emergence of the user-needs focus	110
3.3.2.1	Trueblood, Sandilands and Corporate Reports	112
3.3.2.2	Conceptual framework development	113
3.3.2.3	Identifying users and their needs	116
3.3.2.4	User needs and consolidated financial reporting	119
3.3.3	The preparer focus	120
3.3.3.1	Lobbying behaviour	120
3.3.3.2	Constituents in the lobbying process	122

3.3.3.3	Effectiveness of lobbying	125
3.3.3.4	Accounting policy and disclosure choice	126
3.3.3.5	Voluntary disclosure	128
3.3.3.6	Some determinants of voluntary disclosure	129
3.3.3.7	Information transfer perspective	132
3.3.4	Disclosure indices	132
3.4	Review of consolidated financial reporting literature	135
3.4.1	Understanding consolidated financial reporting	135
3.4.2	Function of consolidated financial reporting	136
3.4.3	Consolidation models	137
3.4.3.1	Consolidated reports as supplements and substitutes	137
3.4.3.2	Pooling, purchase and new entity methods	138
3.4.3.3	Proprietary, parent entity and entity concepts	139
3.4.4	Mixed results on the usefulness of consolidated financial reporting	141
3.4.4.1	Aggressive use of consolidated financial reporting	146
3.5	Summary	146
Chapter 4	ED40 submissions – Research methodology and analysis	148
4.1	Objectives and structure	148
4.2	Review of submissions	149
4.3	Research questions and hypotheses	150
4.3.1	Hypothesis 1	150
4.3.2	Hypothesis 2	152
4.3.3	Hypothesis 3	154
4.3.4	Hypothesis 4	154
4.4	Data and methodology	156
4.4.1	Data collection	156
4.4.2	Content analysis of ED40	156
4.4.3	Coding categories	157
4.4.3.1	Dimension 1: Data constituencies	157
4.4.3.2	Dimension 2: Data characteristics	161
4.4.4	Unit of content	162
4.4.5	Unit of enumeration	162
4.4.6	Primary thematic data categories	163
4.4.7	Secondary thematic data categories	165
4.4.8	Coding validity and reliability	167
4.4.8.1	Research plan	167
4.4.8.2	Validity	167
4.5	Analysis and interpretation of results	169
4.5.1	Distribution of responses	169
4.5.2	Descriptive statistics	170
4.5.3	Primary thematic data characteristics	171
4.5.3.1	Summary of response, all categories	172
4.5.3.2	Within-group response, public sector category	173
4.5.4	Secondary thematic data characteristics	175
4.5.4.1	Within primary data category response	176
4.6	Hypothesis testing	181
4.6.1	Hypothesis 1	181

4.6.2	Hypothesis 2	181
4.6.3	Hypothesis 3	182
4.6.4	Hypothesis 4	182
4.7	Summary	183
Chapter 5	Whole-of-government consolidated financial reports - Research methodology and analysis	184
5.1	Introduction	184
5.2	Objectives and structure	185
5.3	Disclosure model	186
5.3.1	Thematic data characteristics	186
5.4	Review of whole-of-government financial reports	192
5.4.1	Constituents, data collection	192
5.4.2	Summary of audit reports	196
5.4.3	Compliance	197
5.4.4	Data processing	198
5.4.5	Incidence of a data theme	198
5.4.5.1	Unit of enumeration	199
5.5	Compliance index	200
5.6	Analysis and interpretation of data	203
5.6.1	Ranked order	204
5.6.2	The hypotheses	205
5.6.3	Consolidated Operating Statement	207
5.6.4	Consolidated Statement of Financial Position	209
5.6.5	Consolidated Statement of Cash Flows	212
5.6.6	Summary of the three primary financial reports	213
5.6.7	Supplementary Notes	215
5.6.8	Qualitative disclosure	217
5.6.9	Reclassification of data	219
5.7	Summary	222
Chapter 6	Survey of preparer-commanders – Research methodology and analysis of results	225
6.1	Objectives	225
6.2	Methodology	226
6.2.1	Response rate	227
6.3	Questionnaire development	230
6.3.1	Questionnaire pre-testing	234
6.3.2	Questionnaire summary	234
6.4	Analysis of data	236
6.4.1	Respondents' beliefs – ED40 data themes	236
6.4.2	Analysis and interpretation of results	241
6.4.2.1	(1) Usefulness of consolidated financial reporting	241
6.4.2.2	(2) Scope and Application of consolidated financial reporting	245
6.4.2.3	(3) Control	247
6.4.2.4	(4) Preparation of consolidated financial reports	249
6.4.2.5	Proper implementation of consolidated financial reporting .	252
6.4.3	Users	254

6.4.4	Respondents' attitudes	256
6.4.4.1	Ranked data	256
6.4.5	Attributes of the implementation process	258
6.5	Hypothesis testing	261
6.6	Summary	262
Chapter 7	Conclusions and recommendations	263
7.1	Introduction	263
7.2	Organisation of the chapter	263
7.3	Summary of the major findings	264
7.4	Accountability, usefulness, and consolidated financial reporting	266
7.4.1	Accountability	266
7.4.2	Usefulness of consolidated financial reporting	268
7.4.3	Consolidated financial reporting	270
7.5	ED40 submissions, Financial reports, Questionnaire	272
7.5.1	ED40 submissions	272
7.5.2	Financial reports	274
7.5.3	Questionnaire	278
7.6	Conclusion	280
7.7	Directions for future research	282
Appendices		285
Bibliography		367

List of Figures

Figure number	Figure Title	Page location
2.1	The representation mechanism for establishing the principle of responsible government in Australia	33
2.2	Selected features of Goldberg’s Commander Theory and modifications for this study	40
2.3	The Commonwealth Government Economic Entity as at 30 June 2000	79
2.4	Some possible levels of consolidation in the public sector	80
6.1	Legend for interpretation of the descriptive statistics	239

List of Exhibits

Exhibit number	Exhibit Title	Page location
3.1	Documents leading to AASB1024	106
6.1	A selected sample of questions from the questionnaire ...	235

List of Tables

Table number	Table title	Page location
2.1	Primary group of interest establishing the principle of responsible government	41
2.2	Broad categories of law in Australia	43
2.3	Authoritative Australian Commonwealth, State and Territory law providing for the preparation and audit of public sector financial reports	45
2.4	Summary of the statutory annual financial reporting requirements of the Commonwealth in comparison with the States and Territories	57
2.5	Comparative analysis of Revenue statistics for all States, the Australian Capital Territory and the Northern Territory	73
4.1	ED40 coding categories – Dimension 1, constituency categories	157
4.2	ED40 coding categories – Dimension 1, Secondary (public sector) categories	159
4.3	ED40 coding categories – Dimension 1, All secondary categories	161
4.4	ED40 coding categories – Dimension 2, Thematic data characteristics	166
4.5	Frequency distributions of ED40 submissions by constituency category n = 64	169
4.6	Descriptive statistics from responses to ED40 n = 64	169
4.7	Primary thematic data characteristics – Summary of response scores - all categories	172
4.8	Primary thematic data characteristics – Summary of <i>within group</i> response from the public sector	175
4.9	Secondary thematic data characteristics – Summary of public sector response – <i>within primary data category</i>	176
5.1	Whole-of-government consolidated financial reporting – Summary of AAS31 compliance model	187
5.2	Compliance model – (1) Consolidated Operating Statement	188
5.3	Compliance model – (2) Consolidated Statement of Financial Position	189
5.4	Compliance model – (3) Consolidated Statement of Cash Flows	190
5.5	Compliance model – (4) Supplementary Notes	191
5.6	Whole-of-government consolidated financial reports – Entities and dates of reports reviewed	195
5.7	Review of audit reports	196
5.8	Compliance index – Compliance of whole-of-government consolidated financial reports with AAS31 disclosure model	202
5.9	Ranked order of primary data categories	204
5.10	Ranked order by compliance rate of disclosures within Supplementary Notes	216
5.11	Frequency distribution of items by range and relative importance of the compliance rate	220
6.1	Destination of questionnaires, and response rate classified by constituency category	230
6.2	Variable by Case matrix	231
6.3	Likert scale used in the study, including weighting adjustments	232
6.4	ED40 – Matching of questions to primary and secondary data themes ..	237
6.5	Descriptive statistics for secondary data themes	238

6.6	Correlation matrix – Primary category 1: Usefulness of consolidated financial reporting and Primary categories 2: Scope and Application; 3: Control; 4: Preparation of consolidated financial reports	240
6.7	Descriptive statistics of the extent to which respondents’ believe consolidated financial reporting has been properly implemented	253
6.8	Identity of users, Level of users’ understanding, and Usefulness for decision-making of whole-of-government consolidated financial reports	255
6.9	Reasons impeding or explaining the success of the cross-sector transfer of consolidated financial reporting	257
6.10	Descriptive statistics of the attributes of the implementation process ...	259
6.11	Modifications to accounting systems to accommodate consolidated financial reporting	260

Acknowledgement

I wish to acknowledge the assistance of my supervisors at Victoria University, Professor Robert Clift and Dr. Stella Sofocleous. I am appreciative to both for their encouragement. I am especially indebted to Professor Clift for his unreserved guidance and support throughout this project. Thank you Bob; but for your gentle urging this thesis would not have been started, and without your wit, good humour and wise counsel along the way, it probably would not have been completed.

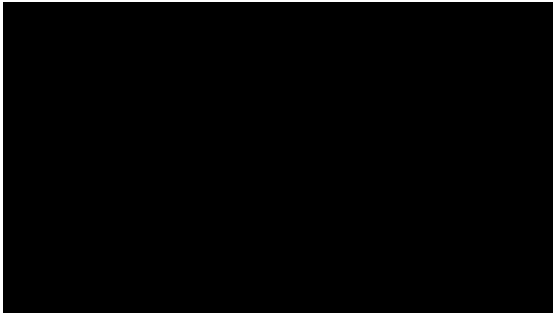
Thanks also go to many of my colleagues for their encouragement. Special thanks to Associate Professor Ian Roberts for his support and confidence in me; to Professor Louise Kloot for her understanding; to Associate Professor Gary O'Donovan for his review and comment on my early drafts of this thesis; and to Dr. Jeffrey Faux for his enthusiastic encouragement.

I would like to thank those who so generously gave their time to respond to the questionnaire. Your cooperation made an important part of this research possible.

Most importantly, to my two sons Peter Wise and Thomas Wise and to my husband Peter Spencer for their absolute love and for their understanding when I was not spending time with them. Finally, this thesis is dedicated to Phil, my mum, in loving memory.

Declaration

The thesis contains no material which has been accepted for the award of any other degree or diploma in any other university or other institution, and to the best of my knowledge, this thesis contains no material previously published or written by another person, except where due reference is made in the text of this thesis.



Victoria Jane Wise

List of Abbreviations

Abbreviation	Full description
AARF	Australian Accounting Research Foundation
AAS	Australian Accounting Standards
AAS24	AAS24: Consolidated Financial Reports
AAS31	AAS31: Financial Reporting by Governments
AASB	Australian Accounting Standards Board
AASB1024	AASB1024:Consolidated Accounts
AASB1028	AASB1028:Employee Benefits
ABS	Australian Bureau of Statistics
Accrual-UPF	Accrual Uniform Presentation Framework 2000
ACT	Australian Capital Territory (Australian Territory)
AG	Attorney General
ARB43	Accounting Research Bulletin 43:Restatement and Revision of Accounting Research Bulletins (USA)
ARB51	Accounting Research Bulletin 51:Consolidated Financial Statements (USA)
ASA	Australian Society of Accountants
ASRB	Accounting Standards Review Board
ASX	Australian Stock Exchange
AvS.	Average Score
BIITE	Batchelor Institute of Indigenous Tertiary Education
CHSCC	Cultural, Heritage, Scientific and Community Collections
CPAA	Certified Practising Accountants of Australia
C'wlth	Commonwealth (of Australia)
ED38	Exposure Draft 38:Accounting for Defined Benefit Superannuation Plans
ED39	Exposure Draft 39:Accounting for Defined Contribution Superannuation Plans
ED40	Exposure Draft 40:Consolidated Financial Statements
ED42A	Exposure Draft 42A:Objectives of Financial Reporting
ED50	Exposure Draft 50:Financial Reporting by Local Governments
ED55	Exposure Draft 55:Financial Reporting by Government Departments
EEC	European Economic Community
et al.	and others
FAAA 1977	(QLD) Financial Administration and Audit Act 1977
FAAA 1985	(WA) Financial Administration and Audit Act 1985
FASB	Financial Accounting Standards Board
FMA 1994	(VIC) Financial Management Act 1994
FMA 1996	(ACT) Financial Management Act 1996
FMAA 1990	(TAS) Financial Management and Audit Act 1990
FMA&A 1995	(NT) Financial Management Act 1995 & Amendments
FMAA 1997	(C'wlth) Financial Management and Accountability Act 1997

FMA-Reg.	(C'wlth) Financial Management & Accountability Regs. 1997
1997	
FRC	Fiscal Reporting Committee
G100	Australia's Group of 100 largest publicly listed companies
GAAP	Generally accepted accounting principles
GASB	Governmental Accounting Standards Board (USA)
GBE	Government business enterprise
GFS	Government Financial Statistics framework
GGs	General Government Sector
GST	Goods and Services Tax
H1	Hypothesis 1
H2	Hypothesis 2
H3	Hypothesis 3
H4	Hypothesis 4
HoTARAC	Heads of Treasuries Accounting and Reporting Advisory Committee
IAS	International Accounting Standards
IASC	International Accounting Standards Committee
ibid	in the same passage
ICAA	The Institute of Chartered Accountants in Australia
IGIS	Office of the Inspector-General of Intelligence and Security
inter alia	among other things
NSW	New South Wales (Australian State of)
NT	Northern Territory (Australian Territory)
OEI	Outside Equity Interest
PAC	Public Accounts Committee (NSW)
Para.	Paragraph
PFAA 1983	(NSW) Public Finance and Audit Act 1983
PFAA 1987	(SA) Public Finance and Audit Act 1987
PFE	Public Financial Enterprises (Sector)
PS1	Policy Statement 1:The Development of Statements of Accounting Concepts and Accounting Standards
PS4	Policy Statement 4:International Convergence and Harmonisation Policy
PSASB	Public Sector Accounting Standards Board
PTE	Public Trading Enterprises (Sector)
Q.	Question
QLD	Queensland (Australian State of)
S., Ss.	Section, Sections
SA	South Australia (Australian State of)
SAC1	Statement of Accounting Concepts 1:Definition of the Reporting Entity
SAC2	Statement of Accounting Concepts 2:Objective of General Purpose Financial Reporting
SAC3	Statement of Accounting Concepts 3:Qualitative Characteristics of Financial Information
SAC4	Statement of Accounting Concepts 4:Definition and Recognition of the Elements of Financial Statements
Scheme	WorkCover Scheme Statutory Funds (NSW)
SFAC	Statement of Financial Accounting Concepts (USA)

SFAS94	Statement of Financial Accounting Standards 94:Consolidation of all Majority-Owned Subsidiaries (USA)
SNA93	System of National Accounts (revised 1993) (United Nations)
TAS	Tasmania (Australian State of)
UK	United Kingdom
UPF	Uniform Presentation Framework
USA	United States of America
VIC	Victoria (Australian State of)
WA	Western Australia (Australian State of)
WAvS.	Weighted average score
\$m	Dollars - Million
%	Per cent

Abstract

The aim in this study was to examine issues surrounding the cross-sector transfer of a private sector financial reporting practice, known as consolidated financial reporting, to the Australian public sector. The study was conducted using the theoretical frameworks of commandship, accountability and usefulness of financial information. Commander theory was chosen as it is ideally suited to the hierarchical system of control over resources that exists within the public sector; accountability because it is a fundamental requirement where public resources are involved; and usefulness because it is a rational basis for the production of financial information.

Three analytical studies were conducted in this examination. The first was a content analysis of the submissions made to accounting regulators in respect to a proposal to introduce the consolidated financial reporting practice to the public sector. The second was a content analysis of the format and type of disclosures made in the whole-of-government consolidated financial reports of the Commonwealth, State and Territory governments of Australia. The third was an empirical analysis of the responses to a questionnaire administered to the government officers responsible for the preparation and audit of whole-of-government consolidated financial reports.

The outcome of these analyses provides some support for the broad research questions that were posed. That is, there is some evidence to suggest that users and preparers find whole-of-government consolidated financial reports useful for the discharge of public sector financial accountabilities; that policy-makers and preparers are committed to the cross-sector transfer of the practice; and that the technical and

human resource infrastructure within the public sector is adequate to facilitate the transfer.

However, major concerns were raised in this study about the need for an investigation and consideration of a different theoretical model of consolidated financial reporting that would better reflect the nature and operations of the public sector. In particular, identification of the actual users of whole-of-government consolidated financial reports and their needs should be undertaken. An exhaustive examination of whether the definitions of the elements of financial reports developed for the private sector are suitable to the public sector needs to be conducted. If these investigations are not undertaken, the harmonisation initiative, aimed at enhancing the comparability of whole-of-government financial information, will continue to disappoint accounting regulators and policy-makers.

Chapter One

Introduction

1.1 Objectives and structure

The pursuit of harmonisation of private and public sector financial accounting and reporting practice underpinned many of the activities of Australian and overseas corporate regulators over the final three decades of the twentieth century. In Australia, for example, a major harmonisation initiative was launched in 1985 when the National Councils of The Institute of Chartered Accountants in Australia (*ICAA*) and the Australian Society of Accountants (now CPA Australia (*CPAA*)) issued an introductory statement endorsing the application of private sector accounting standards to public sector business undertakings (ICAA/ASA 1985). Nobes and Parker (1988, p.83) reported that ‘harmonisation has been attempted on a world-wide basis by the International Accounting Standards Committee...’, and that the European Economic Community had been harmonising company law for over 20 years.

The overall aim in this research study is to examine issues surrounding a specific instance of cross-sector transfer of a private sector financial reporting practice known as *consolidated financial reporting* to the Australian public sector (the *public sector*). A consideration is given to the association between this cross-sector transfer and: the philosophy of new managerialism (Weller & Lewis 1989; Broadbent & Guthrie 1992); the harmonisation initiative of the ICAA and CPAA; and more directly, the release by those two professional accounting bodies of an exposure draft (ED40:*Consolidated Financial Statements*) (ED40) (AARF 1987) setting out a

proposal followed a decade later by a professional accounting standard, applying the practice to the public sector (AAS31:*Financial Reporting by Governments*) (AAS31) (AARF 1998). Consideration will be given to whether the claimed benefits on which the case for the cross-sector transfer of consolidated financial reporting is based have been convincingly presented, and whether such benefits exist.

Evidence to examine the driving forces behind the introduction of consolidated financial reporting is assembled. This schema is viewed in a descriptive manner, using the public sector environment to exemplify many of the issues raised. These include whether consolidated financial reports can ever reveal the real outcome of activities or financial status of an entity, and the tensions that are created when private sector practices do not produce the accounting result considered appropriate for the public sector. If this schema has descriptive validity then it may provide a useful way to advance a critical theoretical literature affecting public sector accounting.

The consolidated financial reporting performance of whole-of-government reporting entities is studied by using the theoretical frameworks of *accountability* and *usefulness* to investigate whether some public sector entities have applied the practice more successfully than others. Further issues investigated in this study include: whether consolidated financial reports enhance the accountability performance of government; and, whether the relationship between accountability performance and usefulness of whole-of-government consolidated financial reports is moderated by environmental artefacts. A specific study outcome will be the

provision of an index of the rate of consolidated financial reporting compliance for the whole-of-government sector in Australia.

The objective in this chapter is to provide an overview of the research study and its organisation, beginning with a discussion of the origins of the research. This is followed by the research questions and objectives. Next, the importance of the topic is discussed. The methodology is then outlined; and, the contributions of the study are presented. The chapter is concluded with an outline of the organisation of the study.

1.2 Origins of the research

1.2.1 Ownership, Control

In the context of financial reporting, the principal concepts of consolidation practice in Australia are the *proprietary* concept, the *parent* entity concept and the *entity* concept (AARF 1987, ED40, Para.41). These concepts are based on notions of individual *ownership* that may not exist in the legal sense, of the power to *control* resources used by associations of business groups, and of the ability of this form of reporting to provide *useful* information. None of the concepts may be wholly satisfactory in explaining why a particular accounting practice is carried out in the public sector where resources, rather than owned by individuals, are regarded as generated by and for the benefit of, a conceptual *state* entity; and, where users and their specific needs for financial information have not been identified.

The idea of a *state*, formed by individuals who have united together, and which is governed by elected individuals, implies the existence of a social contract between

the electors and the elected (Runes 1962, p.293). As ownership of the state's resources does not exist in any legal sense, control over those resources and, thus, accountability for them, is conferred by the individuals who form the state, on those elected to govern the state. Whether consolidated financial information is useful for the discharge of accountability for such resources is examined in this study.

1.2.2 Commander theory

Commander theory as posited by Goldberg (1965, pp.162-7) could help in this examination. Commander theory rests on the assumption that although an owner of resources may also be the controller of those resources, ownership and control are separate notions. That is, ownership is a legal condition, but control is a function that can only be exercised by human beings:

Ownership of resources is sometimes, but not always accompanied by effective economic control of those resources, and this function of controlling or managing resources can be thought of as distinct from the legal or even social ownership of them. Goldberg (1965, p.162).

Goldberg (1965, p.166) defines control over resources as *command* and, in respect to government, identifies Cabinet (Parliamentary) Ministers as commanders at the top level of a hierarchical system of command. Invoking commander theory, if resources of the state are allocated to specific government organisations or for certain activities and functions, they are ultimately controlled by an individual commander who is a Minister and who is also responsible and accountable for those resources.

Goldberg also envisaged lower levels of command. These comprised permanent Heads of Department who guide the policy of Ministers. Effectively, they are commanders in this respect, as well as in their capacity of carrying out policy decisions. Also included were other officials of government Departments 'charged with the task of deploying resources within the scope and limitations laid down for them' (Goldberg 1965, p.166).

Goldberg (1965, p.167) also submitted that accounting reports are prepared by lower-level commanders to commanders at a higher level to serve many purposes. For instance: to provide documentary evidence for decisions made by commanders; for control of activities relating to resources; to enable decisions to be made by resource controllers; and, to allow decisions to be made on a basis of reasoned interpretation rather than guesswork.

Commander theory forms a theoretical foundation by which to analyse the impact of a cross-sector transfer of accounting principles and rules to the public sector. It provides a strategic posture toward financial report disclosure activities and assists in developing an understanding of the relative power of report preparers' on levels of financial report disclosure. This theoretical framework will be used to help explain whether certain environmental artefacts constitute significant impediments to the cross-sector transfer of the consolidated financial reporting practice to the public sector. Specifically, in an examination of the beliefs of the top-level and lower-level commanders as to the *usefulness* of consolidated financial reports for *accountability* purposes; the beliefs of the lower-level commanders of their power to control certain entities or activities and so to include them in consolidated reports; and, whether the

status of the technical and human resource infrastructure within the public sector impedes or assists the transfer of the practice to that sector.

1.2.2.1 Definitions

(Goldberg's) *Top-level* commanders use consolidated financial reports to discharge their accountability for government resources under their control. They constitute the primary financial report user group in this study and will be described as *user-commanders*. Heads of Departments are authoritative public sector policy-makers in respect to guidance for financial report content and preparation. They are described as *dominant preparer-commanders* in this study. Public sector officials responsible for the compilation and exercise of judgment in the preparation of such reports, and the Auditors-General responsible for monitoring the reporting process and the output of that process, are described as *subordinate preparer-commanders*.

1.2.3 Consolidated financial reporting

Consolidated financial reporting is an accounting technique in which two or more individual entities are reported as if they are one common entity. In order to prepare consolidated financial reports, separate sets of accounting reports are aggregated and certain other adjustments made to arrive at consolidated totals. For instance, inter-entity security holdings are eliminated, as are inter-entity transactions and the profits (or losses) therefrom (Chambers 1969, pp.631-2). An accounting standard AAS24:*Consolidated Financial Reports* (AAS24) (AARF 1990), regulating consolidated financial reporting practice, has been applicable to the Australian private sector since June 1992. However, it was not until June 1999 that, under the

requirements of AAS31, this form of reporting was required to be applied by Australian government entities at the whole-of-government level.

1.2.4 Reaction to new accounting standards

The early adoption of new authoritative accounting standards by reporting entities can be regarded as discretionary and when entities are observed adopting new accounting methods substantially identical with those required by the new standard one can readily infer the preparer's motivation to make pre-emptive changes. In contrast, it is more difficult to make inferences about the motivation of preparers to choose accounting methods that are not the subject of authoritative standards, or to defer the adoption of new standards until application date, or to comply only partially with the requirements of a new standard after application date.

At the time of the release of ED40 in 1987, consolidated financial reporting was a firmly established practice in Australia for private sector financial reporting. Ryan et al. (1991, p.26) reported that by 1987, 147 of the top 150 listed holding companies in Australia were disclosing their accounting policies in respect to consolidation practice. However, the practice was not at that time the subject of an accounting standard (AAS24 was first released in 1990), and the variability in practice indicated that preparers were choosing different concepts and levels of consolidation in their application process. This suggests that even if public sector constituents were receptive to the idea of consolidated financial reporting as outlined in ED40, the accounting regulators could expect there to be conflicting views as to the appropriate methodology.

1.2.5 Harmonisation theory

Nobes and Parker (1988, p.90) defined harmonisation as ‘a process of increasing the compatibility of accounting practices by setting bounds to their degree of variation’. This definition does not imply the imposition of a narrow set of rules. However, from this definition it may be said that harmonisation initiatives have an underlying agenda aimed not at rigid adherence to a set of prescriptive rules; rather the objective is the production of more comparable financial reports.

In Australia the literature shows some conflict as to the state of harmonisation that exists in public sector financial reporting and consolidated financial reporting in particular. Micallef (1996, p.5; 1997, p.51), for example, reported that all government jurisdictions with the exception of Tasmania and the Northern Territory had, by the end of 1996, committed to preparing consolidated financial reports for the government reporting entity broadly in line with the requirements of the new accounting standard AAS31. He stated that the New South Wales and Western Australian governments had been preparing such reports on a regular basis for some time and most other jurisdictions had begun compiling such reports in preparation for moving to a regular reporting regime.

On the other hand, following a review of whole-of-government consolidated financial reports, Miley (1999) identified consolidated financial reporting as an area of public sector financial reporting where *harmonisation* had not been achieved. Her study, based on 1997 whole-of-government reports, occurred in a pre-regulation context as the application date for consolidated financial reporting in the public sector did not become effective until the 1999 financial year (that is, the year

commencing 1 July 1998 and ending on 30 June 1999). Barrett (2001, p.52) reported that the 'Commonwealth and most State governments' (not all), were implementing AAS31.

The ICAA found in the analysis of its *Survey of Victorian Local Government Budgets* (2001, p.1):

little integration between the three key financial reporting requirements, namely, annual budgets, annual financial statements and annual Victoria Grants Commission returns ... all of which should be underpinned with the full use of accrual accounting.

This apparent inconsistency in the literature is investigated in this study (see Chapter 5) through an analysis of the extent to which consolidated financial reporting has been applied at the whole-of-government level in the reporting period immediately subsequent to the application date of the relevant accounting standard, AAS31.

A brief review of the literature revealed a number of reasons that have been offered to explain why cross-sector harmonisation initiatives might be resisted or unsuccessful. Whorton and Worthley (1981), for example, argued that private sector techniques failed in the public sector largely because of the resistance offered by the bureaucratic culture of government agencies. More generally, Allison (1984) believed that borrowing the techniques and models used in the private sector does not automatically lead to improvement in the results of the public sector. Deegan (2000, pp.194-5) interpreted Zarzeski's (1996) study, which provided evidence that business enterprises operating on a global scale appear to adopt a global market culture, as an

indication that harmonisation efforts should be directed at ‘larger, international organisations rather than organisations that operate domestically’.

1.2.6 Institutional theory

Institutional theory can be used to explore how institutional pressures influence the decisions of governments to adopt or resist the use of particular accounting principles for external financial reporting. Institutional theory conceptualises organisations as systems of rules that regulate the behaviour of both individuals and organisations (Rhodes 1997). Incentives are distortions (Israel 1991, p.42) in the system that are designed to prompt desired behaviour. Resource dependence of government units may be a potent form of coercive institutional pressure that can be associated with the adoption of accounting rules. Carpenter and Feroz (2001) identified a number of factors that may lead to initial resistance to institutional pressures for change such as whether the education process from active involvement in relevant professional associations by bureaucrats was important.

Carpenter and Feroz (2001) also investigated whether powerful interests may impede the adoption of accounting principles if the adoption is expected to alter existing power relationships. They found that *compromise*, *defy*, *acquiesce* and *manipulate* were all used as initial strategic responses to institutional pressures. These responses indicate a willingness and/or ability to adopt new principles. Their study results suggest that all strategic responses to resist institutional pressures for accounting principle adoption would ultimately fail because of the potency of the institutional pressures that result from the well-organised professional accounting and governmental institutional fields. The existence or otherwise of such responses

(described for the purposes of this study as preparer-commander *commitment* to the transfer of a private sector methodology to the public sector) is investigated in this study in order to understand more fully, the implications of the institutional setting for future proposals to introduce new and sometimes radically different accounting methods. Newberry (2003, p.29) suggested that institutional theory offers a possibility that rhetorical symbolic objectives, such as the pursuit of private sector ideals like economy and efficiency, may have been used as cover for a subversive attempt to rationalise public sector reforms.

1.2.7 Generalisability of consolidated financial reporting

A review of the contemporary literature from the field of financial reporting reveals the existence of more than one theory supporting the principles and practice of consolidated financial reporting. Reasons for this state of theory development include the evolution in nation-specific environments, predominantly the United States of America (*USA*) and the United Kingdom (*UK*), of differing rationales and methodological approaches to consolidated financial reporting. Walker (1978b, p.97, p.100) criticised regulatory bodies for setting accounting standards on consolidation that focused on achieving harmonisation of practice and not reflecting the background to the adoption of specific rules and practices in different jurisdictions. The consequence of such an approach is the absence of a generalisable theory to adequately explain how environmental variations influence accounting practice and change over time (Tilley 1975, p.188).

Walker (1976, p.78) criticised prior research into consolidated financial reporting for the lack of a clear understanding of the function of consolidated financial reports. He said:

If the rules are confused, it follows that in some respects the product of using those rules will be a confused representation. And if those who prepare consolidated statements are confused about what the statements represent, it seems likely that those who use consolidated statements may misunderstand the significance of consolidated data.

If the role of consolidated financial reporting in the public sector is to be understood, then use of methodologies capable of accommodating or interpreting its function ought to be considered. Other researchers have expressed the view that if this is to be achieved the use of methodologies that take account of historical and regulatory perspectives should be considered (Zeff 1972; McKinnon 1984; Wallace & Gernon 1991). Of interest in this study are environmental influences that may have shaped the operational format and status of accounting principles and practices for whole-of-government consolidated financial reporting.

1.3 Accountability and usefulness

A substantial body of literature exists on accountability for performance and the usefulness of financial information, much of it having been produced across the last four decades. What stands out in the relevant literature is the multiplicity of views with respect to the notion of accountability, the determinants of usefulness, and the nature of relationships between these factors and the practice of consolidated financial reporting (Simms 1999). Some researchers in this field have implied that

this is partly due to the poor conceptualisation of the nature of accountability and usefulness, and, the weak theoretical foundation of the consolidated financial reporting literature (Walker 1976, p.114). The accounting regulators clearly link the concepts of *control* and *accountability* in AAS31 (Para.9.1.3 (a)) and view control as the appropriate criterion for determining the components of the whole-of-government entity for the purposes of providing *useful* financial information. However, what appears to be lacking are *models* of accountability, usefulness and of consolidated financial reporting that can be viewed as superior or that are generally favoured in the literature.

1.3.1 Accountability

In the Australian public sector, Ministerial Heads of Departments are accountable to an elected assembly of Parliamentary Ministers (Birch 1996, p.20), and at a party level to the governing party (Lucy 1993, p.3). The Auditors-General provide assurance as to the accountability of public sector operations and performance, and the wider political processes of elections and interest group advocacy connect Parliament through its Ministers, to the people and so makes government more open than it would otherwise be (Aldons 2001). Broadbent and Laughlin (2003) argued that despite this implied notion of accountability governments only make themselves accountable in a political rather than a managerial sense.

The Australian Accounting Standards Board's (AASB) Policy Statement 4: *International Convergence and Harmonisation Policy (PS4)* (AASB 2000) links the process of harmonisation between the private and public sectors to

accountability. One of the stated objectives in PS4 is the improvement of the accountability of public sector reporting entities (AASB 2000 PS4, Para.1).

1.3.2 Usefulness

The Australian conceptual framework for financial reporting (the *conceptual framework*) identifies in SAC3:*Qualitative Characteristics of Financial Information* (SAC3) (AARF 1990), two primary variables as the antecedents to usefulness of financial information. These are: *relevance* and *reliability* (SAC3 1990, Para.7). Further, in the professional accounting standards AAS24, AAS31 and the statutory accounting standard AASB1024:*Consolidated Accounts* (AASB1024) (AASB 1990) which were developed within the conceptual framework, the consolidated financial reporting method is identified as a technique that produces relevant financial information that is useful to users of financial reports for their own decision-making purposes. A focus in this study is whether consolidated financial reports are a useful tool to *one* important user group – Parliamentary Ministers - described for the purposes of this study as *user-commanders*, for the discharge of their accountability for government resources under their control.

1.4 Research questions and study objectives

In specifying the major research question the achievement of two principal research objectives is sought. The first objective is to extend, significantly, the existing literature regarding the antecedents to public sector accountability performance by including two new variables: usefulness of whole-of-government consolidated financial reporting for the discharge of user-commanders' accountability; and preparer-commanders' beliefs about the usefulness of whole-of-government

consolidated financial reporting. The details of antecedents are discussed further in the review of the institutional setting conducted in Chapter 2 and the literature review that is presented in Chapter 3.

The second objective is to impose the usefulness framework of the Australian private sector financial reporting environment on the public sector and examine the moderator effects of certain environmental artefacts on accountability performance. The artefacts selected for examination are: (1) the usefulness of consolidated financial reporting for the discharge of user-commanders' accountability; and (2) preparer-commander beliefs about the usefulness of consolidated financial reporting; (3) preparer-commanders' commitment to the cross-sector transfer of the methodology to the public sector; and, (4) the status of technical and human resource infrastructures. On this basis, the major research question is presented:

Are whole-of-government consolidated financial reports useful for the discharge of financial information accountability by user-commanders?

Drawing on this research question two investigative questions have been identified:

- (1) What is the financial information accountability paradigm for user-commanders?
- (2) What is the financial reporting paradigm for the Australian public sector?

In considering the accountability paradigm the following questions were identified:

1. Is whole-of-government consolidated financial reporting useful in the discharge of user-commanders' accountability?
2. How is whole-of-government consolidated financial reporting related to preparer-commanders' beliefs about the usefulness of financial information for accountability performance?

In considering the financial reporting paradigm two further questions were posed:

3. How are preparer-commanders' beliefs about the usefulness of whole-of-government consolidated financial reporting related to their commitment to the cross-sector transfer of the methodology?
4. Is the status of the technical and human resource infrastructure associated with the usefulness of whole-of-government consolidated financial reporting?

The analysis relating to each of these questions appears as follows. Question 1 is addressed in Chapter 4 where responses to the exposure draft, ED40, occur. Question 2 is also discussed in Chapter 4 and in Chapter 5 as part of the discussion surrounding the financial report compliance index that is developed in this study.

Question 2 is considered again in the analysis of the questionnaire data in Chapter 6. Similarly, Question 3 is addressed in the discussion in Chapter 4; in Chapter 5 when the outcome of audit reports contained in annual reports is considered and the compliance index is analysed; and again in Chapter 6 when the results of the questionnaire are considered. A discussion of Question 4 occurs in Chapter 4 as part of the analysis of the ED40 responses and again when the results of the questionnaire are considered in Chapter 6.

1.5 Importance of the topic

1.5.1 The public sector

The research questions are important for at least two reasons. The *first* significant aspect of this study relates to the sector to be studied. Much of the prior research on the concepts of accountability, usefulness, and of the consolidated financial reporting methodology, has been conducted in the context of the private sector. Carnegie and Napier (1996) argued that the historical imbalance of financial reporting investigation towards the private sector might be reflecting a bias towards the activities of professional accountancy practice, and the use of economic models of decision-making based on notions of profit maximisation. Thus, the public sector is a jurisdiction of interest; and, because it has relatively recently embarked upon a fundamental change in the organisational structure of its business operations, its approach to profitability performance, its accountability for resource management, and the usefulness of its reported financial information. With governments generally focussing more attention on the efficiency and effectiveness of public sector management and accountability, and extending the application of full accrual accounting systems for financial reporting purposes, an examination of the cross-

sector transfer of an important and radically different financial reporting methodology is likely to yield useful information.

The notion that usefulness is a crucial variable related to accountability performance has been widely claimed for over a decade (Micallef 1997). In the Australian private sector there has been strong empirical support suggesting a positive relationship between accountability performance and various indicators of financial information usefulness. However, only in relatively recent times have researchers begun to explore issues relating to accountability performance and usefulness of financial reporting in the public sector context and very little research has been conducted on the financial accountability performance of entities in the Australian public sector. Thus, the proposal in this study to examine whether the consolidated financial reporting methodology yields accountability performance results in the public sector is of significant interest concerning two important user groups (*user-commanders*, and politically motivated *advocacy groups*).

Appraisal is invariably a matter of comparison (Chambers & Clarke 1986, p.30). However, the validity of any comparison depends upon the similarity of the properties being compared. The work undertaken in this study in the development of a financial report disclosure index (Chapter 5) and the tabulation of accounting policies applied in each whole-of-government consolidated financial report (Appendix 4) may assist accounting regulators, policy-makers or report preparers in shaping financial reports that enhance comparability and improve harmonisation. It is hoped that the comparison of the similarities and variances in whole-of-government consolidated financial reports will also refine the understanding of user-

commanders' needs and preparer-commanders' beliefs about the importance of elements of those reports to the two important user groups mentioned above (user-commanders, advocacy groups).

The Australian private and public sectors have been selected as the subjects for this study because of their unique relationship. Broadbent and Guthrie (1992) noted that the public sector is increasingly adopting the new accounting technology of *managerialism* and so the operational and regulatory environments of the public and private sectors are now characterised by numerous similarities. Therefore, they are two sectors where considerable levels of harmonisation are expected to exist (Micallef 1997). The public sector has initiated the corporatisation of some of its entities and undertaken rapid privatisation of many activities and services since the early 1980s, all of which has been moving it from the ranks of a controlled sector to a competitive market-based sector. While the nature of their dominant industries may differ, many similarities now exist between the organisational and business environments of the private and public sectors. Both exhibit strong social and cultural similarities. Both sectors are represented by membership of the same accounting standards regulatory board; the private sector through membership of the AASB, and the public sector through membership of the Public Sector Accounting Standards Board (*PSASB*) which has now merged into the AASB. In this way, they are subject to the same set of principles governing financial reporting. The Australian private and public sectors therefore provide useful ground to examine questions about the concepts of accountability and usefulness, and the role and function of consolidated financial reporting.

The sectors selected for examination in any attempt to explain the role and function of financial reporting are of particular importance. Some researchers have claimed that there is a dearth of published research on public sector accounting issues (Lapsley 1988; Broadbent & Guthrie 1992; Hancock, Tower & Holloway 1994). As a consequence, theories have been based upon the mature systems of market-based sectors. Such a narrow focus ignores opportunities to investigate influences upon accounting and reporting development through periods of rapid change, as organisational and regulatory development such as has been occurring in the public sector may help to explain the cross-sector transferability of theories.

By tracing and analysing the extent of the application of consolidated financial reporting within the public sector as the sector undergoes a transformation process from a controlled to a market-based economy, it is expected that the findings will also contribute to and broaden international accounting literature in this area such as the studies conducted in the New Zealand context by Lys (1998) and Pallot (1996). Thus, in addition to contributing to the sector-specific literature, this study is important as it fits into the international literature as a nation-specific study. It also makes an important contribution to the understanding of factors influencing accounting and regulatory development in a period of rapid organisational and regulatory change.

1.5.2 Research streams

The *second* significant aspect of this study is that the topic represents the intersection of three research streams: that on accountability performance, that on usefulness of financial report information, and that on the nature and function of the consolidated

financial reporting methodology. For the most part, the first two have proceeded independently of each other. The accountability performance literature suggests that a number of major determinants contribute to the accountability performance of a reporting entity including: political costs, regulatory costs and management incentives. The interest in this study is not to challenge such findings but to ask whether financial report usefulness is affected by consolidated financial reporting, and whether accountability performance is affected by an organisation's or individual's commitment to consolidated financial reporting.

1.6 Methodology

Sector specific research in financial reporting requires a framework that allows the investigator to capture historical data, assess the function of financial reporting and, therefore, reveal how the environment may affect the reporting principles and operational processes. Specifically, the methodology must enable the researcher to identify the organisational and regulatory systems and constituent parts, understand how those subject to the regulation of financial reporting interact amongst themselves and with other institutions, how the organisational and regulatory systems react to surrounding events and how reactions are influenced by environmental circumstances. These factors provided a framework for selecting the methodological approach that was used in this study.

An outline of the institutional framework for public sector accounting and financial reporting is provided in this study. This is followed by an explanation of the consolidated financial reporting technique. The influence of organisational,

behavioural and other circumstances on accountability and financial reporting in the public sector is examined in a review of relevant literature.

Content analysis (Holsti 1968, 1969; Haggarty 1995, 1996) of relevant primary data that captured the initial views on the cross-sector transfer of consolidated financial reporting of public sector financial reporting policy makers, preparers, and other stakeholders is conducted. This provides initial indicators as to the likely nature of impediments to the cross-sector transfer of the consolidated financial reporting methodology to the public sector.

A comprehensive content analysis of whole-of-government consolidated financial reports extending the earlier, pre-regulation review conducted by Miley (1999) is undertaken and a compliance index developed to assist in determining the significance of any variability in the application and practice of the consolidated financial reporting method. The outcome of this analysis is expected to have important implications for the harmonisation initiative of the Australian accounting regulators and the impending internationalisation of Australian accounting and financial reporting regulation.

Finally, survey data are gathered from relevant public sector financial reporting policy-makers and preparers in order to form an understanding of the relationship between theoretical and environmental artefacts. This will assist in providing an insight into the perceived usefulness for accountability purposes of the cross-sector transfer of the consolidated financial reporting methodology.

Primary source documents providing historical data are obtained from the public records of professional bodies (ED40 responses) and government departments (whole-of-government annual reports). Survey data are gathered in a questionnaire from official representatives of relevant bodies with an explicit interest in public sector financial reporting practice and regulation. The population surveyed is relatively small and authoritative and it is intended to make contact with a high proportion of the potential subjects.

1.7 Contribution of the study

It is anticipated that this research may provide benefits to national and international financial reporting policy-makers and regulators, accounting researchers and academics. For policy-makers and regulators in jurisdictions considering adopting new financial reporting methods, the index resulting from this research may enable them to anticipate the impact of transferring accounting methodologies from one jurisdiction to another and to determine any modifications or resource support that may be needed as a pre-requisite. This should enhance the ability of these policy-makers and regulators to assess the feasibility of harmonisation of existing accounting systems and the requisite financial reporting systems. This may be most relevant to nations and sectors within nations in the early stages of developing their accounting and reporting systems, and those nations considering cross-sector or international harmonisation of their financial reporting practices.

International agencies that have an interest in the regulation of financial reporting, such as the International Accounting Standards Committee (*IASC*), may also benefit from this research, as these agencies will be provided with a more comprehensive

view of how principles, methodologies and standards imposed by them may be received and modified. This should enhance their ability to assess the compatibility of their regulatory systems with local environments. As a result, it is expected that they may be better placed to design and implement their harmonisation and internationalisation programmes.

For accounting researchers and academics the benefits of this study are twofold. The index developed in this study will provide further information for those interested in examining and understanding the relationship between accounting and its environment. This may be useful in advancing their understanding of the perceptions of important constituents who have a primary interest in this relationship.

An outcome of the study is expected to be the provision of information about the role of environmental factors as determinants of accountability performance and the usefulness of consolidated financial reports. In doing so, factors identified in prior research as sources of influence are tested.

More specifically, the concepts of accountability performance and usefulness are examined and the relationship between these concepts and the consolidated financial reporting methodology is investigated. This should contribute to the bodies of knowledge of both accountability performance and usefulness of financial information. In the accountability performance field, it may offer a new explanation as to why some entities may be, or appear to be, more receptive than others to producing financial information regarded as useful for accountability performance.

Additionally, not only is it intended that the study add to the collection of nation and sector-specific studies in the field of accounting, but by its focus on the public sector, it should represent a major contribution by expanding the knowledge about the outcomes of cross-sector harmonisation initiatives and it should have relevance for harmonisation initiatives in other countries. In comparison with other sectors the Australian public sector has received relatively little attention in the international accounting literature.

A contribution of this study towards improving the understanding of the factors that influence accounting development is also regarded as important. The collection of data relating to the effects of accounting regulation upon government institutions, particularly accountability performance, is a topic that has also received relatively little attention in the literature. Knowledge of the role of users' needs, and preparers' beliefs and commitment to a particular accounting methodology and their ability to shape accounting practice should be enhanced, as should the provision of data about the relative influence of technical and human resource factors upon accounting development. It is expected that the expansion of such knowledge, in conjunction with the testing of theories derived from the literature, will assist the development of a theory enabling an understanding of the role and function of consolidated financial reporting in enhancing accountability performance by the public sector.

A further contribution of the study is the provision of data regarding the relative influence of external forces, as opposed to internal forces, in determining the shape of accounting development. This issue was raised by Cooke and Wallace (1990) and is relevant to both Australian and international accounting regulators. The public

sector has been characterised by organisational change and increasing pressure to be accountable for its performance. An expansion to the studies investigating the development of accounting practice in a climate of rapid environmental change, where it is likely to encounter stronger pressures for change than in the established private sector is provided in this study.

1.8 Organisation of the study

The organisation of this study is as follows. In Chapter 2 an overview of the institutional arrangements within the public sector is provided, and the characteristics of whole-of-government reporting entities are discussed. Relevant developments in the public sector system of accounting and financial reporting are outlined and the contemporary systems of financial reporting regulation of the public sector are briefly described. Specific developments to be examined are concerned with changes arising from the corporatisation of government entities and the privatisation of government functions, as well as attempts to harmonise public sector accounting and reporting practice with private sector practice.

In Chapter 3 the three main streams of literature, accountability performance, usefulness of financial information and consolidated financial reporting which are central to the study topic, are summarised. The historical role and function of consolidated financial reporting are also outlined. Further investigation of the literature of nation specific and sector specific research into consolidated financial reporting will be provided and research relevant to this study will be presented. Attention will be directed towards the key factors demonstrated to influence

accountability performance, usefulness of financial information and consolidated financial reporting development.

Chapter 4 is focussed on the development of the research questions. The relative influence and effects of internal forces (public sector policy-makers, preparer-commanders) and external forces (professional accounting bodies) are used as the basis for specific propositions developed for further testing. Central to this analysis are the needs of user-commanders and the beliefs of preparer-commanders in respect to events that demonstrate change in the development and reorganisation of the financial reporting environment characterising the public sector.

Chapter 5 contains a discussion of the development of the prescriptive model and the index that proceeds from the model. The prescriptive model is drawn from the recommended framework for consolidated financial reporting provided in AAS31 and is used to develop an index against which compliance is measured. This index is used to assist in forming an understanding of the usefulness of whole-of-government consolidated financial reports for accountability performance purposes. The empirical results from the index are also used to support general comments on the commitment (willingness/ability) of preparer-commanders to the cross-sector transfer of the consolidated financial reporting methodology.

In Chapter 6, the outcome of a questionnaire canvassing the beliefs of internal (public sector) policy-makers and report preparers of the usefulness of whole-of-government consolidated financial reports is presented. This chapter includes a discussion of the research design, questionnaire development, data collection

procedures, measures used, data preparation procedures, and the proposed statistical analysis.

The final chapter is used to identify the contributions made by this study to the relevant literature on accountability performance, usefulness of financial report information and consolidated financial reporting.

Chapter Two

Whole-of-government financial reporting framework

2.1 Objectives and structure

An overview of the structure of the public sector is provided in section 2.2. Rather than to provide an exhaustive critique of that structure, the aim is to develop an understanding of the historical and evolving financial reporting accountabilities of elected and appointed government officers which exist as a result of the functioning of that structure.

In section 2.3, the institutional framework for financial reporting regulation of the public sector is introduced in order to understand the nexus between the structure of the public sector and the regulation, so far as it concerns the requirement to prepare whole-of-government consolidated financial reports. The relevant financial reporting authorities and their requirements are identified so that the organisational structure, the operational processes and the financial reporting accountabilities of the public sector might be better understood. It is hoped that this will provide some insight into the relative influence of external as opposed to internal forces in shaping the development of public sector accounting and financial reporting and that it will allow for an assessment of the expected success of particular public sector/private sector harmonisation initiatives for financial reporting.

In section 2.4 recent reforms in public sector accounting and financial reporting are introduced and explained as this may assist in revealing how the changing

environment might affect public sector operational processes and the *usefulness* of financial reports that are produced subsequent to the reforms. A specific development of interest is the apparent philosophical shift in the accountability of government from a narrow to a broader focus. Other significant reforms include the introduction of the accrual-based accounting concept and the mandating of the consolidated financial reporting methodology for the purpose of whole-of-government financial reporting. These reforms may have implications for the usefulness of financial reports to user-commanders as instruments to be used for the discharge of government accountability. Also in this section, an introductory description of the whole-of-government consolidated financial reporting technique is provided.

A discussion of the characteristics of government financial reporting entities is provided in section 2.5, and the concept of control is discussed. An explanation is provided of how critical the preparer-commanders' interpretation of this concept is to the robustness of the consolidated financial reporting methodology. The chapter is summarised in section 2.6.

2.2 Structure of the Australian public sector

2.2.1 Overview

The Australian system of government is modelled on the Westminster system and comprises three elements: a Constitutional Monarchy, a Federation and a Parliamentary democracy. The Australian Parliament (the *Parliament*) consists of a Monarch (the *Crown*) who is represented by a Governor-General, a Senate, and a House of Representatives. The Australian Constitution of 1901 (the *Constitution*)

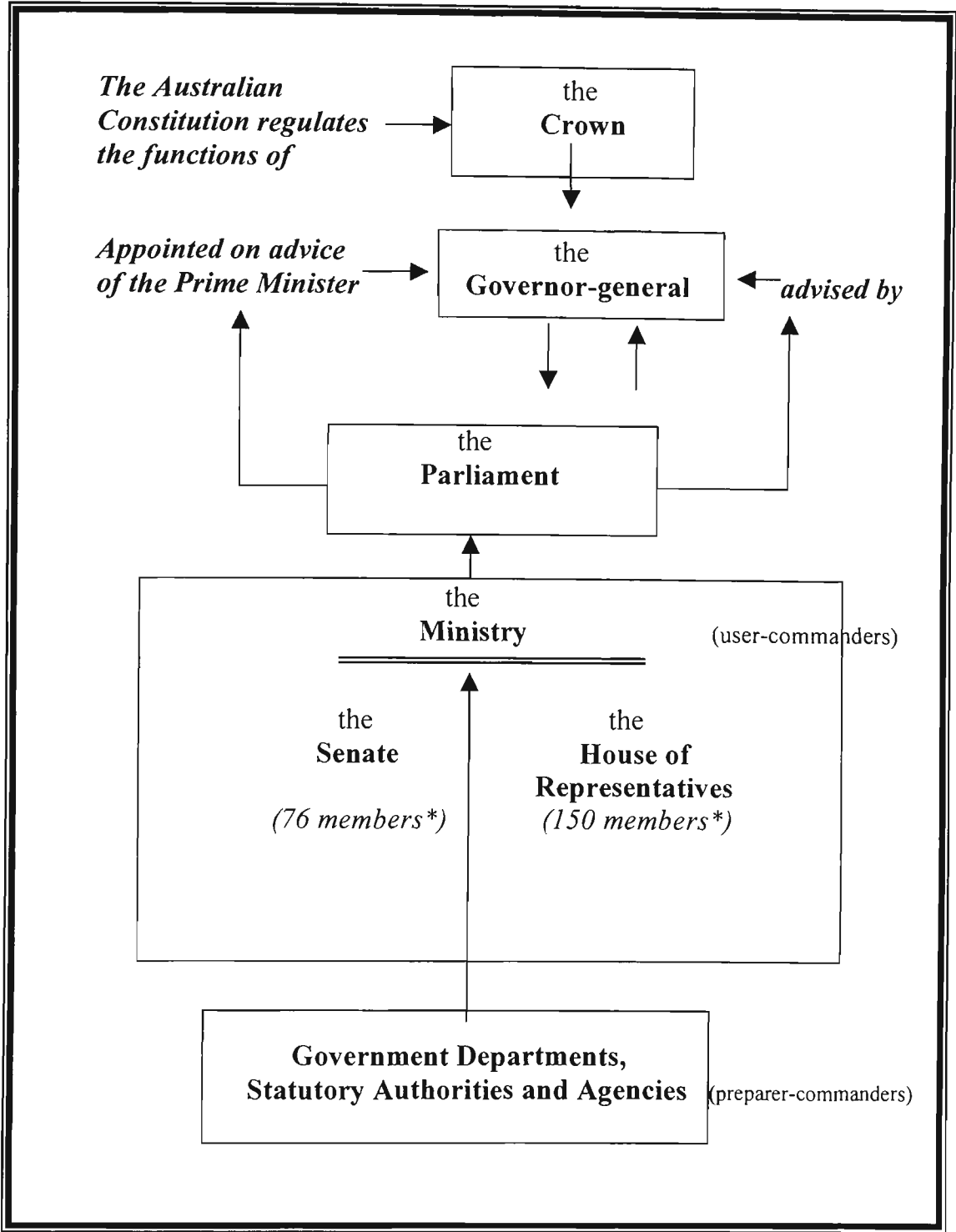
established the federal system of government under which governmental powers were distributed between a federal government (the *Commonwealth*), and six States (New South Wales, Queensland, South Australia, Tasmania, Victoria, Western Australia). Thus, significant self-governing powers exist in each of the Commonwealth and the six sovereign States. Three of Australia's Territories (the Australian Capital Territory, Norfolk Island, and the Northern Territory) also have significant self-governing arrangements (Parliamentary Education Office 2002 [PEO], p.1).

Under the Constitution the executive power to administer laws and to carry out the business of government was vested in the Crown and that power is exercised ultimately through the office of the Governor-General and functionally through bodies such as government Departments and Statutory Authorities and Agencies (Attorney General 2002 [AG], p.2). The Governor-General is appointed on advice from the Prime Minister (*Prime Minister*) who, by convention, is the leader of the political party commanding a majority in the House of Representatives; and the functions of the Crown are regulated under the Constitution. Except in a small number of matters, the Governor-General acts in accordance with the advice of Commonwealth Ministers (*Ministers*) who are democratically elected members of the Commonwealth Parliament. Under this approach the Crown acts on the advice of its Ministers who are representatives from the States and Territories, and who are members of, and responsible to, the Commonwealth Parliament (AG 2002, p.3) and the public electorate.

Membership of the two Houses of Parliament consists of the Senate with 76 members, and the House of Representatives with 150 members. Twelve Senators are elected for each of the six States, and two Senators for each of the Australian Capital Territory and the Northern Territory. The number of seats in the House of Representatives is based on the population of the States, with each State guaranteed a minimum of five seats. Currently, the Australian Capital Territory has three members in the House of Representatives and the Northern Territory has one member. Norfolk Island is not directly represented.

This mechanism of representation in Australia establishes a principle of *responsible government* (AG 2002, p.3). Further, the hierarchical system of elected, representative government, acts to concentrate formal responsibility and public accountability in Ministers. The institutional framework as outlined is shown in Figure 2.1.

Figure 2.1
The representation mechanism for establishing the principle of responsible government in Australia



**Senate* 76 members: 12 members for each of the 6 States + 2 members for each of the 2 Territories.

**House of Representatives* 150 members: Minimum of 5 members for each State; balance based on population.

Source: Adapted from Attorney-General's Department 2000 (AG 2002).

2.2.2 Accountability

It has been proposed in this study (section 1.4) to investigate the financial information accountability paradigm for user-commanders of whole-of-government consolidated financial reports. The accountability paradigm is now identified.

The regime of government organisation described in the preceding sections shows that responsible government and accountability are intertwined. Responsible *parliamentary* government (Lucy 1993, p.318; Galligan 1993; Uhr 1998, p.81) means that the Ministerial Heads of government Departments are accountable to an elected assembly (Birch 1996, p.20). On the other hand, responsible *party* government is taken to mean accountability to the governing party rather than to any other group or institution (Lucy 1993, p.3). Responsible government, by connecting Parliament through its Ministers to the electorate, makes government accountable to the electorate. Accountability in this context is associated with the justification or giving of reasons for conduct and for responsibilities or authority granted. Justifications according to Littleton (1953, p.15) provide the rationale for regulated financial disclosure.

Guthrie, Parker and English (2003, p.7) assert that governments are always accountable to Parliament and the electorate for all of their activities. Both State and Commonwealth Parliaments provide a powerful accountability forum through the process of parliamentary scrutiny and committee investigations (Clark 1999). Political opponents also can have a considerable impact on accountability through their ability to question government policy and performance. For example, in the United States the Governmental Accounting Standards Board (*GASB*) acknowledged

its belief that accountability is the cornerstone of government when it stated that the key objectives of government financial reporting included the disclosure of information on a government entity's financial condition. The GASB also articulated its belief that the public has the right to question government when it stated (GASB 1987, p.28) that:

governmental accountability is based on the belief that the citizenry has a right to know, a right to receive openly declared facts that may lead to public debate by the citizens and their elected representatives.

Beyond the parliamentary process, accountability is related to the wider political processes of elections and interest group advocacy. The media and political commentators play an important facilitating role through their freedom of inquiry and comment. Hardman (1996, p.3) observed a growing disinclination amongst the media, academe and Auditors-General to maintain what he described as '...a discreet and respectful silence ... and certainly not harass or upset the government of the day with audit enquiries...'

The New South Wales (*NSW*) Department of the Prime Minister and Cabinet (1994, p.1) reported that the NSW Public Accounts Committee (*PAC*), after addressing the issue of information overload placed on parliamentarians and their staff, recommended against any changes to annual financial reporting requirements that would lead to a diminution of public accountability. In justifying this decision it acknowledged that some extra information requirements had been added to annual financial reports so as to address abuses in particular areas of public administration,

and it noted that these had proved to be effective. This decision by the PAC not to reduce the information content of financial reports tends to support Hardman's (1996) observation.

Broadbent and Laughlin (2003) argued that governments, by only making themselves accountable in a political rather than a managerial sense, paradoxically results in increasing rather than decreasing forms of government control over parts of society. Coupled with a lack of day-to-day control by the voting public who, while having the power to elect government, does not have a power to direct practical action, leaves governments in a uniquely powerful position. They argued that partly to avoid searching questions from the public resulting in more forms of accountability, governments have seen it appropriate to set up separate internal bodies (such as the Auditors-General) to demonstrate that they are subject to and responsive to investigation. Although this appears to be a particularly cynical view it is not an unfamiliar one. Indeed Littleton (1933, p.365) suggested that '...it is unlikely that professional auditing would have appeared when it did if England had lacked a parliament or had one which was unresponsive to the social needs of the time.'

Broadbent and Laughlin's (2003) key argument was that instead of providing an independent voice, Auditors-General and other forms of surveillance organisations, legitimise the original actions of government rather than act as a curtailment of its processes. English (2003) in her examination of the public accountability obligations of the (State of Victoria) Auditor-General, concluded that the Victorian government's proposed reforms of that office would curtail the freedom of the Auditor-General and were politically motivated.

As noted, Commonwealth government Departments are directly responsible, usually through a Department Head, to Parliamentary Ministers (see Figure 2.1). Further, there is a range of executive Agencies and other Statutory bodies that are publicly owned and ultimately accountable to Ministers of Parliament but with varying degrees of distance from ministerial control (O’Faircheallaigh, Wanner & Weller 1999, pp.86-8). Thus, the element of *control* is seen to be crucial to the notion of accountability by government for public sector organisations. Similar overall structures exist in the six sovereign States and the two self-governing (and directly represented) Territories. This structural arrangement and the formal division of powers and responsibilities amongst the Commonwealth, States and Territories have implications for government financial reporting, as activities that are controlled by individual governments must be included in the whole-of-government consolidated financial reports of those controlling governments.

2.2.2.1 Commandership and accountability

This form of hierarchical power structure and the element of control provide the ideal conditions for Ministers through the ultimate Heads of government Departments, Agencies and Statutory Authorities to command the production of specific information. This would include financial information that, as Littleton (1953) pointed out, ‘can be clues to good or bad policies’. Littleton also argued that:

In accounting, certain aspects of economic truth and some phases of statistical truthfulness are skilfully mingled. The fusion is such as to make accounting information highly useful to anyone who is interested in the activities of a business enterprise. (Littleton 1953, p.12).

If Parliamentary Ministers believe financial information is useful for the discharge of their accountability for their conduct and granted responsibilities and authority, then commanding their subordinates to accumulate financial data and to prepare financial reports sufficient to enable them to discharge that accountability would be rational action. Thus, conceptually, the Head of a government Department, Agency or Authority is a report preparer (preparer-commander) who provides financial information to a Parliamentary Minister who is a user-commander, upon which an assessment may be made for Ministerial accountability purposes.

Goldberg (1965, p.166) suggested that in government affairs there is a hierarchy of commanders in which:

Ministerial heads are at the top-level of command, taking decisions in accordance with general Cabinet policy. At lower levels of command are the officials of the several Departments who are charged with the task of deploying resources within the scope and limits laid down for them by budgeting considerations and financial appropriations.

He argued that in all cases someone has supreme responsibility, and that person stands or falls in a personal way by the success or failure of the enterprise. In a similar way, he argued, this applies down the hierarchical chain of command to 'agencies, branches, territories and the like' (Goldberg 1965, p.166). Within this theoretical framework of control (or *command*), reporting may be either direct or diffused, and the reporting may be a matter of providing the data for the formulation of an informed opinion. Thus, in the context of public sector financial reporting,

Goldberg (1965, p.167) envisaged financial reports as ‘reports by commanders to commanders, that is, by commanders at one level of command to commanders at a higher level...’.

Further, Goldberg envisaged that apart from providing a basis for modifying activities in relation to resources under a commander’s control, financial reports would also provide the documentary evidence for decisions that commanders make (ibid p.167). This created a need for accounting records to be set up so that effective financial reports could be prepared. Financial reports would thus provide a basis for reasoned interpretation of performance rather than guesswork, and they could be used for accountability purposes.

Goldberg saw a Ministerial Head of a Department as a top-level commander. Such a role would entail two separate financial reporting functions: (1) the discharge of Parliamentary accountability for controlled resources and granted responsibilities/authority; and, (2) policy-making and ultimate responsibility for report preparation. As the Minister and the Head of Department may not always be the same person Goldberg’s *Commander Theory* has been modified for the purposes of this study to separate the Ministerial accountability function and the function of policy-making and report preparation. Thus Goldberg’s top-level commander has been described in this study as the *user-commander* and his *effective* commander (the delegated policymaker/person ultimately responsible for preparation of reports) has been described as the *dominant preparer-commander*.

Goldberg’s lower-level commanders are responsible for the compilation of accounting data and reports and, in this capacity, exercise professional judgment in the interpretation of policy and regulation. They have been described in this study as *subordinate preparer-commanders*. Auditors-General also exercise judgment and express an opinion on the accounting process and the outcome of the accounting reports and so have also been described as subordinate preparer-commanders. The final versions of the financial reports are provided to user-commanders and/or dominant preparer-commanders for their approval, which they indicate by signing the reports. These salient features of Goldberg’s Commander Theory and the modifications to these features undertaken for the purposes of this study are presented in Figure 2.2.

Figure 2.2
Selected features of Goldberg’s Commander Theory
and modifications for this study

Feature	Goldberg	This Study	Function
1. Top-level commanders	Cabinet Minister	Parliamentary Minister (User-commanders)	Ministerial accountability for controlled resources and granted responsibilities and authority
2. Effective-commanders	Permanent Heads of Departments	Heads of Departments (Dominant preparer-commanders)	Policy-making and ultimate responsibility for report preparation
3. Lower-level commanders	Department officials	Senior Department officials; Auditors-General (Subordinate preparer-commanders)	Financial report compilation and/or interpretation of regulation, exercise of professional judgment, opinion

2.2.3 **Sector of interest**

The nine jurisdictions directly represented in the Senate and House of Representatives were selected as the appropriate sectors for study as they are directly represented in Parliament and so directly accountable to the electorate. The separate jurisdictions that form this primary group of interest establishing the principle of responsible government are presented in Table 2.1. A further eight jurisdictions are not directly represented in the Commonwealth Parliament. As they are only indirectly accountable through relevant Departments and Agencies these eight jurisdictions have not been included in the study. The eight excluded jurisdictions are identified in Appendix 1.

Table 2.1
Primary group of interest establishing the principle of responsible government

Governments
Commonwealth (<i>C'wlth</i>)
New South Wales (<i>NSW</i>)
Queensland (<i>QLD</i>)
South Australia (<i>SA</i>)
Tasmania (<i>TAS</i>)
Victoria (<i>VIC</i>)
Western Australia (<i>WA</i>)
Northern Territory (<i>NT</i>)
Australian Capital Territory (<i>ACT</i>)

2.3 **Institutional regulatory framework**

2.3.1 **Introduction**

In this section the second major investigative question posed in section 1.4 is considered. That is: what is the financial reporting paradigm for the Australian public sector? In outlining the paradigm the institutional framework and the

financial reporting requirements of the Commonwealth and each State and Territory are identified and discussed.

2.3.2 Overview

The Constitution provides for separation between the legislative, executive and judicial powers of the Commonwealth. Under the Constitution, three bodies were established to carry out these powers: the Commonwealth Parliament that has the legislative power to make laws; the Commonwealth Executive (Cabinet) that has the executive power to administer laws and carry out the business of government; and the Federal Judicature, the power of which is exercised by the courts (PEO 2002, p.1). The body of particular interest in this study is the Commonwealth Parliament, which in addition to providing a forum for government representation, for accountability of the actions of government and for scrutiny of the reporting of government, also has the power to make laws that can affect the manner in which the financial outcome of government activities is reported.

The law in Australia consists of an array of Acts, Ordinances (together with delegated or subordinate legislation under such Acts) and common law. The broad categories of law are presented in Table 2.2.

Table 2.2
Broad categories of law in Australia

Class	Description
1	Acts passed by Federal Parliament
2	Ordinances made in respect of the Territories
3	Acts passed by the State Parliaments and the legislative Assemblies of the Australian Capital Territory, Norfolk Island and the Northern Territory
4	Common or statute law of England that remains unrepealed
5	Australian common law which is interpreted and modified by the courts

Source: *Attorney-General's Department 2002 (AG 2002, p.1).*

The Constitution does not confer on the Commonwealth Parliament the power to make laws on all matters. Instead, it lists the matters about which the Commonwealth Parliament can make laws. These matters include Taxation; Defence; External Affairs; Interstate and International Trade; Trading, Financial and Foreign Corporations; Marriage and Divorce; Immigration; Bankruptcy; and Interstate Industrial Arbitration (AG 2002, p.4).

Subject to a few exceptions, the Constitution does not confine the matters about which the States may make laws. Accordingly, the State Parliaments can pass laws on a wider range of matters than the Commonwealth Parliament and, for this reason, important areas, including the preparation, form and content of financial reports, are regulated primarily by laws of the States rather than by laws of the Commonwealth. Under the Constitution, the Commonwealth is regarded as the more powerful law-making partner in the federation of Australian States but only in instances where inconsistencies between Commonwealth and State law occur. Where inconsistencies do occur, then the Commonwealth law operates to override the State law, but only to

the extent of the inconsistency (AG 2002, p.1). The two Territories of interest in this study (the Australian Capital Territory and the Northern Territory (the *Territories*) are also regulated by separate laws of those Territories, and they have a large degree of autonomy under self-governing arrangements.

2.3.3 Statutory financial reporting requirements

The statutes listed in Table 2.3 govern the preparation and audit of financial reports for the Commonwealth, States and Territories. The content of these statutes provides little specific guidance for accounting and disclosure purposes. For example, the Commonwealth is bound under the Financial Management and Accountability Act 1997 (*FMAA 1997*), only to prepare annual financial statements that include: (i) an Operating Statement; (ii) a Statement of Financial Position; (iii) a Statement of Cash Flows; and (iv) Notes to the Financial Statements (Financial Management and Accountability Act 1997 [*FMAA 1997*], S.55). The statutory regulations vary between the Commonwealth, States and Territories.

Campbell (1989) analysed the individual State Acts and concluded that they have two common elements: (1) they apply to government business undertakings; and (2) they require the application of Australian Accounting Standards (AASs) in the production of annual financial reports. Campbell also found that 'because of the differing requirements of the Acts, the content, layout and extent of the annual reports varied from State to State' (Hancock, Tower & Holloway 1994, p.62).

Table 2.3
Authoritative Australian Commonwealth, State and Territory law
providing for the preparation and audit of public sector financial reports

Jurisdiction	Legislation
Commonwealth	Financial Management and Accountability Act 1997 (<i>FMAA 1997</i>)
	Financial Management and Accountability Regulations 1997 (<i>FMAA-Reg. 1997</i>)
Australian Capital Territory	Financial Management Act 1996 (<i>FMA 1996</i>)
New South Wales	Public Finance and Audit Act 1983 (<i>PFAA 1983</i>)
Northern Territory	Financial Management Act 1995 & Amendments (<i>FMA&A 1995</i>)
Queensland	Financial Administration and Audit Act 1977 (<i>FAAA 1977</i>)
South Australia	Public Finance & Audit Act 1987 (<i>PFAA 1987</i>)
Tasmania	Financial Management and Audit Act 1990 (<i>FMAA 1990</i>)
Victoria	Financial Management Act 1994 (<i>FMA 1994</i>)
Western Australia	Financial Administration and Audit Act 1985 (<i>FAAA 1985</i>)

What emerged from the review conducted in this study of the statutes listed in Table 2.3, is that in each jurisdiction, the Heads of Finance, the Treasurers and, in one State, the Auditor-General, are seen to have broad mandates to provide instructions (usually described as *Treasurer's Instructions*, and also known as *Directions*, *Orders*) as to the concepts upon which the financial reports are based, and the form and content of those reports. Johnstone and Gaffikin (1996, p.50) observed that the Treasurer's Instructions are of considerable importance within the public sector. Apart from dictating the form and content of financial reports, it was confirmed in the review in this study that the Treasurer's Instructions generally have considerable regard to the pronouncements of the two Australian professional accounting bodies (the ICAA and CPAA [formerly the Australian Society of Accountants [ASA]). For example, in South Australia legislation provides (PFAA 1987, Part 4, S.41(1,4)) that:

- (1) The Treasurer may issue instructions
 - (a) requiring accounts to be maintained ...
 - (b) setting out the form and content of financial statements that must be prepared by the Treasurer ...
- (4) When issuing, revoking or varying instructions ... the Treasurer shall have regard to accounting practices and standards adopted by the Australian Society of Accountants and The Institute of Chartered Accountants in Australia.

The Victorian legislation also provides for the adoption of regulations issued by various private sector accounting and finance regulatory organisations (FMA 1994, S.59(3)).

- (3) ... may adopt, apply or incorporate the whole or any part of any statement of accounting standards or statement of accounting practice issued at any time ... by all or any of the following-
 - (a) Australian Society of Certified Practising Accountants;
 - (b) Institute of Chartered Accountants in Australia;
 - (c) Australian Securities Commission;
 - (d) Australian Accounting Standards Board;
 - (e) Public Sector Accounting Standards Board;
 - (f) Any other prescribed person or body.

The statute generally determines the party responsible for the preparation and the form of financial reports. Also outlined, are the types of entities required to provide individual financial reports, and usually the scope of entities to be included in financial reports. For instance, the FMA 1996 (Australian Capital Territory [*ACT*]) requires that financial reports be prepared for the Territory (S.22) and Departments (S.27); and defines scope by defining the Territory as including all Territory Authorities and all Territory-owned corporations (S.21).

Further, the statute invokes the principle of responsible government by providing for audit scrutiny of the financial reports. The audit process provides a convenient mechanism for measuring the accountability performance of government through an assessment of the extent of financial report compliance with the relevant public sector legislation including Treasurer's Instructions and, in some cases, the professional regulation. A full comparative review of the whole-of-government consolidated financial reports of the Commonwealth, States and Territories, including the audit reports is undertaken as part of this study and the findings are reported in Chapter 5.

Instances where individual whole-of-government financial reports do not comply with professional regulation are noteworthy, insofar as they have implications for statements about the power of the Treasurers' Instructions within each jurisdiction (internal forces); the commitment (willingness and ability) of individual preparer-commanders to apply the consolidated financial reporting method; the importance of

audit qualifications for non-compliance; and the strength of the accounting profession (external forces) in enforcing its regulations (AASs) in the public sector.

In the absence of specific Commonwealth, State or Territory laws compelling the use of consolidated financial reporting, preparer-commanders will prepare financial reports according to the relevant legislation and Treasurer's Instructions. The accounting profession has no power to enforce its regulation in the public sector except through the good offices of the Treasurers. Treasurer's Instructions usually allow a departure from Australian accounting practices and standards if the resultant reports do not provide a true and fair view of, or do not present fairly, the matters reported on. A similar exception once existed in the private sector but has now been removed. This demonstrates the relative strength of the Treasurer's Instructions within the public sector relative to the external influence of the accounting profession.

2.3.3.1 Completeness of the consolidated financial reports

The consolidated financial reporting methodology will not be properly implemented unless appropriate aggregation of *all* the account balances of relevant *controlled* entities occurs followed by adjustments to eliminate the impact of inter-entity transactions and events. Walker and Mack (1998, p.58) reported that the Australian accounting profession had earlier argued (1969) that partial consolidations, by permitting the exclusion of certain entities, failed to provide a *true and fair* view. Whether the methodology has been properly implemented by preparer-commanders and, consequently, whether a financial report provides a true and fair view, are matters decided by the auditor usually after discussions with the preparer-

commander, and after due consideration of accounting and auditing standards and practices.

Incentives, including political motivations, to improperly apply the consolidated financial reporting methodology are discussed in Chapter 3. Whether such action is inadvertent or undertaken deliberately the potential impact on the aggregated information in consolidated financial reports can be significant. For instance, Colebatch (2002) reported that the Commonwealth Auditor-General was concerned that the government's policy on reporting the Goods and Services Tax (*GST*), contravenes Australian accounting standard AAS31, and policies adopted by Treasury and the Australian Taxation Office. Colebatch reported that the arguments used by the Auditor-General linked the *GST* to the Commonwealth constitutionally, and as such the tax (\$18.4 billion) should be reported in the Commonwealth's reports. He said (Colebatch 2002, p.6):

Constitutionally the *GST* is a Commonwealth tax as it is imposed under Commonwealth legislation and the Commonwealth Government controls the revenue raised. The *GST* is raised by the Commonwealth but all its revenues are handed directly to the States. Were it reported as a Commonwealth tax, the budget papers would show total Commonwealth taxes as the highest in Australia's history relative to Gross Domestic Product. To avoid admitting that, the government decided to completely exclude both the *GST* and its payment to the States from its formal financial accounts, including the numbers only in a separate note. Therefore, accrued *GST* revenues and associated payments to the States and Territories have not been brought to account.

This matter is considered further in section 6.4.2.5 where the results of the study questionnaire are discussed and further examples of improper and incomplete whole-of-government consolidated financial reporting are provided.

Three of the nine jurisdictions of interest in this study have qualified audit reports for failure to include all controlled entities (see Table 5.7 for a summary of the audit reports). The matter of control is discussed further in section 2.5.4. Audit qualifications were noted in respect to procedural (aggregation, adjustment) failures for the NSW, Northern Territory (*NT*) and South Australia (*SA*) reports. Notably these qualifications concerned either the failure to include all assets and obligations in the consolidated financial reports or the failure to value assets and liabilities properly. Thus, it is demonstrated that the subjective judgments of both dominant preparer-commanders (Heads of Department; Treasurers) and subordinate preparer-commanders (Report preparers; Auditors-General) have an important impact on the items and account balances appearing in the consolidated financial reports.

2.3.3.2 Asset valuation and wealth accumulation

There is some debate as to whether all public sector resources and obligations should, or can, be valued reliably enough to be included in financial reports. Carnegie and Wolnizer (1995; 1997), for instance, presented arguments against recognising values for certain cultural, heritage, scientific and community collections (*CHSCCs*) in financial reports, including that they cannot be regarded as assets, there is no demand for such information and the cost of ascertaining values would be prohibitive. Micallef and Peirson (1997) dismissed Carnegie and Wolnizer's (1995) conclusions as being inconsistent with the conceptual framework for general-purpose

financial reporting developed by the AASB and the PSASB. They said ‘most CHSCC items will satisfy the SAC4 (Statement of Accounting Concepts No.4: *Definition and Recognition of the Elements of Financial Statements* [AARF 1995]) definition of assets...’. Carnegie and Wolnizer’s (1995) arguments were also refuted by Hone (1997, p.39) who argued that including such items would make managers accountable for efficient use of public resources.

Burritt, McCrae and Benjamin (1996) suggested that government assets include some that may embody social characteristics and that the substance of such assets (*community* assets) is being usurped by market mechanisms. They suggested that a method of resolving this problem would be to apply a multi-cultural definition of assets to ensure that a different valuation basis was used for community assets. McSweeney (1999) reported that a diverse range of financial reporting has been applied to infrastructure assets in the State of Victoria (*VIC*). Roorda (1998) found a similar result in respect to the reporting of *Road* assets in Tasmania (*TAS*). Hope (1999) reported that the Steering Committee on National Performance Monitoring of Government Trading Enterprises, had issued a policy statement requiring Departments and Agencies to adopt a deprival value framework as the basis for asset valuation. This framework was to replace the historical cost framework and was justified on the rationale that the change in concept would achieve valuation consistency. Yet Johnstone and Gaffikin (1996, p.64) had earlier argued that a deprival valuation framework was likely to facilitate far more opportunity for selectivity, creativity and gamesmanship than occur under the historical cost framework. Walker, Clarke and Dean (1999; 2000) reviewed the cost approach of restoring infrastructure assets as a basis for the valuation of assets. Appendix 4

contains a summary of the many different valuation bases applied in the whole-of-government consolidated financial reports that were reviewed in this study.

The Commonwealth Auditor-General argued (Barrett 2001, p.53) that approaches to public sector asset valuation are in great need of review. Barrett perceives a great challenge in attempting to value, and incorporate in balance sheets, assets such as those of a heritage or environmental nature as such assets are not held to generate cash flows or profits, but are held on behalf of, and for the general well being of, the population. Barrett (2001, p.53) said:

Even if we limit the concept of wealth to net accumulation of assets, it's difficult to sustain a convincing argument that government consolidated financial reporting to date provides a satisfactory wealth indicator.

In the case of NSW the assets not consolidated in the whole-of-government financial report included: Undeveloped Crown Land, Collections of the Australian Museum, and Herbarium collections of the Royal Botanic Gardens (see Appendix 4). Clearly NSW preparer-commanders of consolidated financial reports found arguments such as those offered by Carnegie and Wolnizer (1995) the more compelling. The failure of the NT to include all assets and obligations stems from the fact that this government did not adopt the whole-of-government consolidated financial reporting methodology at all. The procedural failures noted in the SA whole-of-government consolidated financial reports, however, were the result of uncertainty over the values attaching to non-CHSCC assets and obligations and appear to be associated

with weaknesses in the accounting systems and databases (technical infrastructure) necessary to accumulate and determine reasonable values for those items.

Advancing the view of Burritt, McCrae and Benjamin (1996) that some government assets are community assets, and Barrett (2001) that such assets are held in trust on behalf of the population, may provide a resolution to the valuation issue. If it is accepted that the government acts, theoretically, in the capacity of a trustee of such assets whose relationship does not extend beyond the normal responsibilities of a trustee, then the element of government control would not be relevant. In AASB1024:*Consolidated Accounts* (AASB 1991, Para.xxiv) this point is explicit:

Because the trustee's capacity to dominate decision-making is governed by the trustee's fiduciary responsibility at law to act in the best interests of the beneficiaries of the trust, those beneficiaries indirectly have the capacity to dominate decision-making in respect of the net assets of the trust.

Whether or not the government resources in question meet the definition of an asset as provided in the conceptual framework would not matter, and valuation would be a moot point, as, in the absence of control, the assets held in trust would not need to be recognised in government financial reports.

Barton (1999a) argued that all the accounting standards relating to the public sector have ignored the *public good* attribute. Public goods are those provided by the government to the public at large because of the existence of externalities. 'Externalities occur where consumption benefits are shared by users or where

economic activity results in added social costs and benefits which are not paid for by the consumer who causes them' (Barton 1999b, p.10). The existence of externalities has important implications for some areas of public sector accounting such as the valuation and recognition of 'roads, streets, bridges and the land under them; water, sewerage and electricity infrastructure; monuments and historic buildings; parks and gardens; channels and flood mitigation works' (Barton 1999a, p.11). The problem is, he argued, that private sector accrual accounting principles 'cannot be transferred to these areas without substantial modifications'. In particular, Barton argued that the land under roads 'is Crown land which belongs to the public at large, and is better treated as a trust asset of the nation under the management of local government'.

2.3.4 Commonwealth financial reporting requirements

The overview in this section, of the two Commonwealth statutory financial reporting requirements, identifies the minimum requirements and provides a basis for contrasting the individual legislative requirements of the Commonwealth with those of the States and Territories. It also provides the background against which recent reforms and developments in public sector financial reporting may be understood and against which the Treasurers' Instructions may be compared. A detailed list of the main features of the legislative requirements for financial reporting for the relevant Commonwealth, State and Territory governments is presented in Appendix 2.

- a) *Financial Management and Accountability Act 1997 (FMAA 1997), Ss.49,55-6*

The reporting requirements of the FMAA 1997 are fairly general and provide that annual financial statements must be prepared as required by the Head of Finance's orders (*Orders*) (FMAA 1997, S.49(1)), as soon as practicable after the end of each financial year as required by regulations (FMAA 1997, S.55(1)). The audit of the annual financial reports is required, again in accordance with the regulations (FMAA 1997, S.56(1)).

- b) *Financial Management and Accountability Regulations 1997 (FMAA-Reg. 1997), Ss.22A, B.*

The FMAA-Reg. 1997 prescribe matters necessary or convenient for giving effect to the FMAA 1997. Section 22A(1) of the FMAA-Reg. 1997 requires the Commonwealth Head of Finance to prepare an Operating Statement (Profit and Loss account); a Statement of Financial Position (Balance Sheet); a Statement of Cash Flows; and Notes to the Financial Statements. The Australian Corporations Law (*Corporations Law*) contains a *true and fair* concept such that the financial reports will provide a true and fair view of operations, financial position and cash flows if adherence to Australian accounting standards is observed. This concept has been adopted in the FMAA-Reg. 1977 (Ss.22A(2)(a)(b), (3), (4)). As noted in section 2.3.3.1, Treasurers Instructions generally allow an override of this concept if compliance with Australian accounting standards is deemed not to result in a true and fair view. The auditor must report on whether the financial reports provide a true and fair view of the relevant matters (Ss.22B(1)(a)(b), (2)).

The Commonwealth statute and regulations determine only the particular reports that must be prepared. They do not contain any details as to the conceptual basis of the accounts or of the scope, form or particular presentation requirements. It is this gap that the Orders serve to close. Specific guidance for the preparation of the financial reports of the Commonwealth can be found in Schedule 2 to the Finance Head's Orders under the FMAA 1997. These requirements have, subsequent to the period of interest in this study, been consolidated into an accounting and budgeting manual (Commonwealth of Australia 2000) for application to the financial year 2000-01 and subsequent years.

The Commonwealth requirements are summarised in Table 2.4. For comparative purposes they are juxtaposed against the specific legislated financial reporting requirements of the individual States and Territories.

2.3.4.1 Australian Capital Territory

Financial Management Act 1996 (FMA 1996), Ss.22-3

The FMA 1996 defines generally accepted accounting practice as accounting practices and procedures recognised by the Australian accounting profession as appropriate for reporting financial information relating to government. Further, such practice is deemed to be consistent with the Act and any relevant Appropriation Act.

Table 2.4
Summary of the statutory annual financial reporting requirements of the Commonwealth in comparison with the States and Territories

Jurisdiction	Preparer Department	Reports	True & fair view	Conceptual basis	Scope	Form / Content
Commonwealth	Finance	Commonwealth financial statements	Yes	Silent	Agencies including Departments	Finance Head's Orders
		Agency financial statements				
Australian Capital Territory	Treasury	Territory financial statements	Reflect fairly	Generally accepted accounting practice	Territory, Departments; Territory Authorities; Owned Corporations	As per Financial Management Guidelines
		Department financial statements				
New South Wales	Treasury	Consolidated financial statements	Yes	Australian Accounting Standards; Current industry practices; Accrual; Other than accrual if approved by Treasurer	Total State Sector, excluding universities (S.9(4)(b))	Treasurer's Directions
Northern Territory	Treasury	Financial statement of the Public Account	Silent	Cash; Commercial accounting principles	Agencies	Treasurer's Directions
		Financial statement for government business divisions (Agencies)				
		Other				
Queensland	Treasury	Consolidated Fund Accounts	Yes	Prescribed accounting standards	Whole-of-government	Prescribed requirements; Treasurer's standards
		Consolidated whole-of-government				
		Treasury Department				
South Australia	Treasury	Treasurer's statements	Silent	Australian accounting practice and standards	Government departments; Ministers; Statutory authorities; Accounts audited by the Auditor-General; Other prescribed bodies	Treasurer's Instructions
		Statements of Public Authorities				
Tasmania	Treasury	Financial statements for the Public Account	Present fairly	Treasurer's Instructions	Treasurer; Government Departments; Public Account; Agencies	Treasurer's Instructions or Auditor-General's direction
		Agency financial statement				
Victoria	Finance	Financial statement	Present fairly	Australian accounting practice and standards	Departments; Public bodies; State owned corporations	Governor's regulations and Head of Finance's discretion
Western Australia	Treasury	Treasurer's statement of the:	Present fairly	Accrual	Departments; Statutory Authorities	Prescribed by Regulations; Treasurer's Instructions
		Consolidated fund				
		Advance account				
		Trust fund				

2.3.4.2 New South Wales

Public Finance and Audit Act 1983 (PFAA 1983), Ss.6, 9, 27B

The PFAA 1983 allows the State Treasurer discretion to issue directions relating to the preparation of the Total State Sector accounts. The Public Finance and Audit Amendment (Budgeting and Financial Reporting) Act 2002 (PFAA 2002), was introduced subsequent to the period of interest in this study. Effectively the PFAA 2002 changed subsection 6(1) of PFAA 1983 *inter alia*, so that the financial reports would in future be prepared on a consolidated basis for the Total State Sector in accordance with Australian accounting standards.

2.3.4.3 Northern Territory

Financial Management Act 1995 and Amendments (FMA&A 1995), Ss.9-11

The FMA&A 1995 requires the preparation and audit of an annual financial statement of the Public Account (S.9), and for the preparation of a financial statement for government business divisions (S.10) and *Other* financial statements (S.11). However, the preparation of a combined report for the whole or total Northern Territory is not specifically required.

2.3.4.4 Queensland

Financial Administration and Audit Act 1977 (FAAA 1977), Ss.12(2), 38B

The Queensland Treasurer is required to prepare consolidated whole-of-government financial reports specifically including reports on operations, cash flows and financial position. In addition to these specific obligations, the Treasurer is required (under S.6C) to prepare a charter of social and fiscal responsibility. This accountability reporting mechanism must have regard to accountability in reporting

on the government's social and fiscal objectives; efficient and effective allocation and use of resources in achieving objectives; equity relating to revenue raising; inter-generational provision of services; and prudent risk management.

2.3.4.5 South Australia

Public Finance and Audit Act 1987 (PFAA 1987), Ss.22-3

The PFAA 1987 was introduced to examine the degree of efficiency and economy with which public resources are used. There is no specific mention of the need to prepare whole-of-government consolidated financial reports. Although these requirements are not specific, the Treasurer has the power to issue instructions about the form and content of the financial statements with due regard to relevant accounting practice contained within Australian accounting standards.

2.3.4.6 Tasmania

Financial Management and Audit Act 1990 (FMAA 1990), Ss.26, 39

The FMAA 1990 provides a discretionary power to the Treasurer or the Auditor-General to dictate the form of the financial reports. This discretion applies in the absence of any written law as to the form of those reports.

2.3.4.7 Victoria

Financial Management Act 1994 (FMA 1994), Ss.24-5

The FMA 1994 is non-specific in respect to the content, manner and form of the financial statements relying on the discretion of the Head of Finance. It contains a requirement that the transactions must be presented fairly rather than that the

financial statements must provide a true and fair view of operations and financial position.

2.3.4.8 Western Australia

Financial Administration and Audit Act 1985 (FAAA 1985), Ss.62-7

The financial statements are required to be prepared on an accrual basis. The Treasurer is provided with a broad mandate to prepare and issue instructions with respect to the principles and procedures to be observed in the preparation of the financial reports.

2.3.5 Regulatory evolution

It can be seen that by accepting the notions and concepts of private sector accounting organisations the conditions for an enforced harmonisation with private sector practice are created in the public sector. Unless policy and customs are extremely resistant to evolutionary (or the revolutionary) changes of a type often advocated for progress, then this situation is likely to lead to a diffusion of private sector accounting and financial reporting practice to the public sector over time.

Ryan (1999) examined the accounting standards-setting process in the public sector. She concluded that since the formation in 1983 of the PSASB as a Board of the Australian Accounting Research Foundation (*AARF*), by the (then) ASA and the ICAA to develop, issue and review statements of accounting practice and concepts, the process had evolved into one of cooperation between government policy-makers in the Departments of Finance, the Bureaus of Treasury and the PSASB. Ryan

mapped out the evolution of this process from a situation where public sector accounting standards were originally formulated by a variety of public sector bodies in isolation from the private sector. The central (Commonwealth) agencies of Finance and Treasury, were, she determined, the lead agencies for guiding financial reporting in the Australian public sector, while the main interest group concerned with financial reporting policy formulation, was the PSASB (Ryan 1999, p.565).

The review of financial reporting statutes conducted in this study has provided support for Ryan's assertion that the Heads of Finance and Treasury have a broad mandate to provide instructions and directions as to financial reporting concepts and, in so doing, to guide and shape the character of the public sector financial reporting environment. A matter that will be investigated further in this study is the relative strength of the internal forces (Treasurers' Instructions) and the external forces (professional accounting regulation).

Walker (1987), in an earlier examination of the regulatory process in the Australian private sector, considered the early history of the Accounting Standards Review Board (*ASRB*) (predecessor to the AASB) and suggested that various organisations controlled the private sector accounting standard setting process. In making his case Walker noted (1987, p.38) that the ASRB's initial membership (in 1983) and its first-published procedures were consistent with a pluralistic ideal. That is:

... efforts had been made to ensure that the Board (*ASRB*) was widely representative, and that the procedures it adopted permitted individuals or interest groups to make submissions about priorities, to submit standards, to have opportunities to examine proposals, and opportunities to express their views, perhaps through public hearings.

However, Walker (1987) also noted, that by the end of 1985 the ASRB's process was more closely aligned to a model of political behaviour in which 'efforts to achieve consensus are achieved through government recognition of interest groups and the granting to those groups of privileged access to the policy-making process'. He attributed this pattern to the inspired lobbying of representatives of the accounting profession and neo-corporatist groups including auditors and preparers of accounting reports. This matter is discussed further in Chapter 3.

2.4 Recent reforms in financial reporting

2.4.1 Introduction

A feature of public sector financial reporting has been the low degree of standardisation relative to the private sector. A high degree of standardisation has not, until relatively recently, been deemed necessary in the public sector in connection with its reports for governmental units including States, Territories, Departments, Agencies and other institutions such as hospitals and universities. In each of these areas special, individualised records and reports have been needed and prepared usually adopting the cash-based method of accounting and in accordance with budgetary allocations of cash invested in specific entities for the conduct of programmes or special projects.

Enterprise theory suggests that profit-orientated enterprises have a need to prepare general-purpose financial reports in order to discharge accountabilities by managers to owners and other resource providers for the preservation and augmentation of the resources entrusted to them. Governments have not traditionally been regarded as

competitive profit-orientated enterprises. Instead, public sector records and reports have been entity-orientated, and focused on funding received by particular government entities. As Littleton (1953, p.122) suggested, the financial reports of government have satisfied the need for ‘...special kinds of control information for administrative and legislative use’.

2.4.2 Accrual accounting

Historically, Australian governments’ legislative requirements have specified the cash system of accounting and reporting. A cash system of reporting deals with transactions based on cash movements. An accrual system records transactions as they occur irrespective of cash movements (Mellor 1996). Compliance with parliamentary appropriations relies on the cash basis of accounting; and, until the introduction of the Uniform Presentation Framework (*UPF*) in 1991, government budgetary procedures utilised the cash basis of accounting. Barton (1999c) criticised the cash system of government accounting when he asserted that:

the cash-based system of accounting, the result of 200 years tradition in government, had enormous in-built limitations because it did not cover capital consumption which meant that in the past the government had no measure of the funds invested in its vast holdings of assets.

Blunt (1996, p.5) reported that the Public Accounts, which cover financial transactions undertaken by all government budget-dependent agencies, have been presented on a full accrual-basis since 1993. In 1997, all governments in Australia agreed to a revised *UPF* (Commonwealth Department of the Treasury 2000) which,

while maintaining consistency with the cash-based government budget reporting requirements, reflected the shift from a cash to an accrual reporting framework.

Presenting financial reports on an accrual rather than a cash-basis of accounting is considered in some quarters to provide more useful information to users of public sector financial reports. For instance, it has been suggested that relative to cash measures, accrual accounting measures provide parliamentarians, taxpayers and others with more comprehensive information of how a government's resources have been allocated, thereby enhancing governments' fiscal transparency and accountability (Commonwealth Department of the Treasury 2000). For example, the method tends to increase the focus upon the management of assets. Therefore, if accrual accounting principles are used to evaluate the financial accountability and performance of government entities, then those entities are likely to become more accountable for the changing values in the stock of assets comprising the national wealth relative to the resources from which that wealth is derived.

The shift within the Australian public sector from cash to accrual reporting represents a major development in public sector financial reporting (Commonwealth Department of the Treasury 2000). Broadbent and Guthrie (1992) described this paradigm shift as *new* accounting and associated it with a move in the public sector towards *managerialism* as defined by Weller and Lewis (1989). Managerialism according to Broadbent and Guthrie (1992) is based on a fundamental view that the market provides a better means of organising the public sector than does the traditional approach.

Hopwood (1984) associated the use of accrual accounting with government decisions to induce efficiencies into public institutions. Others have asserted that benefits flowing from the use of accrual accounting include the extension of accountability by disclosing the full cost of services provided by the public sector and assisting the understanding of public sector liabilities and assets (Barrett 2001; Li 2003) that are not reported under the cash-based approach.

Controversy and debate as to the relevance of the accrual method of accounting for government reporting purposes is not a recent phenomenon. For instance, as long ago as 1931, Scott cautioned about the possibilities of welfare or other policy distortions that may be caused by the inappropriate application of accrual accounting outside competitive markets. More recently, Aiken and McCrae (1992) warned that because of its association with the notion of accountability for the full cost of operations, accrual accounting may lead to funds distributions which are unintended by parliamentarians.

Mellor (1996), on the other hand, suggested that disclosure of the full cost of government programmes and activities assists in the better management of all resources under the control of government departments relative to the traditional cash-based reporting regime. He suggested that the major reforms experienced in New Zealand and the Australian State of NSW across the 1980s and 1990s would support the proposition that accrual reporting at a combined whole-of-government level is necessary and appropriate. He argued that accrual accounting at both the whole-of-government and individual Agency level provides more comprehensive information on the total costs of government programs and activities and a more

complete picture of government finances. The Commonwealth Department of Treasury (2000, p.1) asserted that as the accrual system provides information about financial effects of government programmes and activities on future generations it assists policymakers and managers in decision-making with regards to sustainability of services and resources and sound fiscal management.

Some public sector commentators (Clark-Lewis 1996; Conn 1996) have suggested that as the role of government differs from business in that the primary objectives do not include the pursuit of profit, accumulation of assets or recognition of speculative liabilities, then accrual reports are likely to be less appropriate as an overall summary measure of government performance than comparable reports are for commercial entities. Conn (1996) identified a number of issues that he described as fundamental flaws that would be associated with a public sector accrual-based approach to accounting and financial reporting. He suggested that under such a methodology, valuable intangible assets such as the power of governments to tax, license and regulate; the value of community assets, particularly education, that were created by public expenditure; and assets that are very difficult to value such as untapped natural resources, would be excluded. He also expressed his concern that such a methodological approach would fail to allow for the recognition of significant liabilities, in particular, the present value of legislated commitments to provide welfare and income support to individuals. Clark-Lewis (1996), while acknowledging some of the valuable accountability features of accrual reporting, expressed a similar concern that users would need to understand the limitations of reports that did not incorporate significant items such as the liability for public pensions.

In fact, these comments exhibit a generally weak understanding of the accrual method as the variables cited by Conn (1996) and Clark-Lewis (1996) as excluded under the accrual method are also excluded under the cash-based method. The real reason for excluding the items is not a failure in the accrual-based method; rather, they are excluded over concerns about what valuation basis is most appropriate to measure them, the difficulty and cost associated with achieving measurement accuracy, and concerns about the validity of including them.

While general government agencies may not be motivated by a bottom-line result that is closely akin to private sector profit, some other government business enterprises are. Aiken and McCrae (1992) acknowledged that accrual-based financial measures, need not be contested where their use is confined to genuine government businesses that compete directly with similar private institutions. However, where the selection of accounting principles is manipulative, for instance, as a ‘vehicle for increasing indirect forms of taxation, some of which may then be syphoned to treasury coffers’ (Aiken & Capitanio 1995, p.564) then such selection would be inappropriate.

2.4.3 Professional accounting regulation

Since the establishment in 1983 of the PSASB as a Board of the AARF, the Australian accounting profession in the form of the ASA and the ICAA has become directly involved through this arm of its jointly sponsored research foundation, in the formulation of financial reporting standards for the public sector. The application of

private sector accounting standards to the public sector was formally endorsed in 1985 (ICAA/ASA 1985).

Board members have focused attention on the preparation of accounting standards for government with the aim of improving government financial reporting. Their view is that the application of the accrual-basis of accounting as applied in the private sector is integral to the improvement process. They have argued that accrual-based accounting will improve the transparency of public sector financial reports as the reports will be compiled in accordance with externally imposed rules and standards as to how activities and transactions should be accounted for.

Furthermore, a reporting entity concept was introduced in SAC1:*Definition of the Reporting Entity (SAC1)* (AARF 1990), an accounting concept statement prepared within the conceptual framework. The purpose of defining the reporting entity as expressed in SAC1, was to ensure that the information needs of users of financial reports are met. Reporting entities are defined (AARF 1990, SAC1 Para.40) as:

... all entities (including economic entities) in respect of which it is reasonable to expect the existence of users dependent on general purpose financial reports for information that will be useful to them for making and evaluating decisions about the allocation of scarce resources.

2.4.4 Whole-of-government financial reporting

Changing from a cash-basis to an accrual-basis of accounting has implications for many features of public sector accounting and financial reporting, one of which is that the accrual-based consolidated financial reporting methodology can be used.

Consolidated financial reporting is a mechanism that condenses and adjusts financial data from more than one entity into a single set of data. The objective underlying the preparation of consolidated financial reports is to provide financial information about a set of related entities as a single entity to reflect that the entities operate together as a single, though *fictional* (Schroeder, McCullers & Clarke 1987, p.581) economic unit under the common direction or control of one dominant entity.

While the simple aggregation of cash-based data of individual entities will result in a form of consolidated report, the accrual-based method of consolidated financial reporting includes adjustments designed to eliminate double counting of data where inter-entity transactions may have occurred. For instance, under a simple aggregation approach, cash transfers would be recognised as payments by one entity and receipts by another, while under the accrual approach such transfers would be set-off (*eliminated*). The accrual method also recognises relevant ownership interests in individual consolidated entities. A review of the literature on consolidated financial reporting, as it is relevant to this study, is provided in Chapter 3.

In 1987 the AARF released an exposure draft - ED40 - as a precursor to the release of an accounting standard on the issue of consolidated financial reporting at the Commonwealth, State and Territory whole-of-government levels (AARF 1987, ED40 Para.24). As part of its due process community consultation model (now outlined in Policy Statement 1: *The Development of Statements of Accounting Concepts and Accounting Standards (PS1)* (AASB 1993, Appendix 2), the AARF called for submissions from all interested parties on the acceptability of the regulations proposed in ED40 prior to its formulation of a final accounting standard.

The proposal in ED40 involved a completely different way of presenting public-sector operations and accountabilities based on the accrual accounting concept and at the whole-of-government combined level. It also profoundly questioned the customs and beliefs held by public sector financial report preparers by challenging them to change their traditional cash-based approach to the contents, format and preparation of financial reports.

Littleton (1953, pp.92-3) warned of the dangers of extensive remodelling of financial reports. He suggested that changes and differences in the way financial data are presented may produce distrust of the information in all financial reports. Littleton argued that amongst the dangers would be the:

... tendency to complicate the comparability of data for nearly all readers, and undermine the objectivity which must underlie an auditor's certification. Thus with the best intentions for the general reader, the changes might be so disturbing to the informed reader as to make the data actually less rather than more significant for important uses.

The significant change to public sector financial reporting proposed in ED40 prompted much lobbying. Sixty-five submissions made to the AARF from interested constituents expressed views ranging from distress at the prospect of the consolidation concept being applied to the public sector, to full support for the application of a consistent practice across both the private and public sectors. The proposal in ED40 to transfer an unfamiliar and radically different method of accounting to a new jurisdiction, the public sector, allows for an examination of the extent to which constituents supported the conceptual basis that was proposed; and,

of the nature and significance of perceived practical issues associated with implementing the method.

2.4.5 AAS31:Financial Reporting by Governments

In 1998 the AARF released a new accounting standard, AAS31 (AARF 1998), on behalf of the PSASB. AAS31 is the main accrual-based standard for public sector financial reporting in Australia. A stated purpose of the standard was to ‘assist governments to discharge their financial accountability’ (AARF 1998, AAS31 Para.3.2). It was also anticipated that the standard would help to ensure consistency in accounting treatments over time and facilitate the comparability of financial information across different jurisdictions.

Unlike the earlier (1987) proposal in ED40, under AAS31 the full adoption of accrual-based accounting was required. This meant that assets, liabilities, revenues and expenses would be reported in financial statements when they have their economic impact rather than when the cash flows associated with such transactions occur. In the accounting standard a model for financial reports was provided (AARF 1998, AAS31 Appendix) that could be modified to suit the particular needs of individual government reporting entities. The reports required under AAS31 included an Operating Statement, a Statement of Financial Position and a Cash Flow Statement (AARF 1998, AAS31 Para.10.1) all of which must be accompanied by various explanatory Notes. The AARF Board members acknowledged that governments, as a result of existing legislation, might be subject to more detailed financial reporting requirements than those required in the private sector (AARF 1998, AAS31 Para.7). Accordingly, they advocated an approach where legislative

requirements, where they did not conflict with AAS31, were to be regarded as additional to the requirements in AAS31.

A further result of the introduction of AAS31 was that the consolidated financial reporting method was required to be applied by all Australian governments for whole-of-government reporting from 1998. Thus, whole-of-government accounts prepared using the accrual-based consolidated financial reporting methodology contained in the accounting standard AAS24 (AARF 1990), were formally introduced to the public sector.

Historically, AASs were issued for use by all types of entities including the public sector. However, since January 2000 ‘...only new and revised AASB accounting standards have been issued which are applicable to all types of entities whether corporate, non-corporate, private sector or public sector’ (Knapp & Kemp 2003, p.xix). As a result AAS24 now has an equivalent, AASB1024: *Consolidated Accounts* (AASB 1990) (*AASB1024*).

Although not all States and Territories were bound by legislative requirements to comply with AASs, Micallef (1997) claimed that, by 1998, most jurisdictions had expanded their relevant reporting frameworks to accommodate the requirements of this accounting standard. However, the annual financial reports for the period of relevance in this study (years ended 30 June 1999, 2000) did not conform to the consolidated financial reporting requirements in AAS31, AAS24 and AASB1024.

Using a rule-of-thumb comparison of revenue statistics drawn from the 30 June 1999 and 2000 annual reports of governments, Tasmania, the Northern Territory and the Australian Capital Territory are small relative to all the Australian States (Table 2.5). It is likely that these smaller jurisdictions struggled to provide the resources necessary for the accounting practice to become a practical possibility, although the Australian Capital Territory may have benefited from a technology and expertise transfer due to its proximity to the Commonwealth government.

Table 2.5

Comparative analysis of Revenue statistics for all States, the Australian Capital Territory and the Northern Territory

Jurisdiction	Revenue (\$m)	Percentage of total
Commonwealth	188,917	63.31
Australian Capital Territory	2,046	.69
New South Wales	24,895	8.34
Northern Territory	3,030	1.01
Queensland	21,475	7.20
South Australia	11,028	3.70
Tasmania	3,282	1.10
Victoria	28,004	9.38
Western Australia	15,725	5.27
Totals	298,402	100.00

2.4.6 Budget reporting - Accrual Uniform Presentation Framework

In 2000, the accrual reporting method and presentation format was introduced in place of the Uniform Presentation Framework 1991 (*UPF*) for government budget reporting. The new format was known as the Accrual Uniform Presentation Framework (*Accrual-UPF*) (ABS Cat.No.5501.0 2000). The *UPF* was an economic reporting framework based on two international standards: the United Nations' *System of National Accounts (revised 1993) – SNA93*, and the International Monetary

Fund's *Manual on Government Finance Statistics*. By contrast, the annual financial reports of governments were different in concept to the budget reports prepared under the UPF and so resulted in an outcome that was not consistent with the economic data on government transactions contained in the Australian National Accounts.

The Accrual-UPF was developed under the direction of the Fiscal Reporting Committee (*FRC*), a committee established specifically for this task. The FRC comprised representatives from the Commonwealth, State and Territory Treasuries, the Commonwealth Department of Finance and Administration, the Australian Bureau of Statistics (*ABS*) and the PSASB. The influential role of some of these groups in the issue of accounting and financial reporting standards has already been noted.

The Accrual-UPF, first due for implementation by most government jurisdictions in the preparation of the budgets for the year 2000-2001, establishes the accrual-based budgetary and fiscal information that (from 2000-2001) should be published by the Commonwealth, State and Territory governments for external reporting purposes. In essence, by shifting budget preparation away from cash-based to accrual-based reporting, the Accrual-UPF performs the same function as AAS31 does in respect to annual financial reporting.

Conceptually the Accrual-UPF has an economic focus and so will still result in the exclusion from the budget reports of certain events that are outside legislative and policy control of the government such as the revaluation of government assets. In a

move to enhance comparability between budget reports and whole-of-government financial reports, a reconciliation of the Accrual-UPF budget data to the annual financial report that is prepared by applying accounting principles and standards, must be included in government budget papers. Thus, government now has the principles in place, via the budget reporting system, to produce whole-of-government consolidated financial reports independently of the accounting conceptual framework and standards.

Commentary on the capacity of the public sector to successfully implement the accrual-based budgeting approach has been mixed. For example, Earley (2000, p.1) predicted that the framework is likely to present a challenge to budget sector accounting practitioners based as it is ‘...on focusing management attention on outputs delivered applying accrual concepts to budget management’. Kaufmann (2002, p.75), however, commented that most (public sector) jurisdictions across Australia have implemented accrual budgeting, and that they tend to report on an Australian accounting standards basis in budgets as well.

2.5 Characteristics of whole-of-government reporting entities

Government activities are broadly classified in accordance with the ABS’s Government Finance Statistics framework (*GFS*). These activities are categorised into three separate sectors according to function. They comprise (1) the General Government Sector (*GGS*); (2) Public Trading Enterprises (*PTE*); and, (3) the Public

Financial Enterprises Sector (*PFE*). The function of each of these sectors is outlined as follows.

2.5.1 General Government Sector (GGS)

This sector comprises organisations, the primary function of which is to provide public services that are non-trading in nature and that are for the collective benefit of the community; involve the transfer or redistribution of income; and are largely financed by way of taxes, fees and other compulsory charges. This sector includes government Departments such as the Commonwealth Departments of Defence, Finance and Administration, Health and Aged Care and such like; and at the State level, Departments such as Community Services (NSW), Justice (SA), and State Development (QLD, TAS). It also includes Commonwealth government Agencies such as the Australian Customs Service, the High Court of Australia and the Refugee Review Tribunal; and State Agencies like the Portland and District Hospital (VIC), and the Central Metropolitan College of TAFE (WA).

2.5.2 Public Financial Enterprises Sector (PFE)

This sector comprises enterprises that perform central bank functions, accept on-call, term or savings deposits, or that have the authority to incur liabilities and acquire financial assets in the market on their own account. It includes Commonwealth organisations such as the Reserve Bank of Australia, Medibank Private and the Export Finance Insurance Corporation. At the State level, organisations such as WorkCover Queensland (QLD), and the Western Australia Treasury Corporation (WA) are included in this sector.

2.5.3 Public Trading Enterprises Sector (PTE)

The primary function of enterprises in this sector is to provide goods and services that are trading, non-regulatory or non-financial in nature and that are financed by way of sales of goods and services to consumers. Commonwealth enterprises such as the Australian Dairy Corporation, National Railway Corporation Limited, Telstra Corporation Limited and others are included in this category. State enterprises include organisations such as ACTTAB Limited (ACT), Sydney Ports Corporation (NSW), and the Egg Marketing Board (TAS).

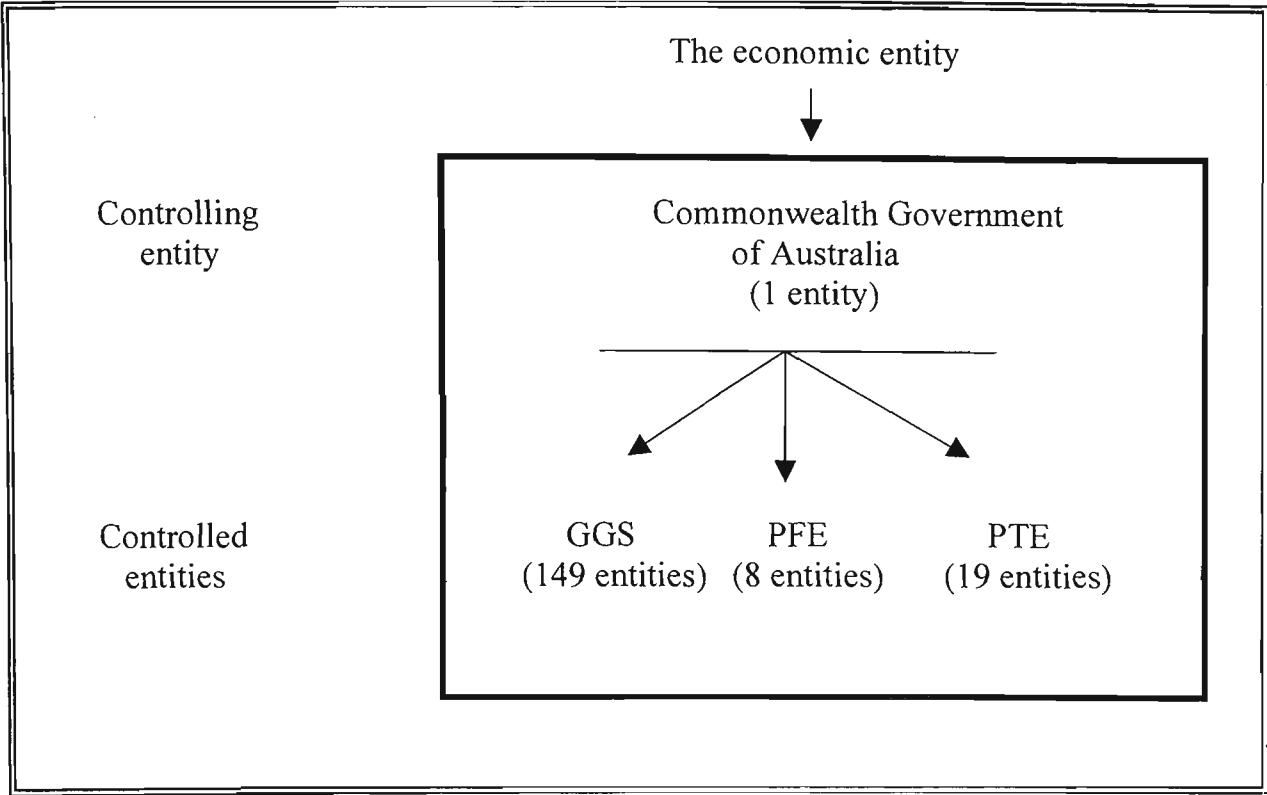
2.5.4 Consolidated entities

As briefly explained in section 2.4.4, in accordance with AAS31, AAS24 and since January 2000 AASB1024, consolidated financial reports at the whole-of-government level are produced through a process of aggregation and adjustment. They include the value of the assets, liabilities, equities, revenues and expenses controlled by the relevant Commonwealth, State or Territory government. The consolidation process creates a notional entity that in the private sector is described as an *economic* entity. The economic entity comprises a single entity that is commonly referred to as a *controlling* or *parent* entity and any other entities that are either controlled or owned by the controlling entity. These other entities are commonly referred to as either *controlled* or *subsidiary* entities. For the purposes of the time period relevant to this study, AAS24 provided the guidance for the purposes of determining which entities must be included as part of an economic entity (AARF 1990, AAS24:Para.7) as follows:

The economic entity would comprise the parent entity and each of the entities under its control and in the public sector could include ... government agencies, authorities, companies, partnerships and trusts.

Figure 2.3 depicts the components of the Commonwealth government economic entity as identified in the Commonwealth government consolidated financial report at 30 June 2000.

Figure 2.3
The Commonwealth Government Economic Entity
as at 30 June 2000



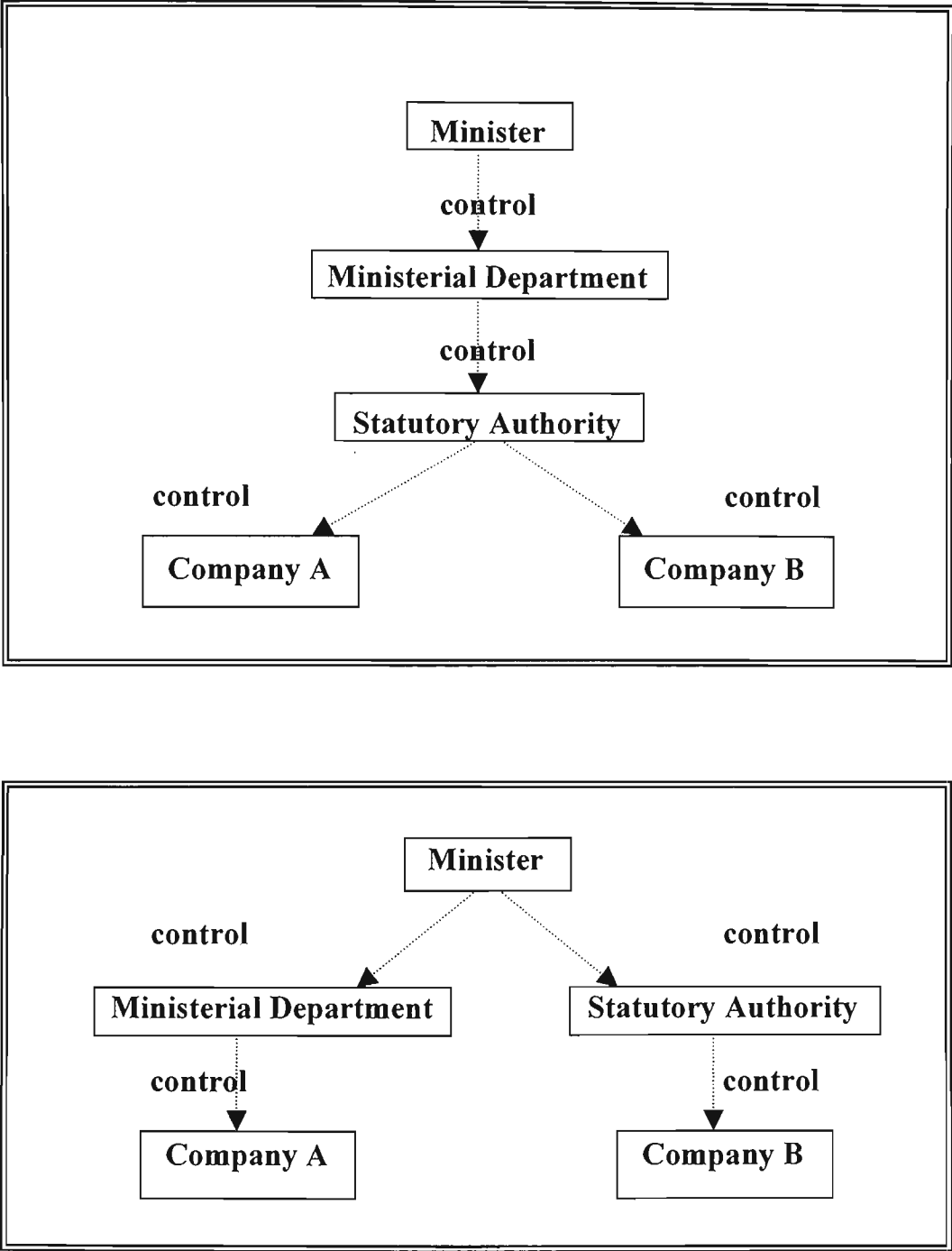
2.5.4.1 Control

Control is the essential criterion for an entity’s financial data to be included in a consolidated financial report. The criterion of control is outlined in AAS24 (AARF 1990, AAS24 Para.18) as meaning:

... the capacity of an entity to dominate decision-making, directly or indirectly, in relation to the financial and operating policies of another entity so as to enable that other entity to operate with it in pursuing the objectives of the controlling entity.

A diagram is presented in ED40 (AARF 1987, ED40 Appendix 1) where two possible control relationships that might exist in the public sector are envisaged. These relationships are presented in Figure 2.4.

Figure 2.4
Some possible levels of consolidation in the public sector



Source: AARF 1987, ED40 Appendix 1

For the purposes of whole-of-government consolidated financial reporting, some entities are not considered to be under the control of the relevant Commonwealth, State or Territory government. This usually occurs where the relationships are of a regulatory or a trust nature and as such fall outside the concept of control (AARF 1987, ED40 Para.21). Therefore, such entities are not treated as subsidiary entities and are not aggregated for the purposes of preparing consolidated financial reports.

Barrett (2001, p.52) stated that the deciphering of the control criterion in the preparation of whole-of-government consolidated financial reports is an area of contention. This is because the deciding factor in determining which government entity to include or omit, is not the actual funds granted by government, but the interpretation of the definition of how government controls the entity.

Using the concept of control has resulted in two significant government sectors, *Universities* and *Local Governments*, being excluded from whole-of-government consolidated financial reports. Hancock, Tower and Holloway (1994, p.64) provide five measures (Revenue, Assets, Employees, Students, Leverage) indicating that the Australian University sector in 1991 was significant. Bartos (2000a, p.43) considered that the non-consolidation of Universities was a major issue highlighted in Miley's (1999) Report in need of resolving.

Political cost theory (Holthausen & Leftwich 1983; Watts & Zimmerman 1986) provides a convenient explanation of the use of the control criteria to exclude the Australian Universities. Political cost theory posits that in order to escape political scrutiny and the associated possible negative transfers of wealth, management will

choose accounting methods that reduce the likelihood of negative wealth transfers. Thus, preparers of whole-of-government consolidated financial reports, fearing increased political visibility and costs resulting from the consolidation of Universities, may have chosen to insulate themselves by not consolidating the Universities.

Studies of the annual reports of Australian Universities indicate that the quality of those reports as measured by compliance with private sector professional accounting requirements is generally low. Cameron and Guthrie (1993) conducted a case study of the University of New South Wales and concluded (1993, p.8) that 'internal rather than external influences have had the greatest impact on the contents of its annual reports'. Hancock, Tower and Holloway (1994, p.68) found that not all Universities in their study used full accrual accounting and many used several different methods such as modified cash or modified accrual accounting. Therefore, an alternative explanation for the non-consolidation of Universities may be that the mixed quality of the financial reports produced in this sector has persisted, making it difficult to reprocess the information so as to facilitate consolidation at the whole-of-government level.

Some examples of explanations provided in whole-of-government financial reports using the control criteria as the basis for excluding Universities and Local Governments include:

a) *Commonwealth*

... the control of another entity by the Commonwealth government is taken to exist where: the other entity is accountable to the Commonwealth government; and the Commonwealth government has a residual financial interest in the net assets of that entity. Commonwealth Universities have not been consolidated ... but the value of total net assets has been recognised as an investment. (Commonwealth Government of Australia 2000).

b) *Queensland*

... Certain entities that administer superannuation and like funds and/or hold private funds of a trust or fidelity nature have not been included in this financial report because the assets are not available for the benefit of the State. Queensland's State-owned Universities, certain professional, occupational and marketing boards and Local Governments have not been included in this financial report because they are not controlled. (Queensland Government 1999).

The financial statements of individual Local Governments are not aggregated for the purpose of preparing a whole-of-local-government consolidated financial report for the Commonwealth and each State and Territory, not because they are insignificant, but because collectively the Local Governments fail to satisfy the definition of an economic entity (AARF 1987, ED40 Para.24). As none of the Local Governments own or control any of the others, it is difficult to see who would benefit from a *horizontal* (Nobes & Parker 1988, p.89) consolidation of this sector. However,

whether or not Local Governments should be consolidated *vertically* into the Commonwealth, State and Territory whole-of-government consolidated financial reports was not specifically discussed in ED40. Rather the inclusion or otherwise of this significant government sector in whole-of-government consolidated financial reports is decided by report preparers on the basis of their interpretation of the concepts of the economic entity and control. The existence of control might be specified in legislative or executive authority or administrative arrangements where there is a power to give policy directions (AARF 1987, ED40 Para.22). In the absence of control, entities significant or otherwise are excluded from consolidated financial reports.

c) *Western Australia*

... The Australian Bureau of Statistics has reclassified the activities of public Universities to a *multi-jurisdictional sector* due to the ambiguity of government control since States generally provide the enabling legislation and guarantee some borrowings while the Commonwealth exercises discretion in the distribution of operating grants. (Government of Western Australia 2000).

In the case of Western Australia, the explanation confirms that Universities have not been consolidated. They are instead regarded as part of a separate sector (a *multi-jurisdictional sector*), not under the control of the State government. Similar to Local Governments, the components of this multi-jurisdictional sector do not comprise an economic entity and so a *horizontal* consolidated financial report is not

prepared in respect of it, and it is not consolidated *vertically* into whole-of-government financial reports. Effectively Universities and Local governments are in a state of limbo.

d) Northern Territory

Although the Northern Territory government does not provide a whole-of-government consolidated financial report, it does specifically exclude the University sector from its annual financial reports. Instead of the absence of *control*, it relies on the *trust* nature of the association between the Northern Territory Budget sector and the University sector to justify exclusion. In the 2000 financial report the Northern Territory Treasurer explained the exclusion in the following way:

The Batchelor Institute of Indigenous Tertiary Education (*BIITE*) ceased to be an Agency under the Financial Management Act during 1999-00. The management of Northern Territory Rural College transferred to the Northern Territory University during the year. The Treasurer approved these three organisations (BIITE, NT Rural College and the University) moving out of the Budget scope during 1999-00. Any funds for these organisations held in Government official bank accounts at 30 June 2000 have been reported in Department of Education's Accountable Officer's Trust Account. (Northern Territory Government 2000, p65).

e) Other entities

Three jurisdictions (NSW, NT, SA) received audit report qualifications due to the exclusion of certain entities the auditors regarded as controlled. In the case of NSW, the WorkCover Scheme Statutory Funds (the *Scheme*) were not consolidated. The Scheme disclosed an operating deficiency and a net liability position (equivalent to 1.9% of the Total State Sector net assets). The NSW Treasurer's (the dominant

preparer-commander) view was that neither the NSW government nor the WorkCover Authority controlled the statutory funds. The Treasurer provided the following explanation in the financial report.

... This is so because the Government does not have a residual interest in the net assets of the Statutory Funds. It is not exposed to the residual liabilities of the Statutory Funds and it cannot redeploy the assets for its own benefit. ... Instead the role of Government is one of regulation. (New South Wales State Government 2000).

The NSW Treasurer also confirmed this view in three separate legal opinions provided by the Crown Solicitor's Office, including advice from the NSW Solicitor General. The Auditor-General (subordinate preparer-commander) disagreed and qualified the audit opinion on the financial report because he was of the opinion that the State of NSW had the capacity to control decision-making in relation to the Scheme's financial and operating policy. As recently as November 2003, the NSW Auditor-General continued to recommend that 'the Total State Sector accounts include transactions and balances of the *debt-riddled* WorkCover Scheme Statutory Funds' (Hepworth 2003, p.11). The NSW Secretary of Treasury responded that the NSW government was not exposed to the liabilities of the fund, but no comment about inability to control the Fund was reported (Hepworth 2003, p.11). This example illustrates how it is possible, through different interpretations of the concept of control, for potentially significant resources and obligations to be omitted from whole-of-government consolidated financial reports.

The concept of control as the basis for identifying an economic entity has important implications in the public sector where many entities are heavily reliant on budget

allocations for resources. Because they are controlled by a government entity, such entities together with the allocating government would, as an economic entity, meet the definition of a reporting entity. Reporting entities are required to prepare general-purpose financial reports, which are deemed to be useful to financial report users for making and evaluating decisions about the allocation of scarce resources. In respect to the Australian public sector where the accent is on accountability of elected representatives and appointed officials, the professional accounting bodies claimed a different purpose in SAC2:*Objective of General Purpose Financial Reporting (SAC2)* (AARF 1990, SAC2 Para.14), that general purpose financial reports:

provide a mechanism to enable managements and governing bodies to discharge their accountability ... to those who provide resources to the entity ...

Specifically in respect to the public sector, the accounting regulators provide examples of *resources* and *accountabilities* in SAC2. For example ‘... Governments and Parliaments decide, on behalf of constituents, whether to *fund* particular programmes for delivery by an entity; taxpayers decide who should represent them in Government...’ (AARF 1990, SAC2 Para.12). The discussion contained within SAC2 (Para.14) also indicates the very broad sense of the term accountability that is envisaged by the accounting regulators. ‘... because of the influence ... exerted on members of the community at both the microeconomic and macroeconomic levels, reporting entities are *accountable* to the public at large.’

In the review of some of the 1999 and 2000 whole-of-government consolidated financial reports, details of which follow in Chapter 5, it was noted that the financial

report preparers of five governments provided details of the concept of control. Three of the reports contained statements describing control, in accordance with AAS31 as the ‘...capacity to dominate the financial and operating policies of another entity so as to enable that other entity to operate with it in pursuing its own objectives...’ (AARF 1998, AAS31 Paras.9.1.1), (see Appendix 4). In the other two reports, (C’wlth, ACT), control was described in accordance with two factors, *accountability*, and *residual financial interest in net assets of the other entity*. Both factors are identified in AAS31 (Para.1.3) as signifying control.

The Australian accounting professional bodies expect that one set of consolidated financial reports for a whole economic entity will enhance the ability of users of financial reports to assess the performance of an economic entity, relative to those users having to rely on individual sets of financial reports (AASB 1990 AASB1024 Para.11(xxvii)). Following this line of reasoning, a Parliamentary Minister, as a commander of information upon which an assessment may be made for accountability purposes, is likely to command the preparation of consolidated financial reports encompassing all relevant controlled entities. Whether these reports should be developed through the budget framework, the accounting conceptual framework or another conceptual framework is currently the subject of debate by public sector policy-makers.

2.5.5 Control and the EEC Seventh Directive

In the face of persistent public questioning as to the alleged benefits from consolidations the European Economic Community (*EEC*) in its Seventh Council Directive (*Seventh Directive*) (EEC 1983) moderated its approach to the adoption of

the control criteria that it proposed in the 1976 and 1978 drafts of the Seventh Directive. It did not enforce the proposals that EEC companies, which were unconnected except for their common control by an undertaking outside the EEC be consolidated; or, that groups under the control of unincorporated entities be consolidated. Had these proposals been approved, they would have resulted in the consolidation of government entities.

As, traditionally, governments in Anglo-Saxon countries had not been seen as users of financial reports, questions such as: 'who would benefit from these consolidations'; and 'what would it have to do with harmonisation', were asked (Nobes & Parker 1988, p.90). They also asserted that 'governments should be capable of demanding the information they need by disclosure requirements rather than by extra consolidations'. Hancock, Tower and Holloway (1994, p.68) made a similar comment when assessing whether Australian Universities should be regarded as reporting entities. Hancock, Tower and Holloway (ibid) asserted that government could not be regarded as a dependant user 'since it can command any form or type of information'. Goldberg (1965) had also recognised the authoritarian power of government to demand financial information sufficient to satisfy its own financial information needs.

A clear implication of the amendments to the Seventh Directive drafts (1976, 1978) is that government was identified as the primary user of its own consolidated financial reports. The information needs of external stakeholders were not identified in this process and whether their needs would be satisfied by such information is uncertain. However, this development appears to indicate that at least in the context

of the EEC, the financial information needs of external stakeholders were regarded as relatively unimportant.

2.6 Summary

In this chapter an overview of the structure of the Australian public sector and an outline of the institutional framework for financial reporting regulation have been provided in order to understand the nexus between the two so far as it concerns whole-of-government consolidated financial reporting. The organisational structure, operational processes and accountabilities of the public sector were considered. This provided some insight into the relative influence of internal as opposed to external forces in shaping the development of public sector financial reporting practice. The financial reporting authorities and requirements of the Commonwealth government, each of the six States and the two self-governing Territories have been reviewed and summarised. The financial reporting legislation was observed to be generally imprecise in respect to the form and content of financial reports, and guidance for the preparation, form and content was noted as being primarily subject to the discretion of the relevant Heads of Finance and the Treasurers in their *Instructions* and *Orders*.

Some possible determinants of a less than full and proper application of the consolidated financial reporting methodology were discussed. The implications of partial application were then considered and it became apparent that whole-of-government consolidated financial reporting may not necessarily include all government resources and obligations. This consideration was followed by an identification of specific instances of partial application of the methodology and a discussion of possible explanations of this phenomenon.

Next, recent reforms in public sector financial reporting were identified and explained. A major development, noted in the review of literature on the Australian conceptual framework for financial reporting, is the apparent philosophical shift from a narrow focus of government accountability to a wider perspective accommodating information requirements of the broader electorate. Another significant reform is the introduction of the accrual accounting concept and the imposition of the consolidated financial reporting methodology for whole-of-government financial reporting. Attention was directed primarily to the pervasive impact on accounting processes and the altered form and content of financial reports that necessarily stem from the use of the accrual accounting concept. Consideration was also given to the significance of accrual accounting for government budget reporting.

The implications of these developments and reforms for the perceived usefulness of whole-of-government consolidated financial reports by users and preparers of financial reports, as instruments of government accountability were also considered. A brief introduction to the consolidated financial reporting method was provided, followed by a discussion of the characteristics and scope of whole-of-government financial reporting entities. A discussion of the critical importance of interpretation of the concept of control to the achievement of a full application of the methodology was provided. The consignment of Universities to a multi-jurisdictional sector the components of which are not regarded as an economic entity and so not consolidated at any level; the exclusion of Local Governments and the non-consolidation of other significant entities raise interesting issues worthy of future research including a consideration of the significance of an incomplete picture of government resources.

Chapter Three

Literature review

3.1 Objectives and structure

The objective in this chapter is to review the financial reporting literature to demonstrate the relevance and significance of the research questions outlined in Chapter 1. Attention is directed towards key factors demonstrated to influence accountability performance, usefulness of financial information and the development of consolidated financial reporting. In this chapter also, further questions are drawn from the review of literature to demonstrate that other researchers may not yet have adequately explored the issues raised. These questions are investigated in the analyses of ED40 data (Chapter 4), the whole-of-government financial reports (Chapter 5) and the study questionnaire (Chapter 6).

Three important research streams within the financial reporting paradigm are considered. The first deals with the emergence of the *accountability* model of financial reporting theory and the second with the *usefulness* of financial information. In the third, studies on the concept of *consolidated* financial reporting are considered, in particular, whether this reporting method is useful for the discharge of accountability by Parliamentary Ministers. The overall aim of this review is to try to combine the three literature streams in a search for an explanation of financial reporting performance suited to the public sector.

3.2 Review of Accountability literature

3.2.1 Introduction

The Macquarie Dictionary (1985) describes *accountability* as a concept in which there is a liability or responsibility to a person, for an act. It describes an *accountant* as one whose profession it is to communicate economic information for the judgment and decision-making purposes of individuals who seek it. The Australian Pocket Oxford Dictionary (1993) extends the notion of accountability to the public and especially to persons affected by an organisation's operations.

The literal meaning of *accounting* according to Day & Klein (1987 Ch.1), is for relevant persons to give an explanation of what they do, to those to whom they are responsible and whose authority empowers them or gives them the right to demand such an explanation. Thus accountability is essentially an *informing* function and raises the questions of who is accountable to whom, for what are they accountable, what are the means or processes for obtaining these accounts, and what are the results or outcomes, including sanctions of all this (Mosher 1979, p.236).

3.2.2 A political viewpoint

Relatively recent work of writers in the area of accountability (Thynne & Goldring 1987; Uhr 1993, 1998; Parker & Gould 1999; Simms & Keating 1999) reveals that the term accountability is imprecise. Uhr (1993) linked the notion of accountability to its root meaning of being called to account for an explanation of one's actions or conduct. He (Uhr 1998, p.151) stated that 'few political terms attract such confusion' as accountability. Uhr's (1993) view is similar to the notion of responsibility expressed by Thynne and Goldring (1987) which they described as a

situation where officials are accountable for the performance of their official tasks and therefore subject to an institution's or person's oversight, direction or request that they provide information on their action or justify it before a review authority. Simms and Keating (1999, p.116) suggested that 'there are many different kinds of accountability and that there may be clashes between them'. Parker and Gould (1999) considered that while accountability may be difficult to define, it is fundamental to our system of government.

Within the hierarchical Westminster system of government administration that has historically underpinned the administrative systems of the Australian public sector, accountability is narrowly confined to a relationship of inequality between two parties. One, a subordinate, is required to report to another, a superior (Mulgan 1997b), without any direct reporting to either Parliament or the public. O'Loughlin (1990, p.281) suggested that accountability takes place within such a relationship as the 'superior is expected to have an interest in assessing and improving the quality of the performance offered by the subordinate'. Sumner (1987) provided a broader view of accountability under the Westminster tradition that attached obligations to the community to any individual rights that were formalised and sanctioned under parliamentary sovereignty. Thus it can be seen that in the political sphere, accountability is an abstract concept that may change over time, and which can be connected to the concept of responsible government (section 2.2.1).

Over the last three decades an administrative modernisation has occurred within the public sector as government operations have become more efficient and effective (Weller & Lewis 1989; Guthrie 1990; Parker & Guthrie 1990). As a result of this

evolving process public servants are now said to be accountable, not only to their immediate superiors, but also to a range of oversight bodies such as the Auditor-General (Reid 1984).

Aiken and Capitanio (1995) argued that government accountability is fundamental as 'public money is being used'. Holmes (1989) saw the main vehicle for the discharge of this accountability with its emphasis, he claimed, on outcomes rather than inputs, to be the externally available annual financial report. In the case of information in financial reports, the professional accounting bodies also advocate the notion that accountability has spread to the public at large (AARF 1990, SAC2 Para.14). Thus, the accountability of government officers is seen to have been affected by an evolving administrative process that has resulted in the availability of different information and, as a consequence, has been expanded to include a far broader range of interested or affected constituents.

The suggestion that public servants are directly accountable to members of the public has been opposed in some quarters. For instance, by the Department of the Prime Minister which published an analysis of accountability in the public sector (MAB/MIAC 1991, 1993) in which clear priority is given to the duty of public servants to their immediate superiors. This form of relationship precludes any exercise of discretion by subordinates in the hierarchical chain of command and probably also absolves their professional consciences.

However, it would be a mistake to associate accountability of public servants exclusively with their duty to Ministers and the immediate superiors who direct

them, as this is only one aspect of a broader structure of accountability in which the general framework is set by the accountability of all public officials to the public. It has been asserted that many public servants recognise a general duty to the public in addition to their primary duty to their superiors (Campbell & Halligan 1992). The MAB/MIAC Report (1993) in fact, also hints at such a wider concept of accountability by acknowledging that scrutiny by external review bodies has become an integral and important part of the modern accountability process.

Corbett (1992) suggested that public servants may have an inward accountability to their professional consciences. It is a general expectation that public servants will act responsibly and conscientiously and, in extreme situations, follow their own judgment against the instructions of their superiors (Jackson 1993). Such actions of initiative and professional judgment may have implications for the effective application of new administrative or regulatory practices such as accounting method choice, or the cross-sector transfer of accounting standards.

Thus, accountability appears to have evolved into a vehicle for reconciliation of the demand for more consultation and public participation and the changes to the focus of public management that occurred across the 1980s (Chapman 2000). It has been suggested that the emerging scenario is one of tighter control of public servants through notions of responsible government (Emy & Hughes 1993) and accountability (Thynne & Goldring 1987).

Finn (1993) provided a threefold categorisation to summarise the avenues of public sector accountability. These are to: (1) members of the public directly, either as

individuals or as a community; (2) agencies such as the Auditor-General, which should act on behalf of the public; and, (3) official superiors and peers.

Mosher (1979, p.328) suggested that there can be too much accountability. He argued that perfect accountability would be very expensive and counter-productive. Uhr (1998, p.177) concurred in the view that there is a need for Parliament to account for the 'responsible use of the mass of information demanded in the name of accountability'. In a similar vein Aldons (2001) suggested that information provision should be guided by the need to maintain and build upon the existing mechanisms and how to improve their effectiveness in the larger system of political and public accountability of government. In light of these types of comment there may be justification for public sector policy-makers to consider the extent to which the whole-of-government consolidated financial reporting framework and the Accrual-UPF budgeting framework may be overlapping and thus expensive and counter-productive.

3.2.3 An agency perspective

Mulgan (2000) provided a view of accountability referring to the obligations that arise within a relationship of responsibility where one person or body is responsible to another for the performance of particular services. He described the obligations in question as first: to account for the performance of duties; and second, to accept sanctions or redirection. That is, accountability implies a responsibility by one party to another for the performance of duties and adverse consequences for unacceptable levels of performance. Mulgan (ibid) viewed an accountability relationship as one of 'superior and subordinate or of principal and agent, where subordinates or agents are

held accountable to, and receive directions from, their superiors. This interpretation is consistent with the concept of *Responsible Government* outlined in section 2.2.1 where Ministers, as *agents* of Parliaments (the *principals*), are accountable for their own performance and the resources entrusted to them.

Mulgan (2000) contended that in practice an agent is typically the more dominant participant and that this phenomenon creates the need to establish the principal's superiority, or control over the agent. He asserted that accountability requirements serve to provide opportunities for otherwise weak principals to impose some controls on individuals and organizations that are supposed to be serving in the principal's interests. The very act of reporting to a superior may be sufficient to induce action along the lines preferred by the superior. Similarly, assessments by auditors or other oversight bodies may lead to significant direction of, or alterations in, the behaviour of those audited. For instance, oversight bodies such as the Auditor-General, through their scrutiny and auditing activities may provoke responsible behaviour by the agent through the prospect of intervention by the principal.

Agency theory posits that a principal controls the actions of the agent by reward if the agent faithfully follows the principal's instructions, and by termination of the agent's contract if the principal's instructions are not followed (Jensen & Meckling 1976; Watts 1977). Baiman (1982) provides a specification and survey of agency theory. Self (1985, pp.165-7) argued that agency theory applied to government implies that senior bureaucrats are not solely agents of a government minister, they have an independent responsibility for good and equitable administration.

From an agency theory perspective, a Minister is elected to act on behalf of the public as an agent, performing the process of directing and controlling resources for which the Minister carries responsibility. Agency theory assumes, however, that an individual agent may not always act in the best interests of the principal. Such behaviour represents an agency cost (Jensen & Meckling 1976) and has been described as *opportunistic* (Watts & Zimmerman 1978, 1986, 1990). For example, a Minister may have a self-interest incentive to abandon policies or proposals that might attract adverse media publicity in response to adverse assessments voiced through Parliament and elsewhere (Mulgan 1997a).

Whittred (1988) asserted that the influence of agency or contracting cost variables overwhelmed all others in terms of explanatory power. Walker and Mack (1998), however, cast doubt on Whittred's claim. Further, in respect to consolidated financial reporting, Whittred, Zimmer and Taylor (2000, pp.362-3) asserted that the Corporations Law was amended to redefine subsidiaries in terms of *control* rather than *ownership*, in order to circumvent opportunistic behaviour by agents. The statement in Whittred, Zimmer and Taylor (2000, pp.362-3) suggesting a causal relationship between this variable (opportunistic behaviour) and a change in regulation can be traced back to Whittred's earlier work (Whittred 1986, 1987, 1988) on the impact of contracting and agency costs on the voluntary adoption of consolidated financial reporting. However, Whittred, Zimmer and Taylor's (2000, pp.362-3) assertion based as it is on value-laden speculation about the behaviour of principals and agents, in this instance, appears to be defective. It is more likely that the origins are to be found in the desire of accounting regulators to extend private sector practices to the public sector as they regarded these as *best practice*; and that

the amendment to the Corporations Law would facilitate the consolidation of government entities as these tended to be controlled rather than owned. Whittred, Zimmer and Taylor's (2000:362-3) assertion is further weakened by Barton (1999b, p.12) who reported that the control test replaced the ownership test 'to accommodate the allocation of government-owned facilities to various government departments for the purposes of accrual accounting'.

Yet, Ministers (as agents) have a need to be seen to deal effectively and fairly with issues which arise within their own sphere of responsibility and thus to enhance their political reputation and the electoral fortunes of the government. Ministers, like any other chief executives, are required to see that reasonable administrative structures are in place and to intervene when problems come to light. They are expected to deal with major departmental problems as they arise. They cannot afford to appear inactive or complacent once problems are revealed, and are often held politically responsible for any failure to provide prompt and efficient remedies. This indicates that there are strong incentives for Ministers to react positively to public criticism. Corroborating evidence of the power of publicity and public criticism is provided by the continuing resistance of governments to the provision of information that might generate criticism of government actions (Mulgan 2000).

While there may be some political damage associated with admitting administrative fault, there may be more adverse political consequences from appearing to be complacent or unresponsive in the face of legitimate public concern. The politically advantageous course may be to accept that criticisms were fair and to call for prompt and appropriate remedies. Mulgan (1997a) contended that many political

interventions by Ministers in response to public criticism do not even require the conscious action of the Minister concerned but are anticipated by public servants. Public sector officials know that failure to adapt their policies in the light of justifiable public criticism of their decisions may rebound badly on themselves, their Departments and ultimately their Minister. This is reflected in the relatively high level of compliance with recommendations made by Auditors-General even though these recommendations may have no binding force. From this perspective, there may be positive merit in the hierarchical accountability and responsibility in the public service emphasised in the MAB/MIAC Report (1993).

3.2.4 A market explanation

The need to improve control over accountability has been a major theme of recent public sector analysis. For instance, advocates of the corporatisation paradigm claim enhanced accountability as one of the major objectives together with improved market efficiency and effectiveness (Keating & Holmes 1990, p.169). Coy et al. (1997, p.107) observed that accountability was identified as the main objective of public sector financial reporting in the post-1985 literature that they reviewed. Day and Klein (1987, Ch.1) asserted that the information in financial reports is generally supposed to provide an indication as to whether resources entrusted to the care of a particular party have been properly dealt with and may also involve justification of actions that have been taken. Braithwaite (1999) suggested that accountability in Australian government might be an anachronism in that it grows out of a state-centred mode of analysis that is no longer relevant in an era of increasing privatisation. Mulgan (2000) observed that the trend towards greater economic liberalisation and deregulation of government services appears largely responsible

for the preoccupation with the accountability of public agencies. He suggested that as long as the private sector continues to be increasingly entrusted with public purposes, further convergence in matters of accountability of the two sectors can be expected.

Private sector managers are subject to high levels of accountability in respect to many of their activities and their performance. For instance, executive remuneration is closely scrutinised by organizations such as the Australian Shareholders' Association and is often reported in the media. Managers in the private sector continue to resist moves to increase disclosure in this sensitive area. If the private sector reaction is indicative of the public sector response, then resistance to the introduction of non-traditional accounting practices such as accrual accounting, or radically different concepts such as consolidated financial reporting, could reasonably be anticipated.

In terms of the framework for financial reporting, public companies and large proprietary companies appear to be the most closely analogous to government agencies. They may therefore represent the most appropriate model of financial accountability. Miley and Read (2000) compared government financial reporting to that of large corporations. They argued that governments have a higher degree of financial accountability than large corporations for the fundamental reason that association with corporations is by choice while association with government is not. They also asserted that accountability for financial management is a salient feature of democratic politics.

3.2.5 Accountability and Harmonisation Theory

Harmonisation is a process that is aimed at producing a state of similarity amongst objects. It does not imply that objects or outcomes should be identical. However, it does imply that the free choices available in accounting standards will be reduced and, in some cases, eliminated entirely (Zeff 1998, p.3). Thus, in the context of financial reporting, harmonisation is the pursuit of practice consistency as opposed to absolute uniformity. In theory this should make the information in financial reports more readily comparable. Challen and Jeffrey (2003, p.48) suggest that the objective of harmonisation is to achieve a standard for a single set of government reports which are 'comparable between jurisdictions'. They predict the result will be 'an improvement in the quality, clarity and transparency of government financial statements...'.

Walker (1978b, p.97) considered the harmonisation approach to financial reporting to have a significant methodological weakness in that there is no consideration of the nation-specific or the historical background and cultural environment. Gray (1988) suggested that policy-makers may be in a better position to 'predict problems that a country may be likely to face and identify solutions that may be feasible' if they consider cultural issues and attributes. Perera (1989) argued that international accounting standards are strongly influenced by Anglo-American accounting models. Zarzeski (1996), more recently, provided evidence that business enterprises that operate on an international scale, appear to adopt a 'global market culture'.

In Australia the process of harmonisation between the private and public sectors is reportedly linked to three objectives. These are: (1) maintaining and improving the

efficiency of Australian capital markets; (2) improving the accountability of private sector reporting entities; and (3) improving the accountability of public sector reporting entities (AASB 2000, PS4 Para.1). Thus, efficiency is not the primary driving force of harmonisation in the public sector, accountability is. If public sector efficiencies are achieved in the process of harmonisation they are peripheral, not ancillary, to the main aim. Parker (1996, p.3) suggested that community calls for greater accountability implied that the private sector also should make accountability rather than capital market efficiency (allocative decision-making) the primary, instead of the secondary, focus of financial reporting.

It may be that the transfer of consolidated financial reporting to the public sector under the pretext of harmonisation has occurred in response to pressure by political activists (Aiken & Capitanio 1995) such as the professional accounting bodies, irrespective of intrinsic merit of the concept, implementation cost or relevance of the output. For instance, to enable the consolidated financial reporting method to be applied in the public sector, the notion of ownership as the trigger for the consolidation of one entity with another, had to be replaced by another notion. The existence of *de jure* and *de facto* control which characterised most public sector organisational arrangements was an eminently attractive alternative.

Miley (1999) conducted a review of 1997 whole-of-government consolidated financial reports in which she identified consolidated financial reporting as a particular area where harmonisation had not been achieved. Her study occurred in a pre-regulation context as the application date for consolidated financial reporting in the public sector did not become effective under AAS31 (AARF 1998) until the 1999

financial year (that is, the year commencing 1 July 1998 and ending on 30 June 1999). Miley's Report has been criticised (Wright 2000) for the pre-regulation setting on which her conclusions are based. Also it was criticised for her use of a mix of government annual financial reports and budget reports to substantiate the assertion that application of the consolidated financial reporting method was superficial and inconsistent. The method adopted in this study is superior to Miley's in both respects, as data are drawn from post-regulation, financial reports, only.

3.2.5.1 Historical background

ED40 (AARF 1987) was a proposal by the professional accounting regulators to apply the method of consolidated financial reporting containing the concept of control, to the public sector. ED40 was followed in 1990 by the release of AAS24 (AARF 1990). In this accounting standard the concept of control was also used as the basis for triggering the consolidation of economically related entities. However, a legal impediment existed requiring an amendment to the Corporations Law before holding companies in the private sector could be compelled to apply the concept of control. The Corporations Law was amended in 1991 (Ss.9, 243E, 294B(3), 1364) so that the definition of subsidiaries was extended from only corporate entities to include all entities, thereby removing the legal impediment to the application of AAS24. Thus, the concept of control of all controlled entities was forced upon the private sector and, importantly, the scene was set for the cross-sector transfer to the public sector of the consolidated financial reporting practice and for harmonisation of the two sectors in this respect to occur.

Eddey (1992, p.34) presents a useful chronology of the consolidated financial reporting exposure drafts and accounting standards released by the Australian accounting regulators. This is presented in Exhibit 3.1.

Exhibit 3.1
Documents leading to AASB1024

ED40 Consolidated Financial Statements (June 1987)	This exposure draft was issued by the Australian Accounting Research Foundation. It proposed a radical departure from consolidation principles that existed at the time. ED40 proposed that control, rather than the level of ownership interest, be the catalyst for consolidation. All following documents contained only relatively minor refinements to ED40 (<i>emphasis added</i>).
AAS24 Consolidated Financial Statements (June 1990)	This document was issued jointly by the ASCPA and the ICAA for use by their members. It could not be applied to companies because the definition of <i>subsidiary</i> was inconsistent with the Corporations Law as it then stood. AAS24 had application only in the non-corporate sector.
ASRB1024 Consolidated Financial Statements (December 1990)	The Accounting Standards Review Board endorsed AAS24 in principle. However, AAS24 could not be gazetted as an approved accounting standard until suitable amendments were made to the Corporations Law.
AASB1024 Consolidated Accounts (September 1991)	Substantial amendments were made to the accounts provisions of the Corporations Law effective from 1 August 1991. This allowed the Australian Accounting Standards Board to gazette AASB1024 on 20 September 1991. The standard was made effective for financial years ending on or after 31 December 1991. The principles contained in this standard come almost unchanged from ED40 (<i>emphasis added</i>).
AAS24 Consolidated Financial Reports (September 1991)	AAS24 was revised and re-issued by the ASCPA and the ICAA to make it consistent with AASB1024 which was released at the same time. AAS24 applies to business entities, including the public sector and local government, which are outside the jurisdiction of the Corporations Law and AASB1024.

Source: Eddey (1992, pp.34-5)

These developments have implications for the validity of statements that have been or may be made about the reasons for the amendment to insert the control criterion into the Corporations Law. For instance, considerable doubt is cast upon the assertion that the amendment occurred 'in order to circumvent' the opportunistic behaviour of managers (Whittred, Zimmer & Taylor 2000, p.363). While it is possible that such a motive may have played some part in the amendment to the law, the power of such a statement appears weak in the face of the private sector/public sector harmonisation argument. Certainly curtailment of the opportunistic behaviour of managers is not the imperative for harmonisation as espoused by the accounting regulators in PS4 (AASB 2000, Para.1).

3.2.6 Accountability and professional regulation

One example of the push for greater accountability has been the inter-sector transfer of professional accounting standards to the public sector. However, there are indications (Miley & Read 2000) that the transfer has been less than successful, manifested in a low level of harmonisation in whole-of-government consolidated financial reports. Miley and Read's comments were based upon Miley's (1999) earlier examination of the 1997 whole-of-government consolidated financial reports. In her analysis Miley described the report disclosures as sub-standard when compared to the financial reports of corporations. However, Miley's conclusions need to be considered in the light of an important environmental variable. That is, the application of the accrual accounting concept including consolidated financial reporting, the technique used for compiling whole-of-government consolidated financial reports, was not operative until after the date of the reports used in her study.

This discussion raises questions of interest in this study. That is, what variables may have been responsible for or mitigated against the successful cross-sector transfer of the consolidated financial reporting practice? Also, what variables affect the usefulness of whole-of-government consolidated financial reports as a medium for the discharge of accountability? Answers to these questions are pursued in Chapter 4 in the content analysis of ED40 submissions, in the Chapter 5 analysis of whole-of-government (post-regulation) financial reports and in Chapter 6 in the analysis of the study questionnaire.

3.2.7 Accountability and Commander theory

Goldberg (1965) reasoned that accountability was an informing problem to be resolved through the administration and organisation of the resources under a person's command. He described the rationale behind this procedure as *commandership* accounting and that the results of recording external events and internal events constitute an expression of the *commander's* activities that may have been delegated to others in the hierarchical chain of command. Mulgan (1997b, p.108) agreed that at each point in this 'chain of accountability, officials are accountable to their immediate superiors for their own performance and for the performance of others below them'. Goldberg (ibid) suggested that reports drawn from such financial data are likely to be used to answer questions on the responsibility and performance of the commander. For instance: what revenue has been produced by the commander's activities; and, what has been the financial result of those activities?

Commander theory implies that commanders will demand a certain type of information suitable for the discharge of their accountabilities. This notion raises a question of interest in this study, which is: are the commander's needs for reports that serve as a mechanism for the discharge of their accountability, being met by whole-of-government consolidated financial reports? This may be answered by a review of the audit reports on the whole-of-government consolidated financial reports. The existence of qualifications and concerns raised by the auditors as to the compliance of the financial reports with the relevant reporting requirements would be reasonable evidence that commanders' requirements for a report suitable to discharge accountability is not being met. A review of the audit reports to determine whether this is the case is considered in Chapter 5 (section 5.4.1; see also Table 5.7).

3.2.8 Summary

In summary, accountability in the public sector appears to occur within a framework of superior and subordinate in which the superior is expected to have an interest in assessing and improving the quality of the performance offered by the subordinate (O'Loughlin 1990, p.281). The accountable are subject to oversight that may be in the form of an assessment of performance or verification as in the auditing of accounts (Uhr 1993, p.1). The superior commonly uses the results of such audits and assessments of performance as a basis for controlling (Thynne & Goldring 1987), directing or issuing instructions to those who are accountable (Mulgan 1997b). In addition, it appears that accountability to communicate information about performance and controlled resources can be discharged through the provision of financial information.

3.3 Review of relevant literature on Usefulness

3.3.1 Introduction

Within this section the *usefulness* of whole-of-government consolidated financial information is considered. This approach focuses on who may be expected to benefit from the information and in what ways. The theoretical perspective is supplemented in Chapter 4 with content analysis of submissions to the professional accounting bodies on their proposal in ED40 (AARF 1987) to introduce the consolidation method to the public sector, and in Chapter 6 with an empirical assessment of the usefulness of whole-of-government consolidated financial reports from the point of view of the report preparers.

3.3.2 Emergence of the user-needs focus

For much of the early part of the twentieth century, the purpose of financial reporting was recognised as satisfying the need for stewardship, that is, accountability to owners. Sprague (1907) and Hatfield (1909, 1927) focussed on the need to report on the stewardship of resources entrusted to managers by proprietors. Little direct reference was made to other users and their needs. Rather, the literature contained assumptions that the purpose of accounting was to provide information based on historical costs of items contained in a balance sheet, that could assist proprietors in assessing the stewardship of resources (Rahman 1989).

Paton (1922, p.478) argued that ‘the accountant must of necessity adopt the viewpoint of the manager’. Scott (1925) agreed with this view when he advanced a similar argument that ‘the point of view of accounts must be that of the manager’. Some two decades later, Paton and Littleton (1940) broadened the orientation beyond

the needs of proprietors and managers to include investors and the public. Bedford (1952) argued for the inclusion of data that are both financial and non-financial in nature, in order to assist in the analysis and interpretation of financial reports by different types of investors (p.196) and users including employee groups (p.201). Moonitz (1961) used the word *entities* to indicate that accounting information served more than just business enterprises. Edwards and Bell (1961) and Sterling (1970) identified business managers as the primary users of financial reports and the main function of accounting as serving the interests of managers. Chambers (1966) is more generally credited with the development of a user-needs framework that was capable of providing current cash equivalents of balance sheet items.

Goldberg (1965, p.170) theorised that the accountant reports from the commander's point of view on the events that have taken place. This perspective does not consider the extent to which the needs of other financial report users may or may not be met and for this reason is a suitable framework for the public sector where the identity of users is obscure.

The extent to which the output of report preparers and the needs of users match or diverge may have important implications for the broader utility of information contained within financial reports. Goldberg (1965, p.223) suggested that reports could be adapted to suit the needs of users. The American Accounting Association in 1966 prepared a statement (*A Statement of Basic Accounting Theory*) (AAA 1966) in which a user-orientated definition of accounting was provided. The definition provided in this statement stated (p.1) that accounting is:

... the process of identifying, measuring and communicating economic information to permit informed judgments and decisions by users of the information.

Other studies that have focused on the usefulness of financial report data include Soper and Dolphin (1964) who investigated readability of disclosures. Pankoff and Virgil (1970) investigated the demand for information and the effect of information on expectations. Libby (1975) used experimentation to evaluate the use of accounting ratios in evaluating the likelihood of failure of organisations. Haried (1973) and Oliver (1972) developed semantic differentials for selected accounting concepts and then used sample groups with different backgrounds to measure and compare the meanings assigned by the groups. The overall conclusion that has emerged from this body of research is that financial reports 'appear to be of limited value in making investment decisions' (Dyckman, Gibbins & Swieringa 1978).

3.3.2.1 Trueblood, Sandilands and Corporate Reports

It was suggested in the report of the Trueblood Committee (USA) (*Trueblood Report* 1973) that information in financial reports was useless unless it was relevant and material to a user's decision. This concern was further addressed in the Sandilands Report (UK) (*Sandilands Committee* 1975) in which it was proposed that the requirements of users should be the fundamental consideration in deciding the information to be disclosed in financial reports. The authors of *The Corporate Report* (UK) (Stamp et al. 1975) also suggested that the contents of financial reports needed to be useful. The focus in these three reports on the perspective of the user signalled a major change in direction for the role of accounting and financial reporting.

3.3.2.2 Conceptual framework development

Gaffikin (1988, p.24) identified and discussed the dramatic shift in accounting methods employed that took place around 1970. The purpose and nature of accounting were from that time perceived differently, 'not so much for general use but for the specific interests of investors'. Walker (1978a) had earlier noted this shift in thought in his treatise on consolidated statements. Bryer (1993) connects the shift to the period when shareholders '... began to passively hold well-diversified portfolios'. He (Bryer 1993) argued that although ownership and control became separated, their nature had fundamentally changed and that a demand for help in managing their investments emerged from investors. This shift can also be seen in the developmental work of conceptual frameworks for accounting in which the perspective of the user was linked to economic decision-making.

For example, the development of a conceptual framework for financial reporting by the Financial Accounting Standards Board (*FASB*) in the USA reiterated the notion that financial information should be directed towards the user-as-investor when it stated (FASB 1978, SFAC No.1, p.8) that the function of financial reporting was:

... to provide information that is *useful* to those who make economic *decisions* about business enterprises and about investment in, or loans to, business enterprises.

As this function is orientated towards investments in business enterprises, it is been argued that it is *corporatist* (Miller 1996; Ryan 1997). On this basis, the relevance of the FASB's conceptual framework to government organisation units or activities that are not corporatist must be questioned.

The AARF also indicated an intention to adopt a broader notion of satisfying the information needs of users when it stated in its Exposure Draft 42A:*Objectives of Financial Reporting (ED42A)* (AARF 1987, ED42A, Para.24) that:

General purpose financial reporting shall provide information useful to users for making and evaluating decisions on the allocation of scarce resources.

The AARF confirmed this concept in the release of the first statement of accounting concepts SAC1:*Definition of the Reporting Entity (SAC1)* (AARF 1990). In this statement the concept of a *reporting entity* was tied to the information needs of users (AARF 1990, SAC1 Para.12). Further confirmation was provided on the release of the second concept statement SAC2:*Objectives of General Purpose Financial Reporting (SAC2)* (AARF 1990) in which the AARF stated (AARF 1990, SAC2 Para 26) that in view of the information needs of users, the objective of financial reporting is:

... to provide information to users that is useful for making and evaluating decisions about the allocation of scarce resources.

Thus, two concepts: (1) that financial reports of business reporting entities should have the characteristic of *usefulness*; and (2) that financial reports should be useful to a broad range of users, have become firmly established in the financial reporting context. Evidence of support for a user-focus that fosters the efficient allocation of

capital continues to appear in the literature. For example, Jonas and Young (1998, p.154) argued that insufficient user-focus in the process of setting reporting standards is a systemic problem that undermines the quality of reporting.

Although it is evident from this discussion that professional accounting standard-setters wanted the standards to have the characteristic of usefulness, not all agree with this perspective. Puxty and Laughlin (1983, p.543) expressed a concern about this concept when they said that ‘all extant accounting theory is based upon the usefulness of information to decision-makers, and that this basis has become so fundamentally ingrained that it is no longer considered problematic’. Parker (1996, p.5) asked ‘how effective have been accounting standards which are oriented (sic) towards decision-making?’ Clark (1923, p.234) had much earlier warned that:

... if ... accounting ... is ... convinced in advance that there is one figure which can be found and which will furnish exactly the information which is desired for every possible purpose, it will necessarily fail, because there is no such figure. If it finds a figure, which must be right for some purpose, it must necessarily be wrong for others.

This emphasises two points: first, it is important to know for whom the information is collected; and, second, for what reason is the information required, because both influence the data that need to be provided (Higson 2002, p.13). The challenge then is to ensure that information provided by financial report preparers who make disclosure and measurement decisions when applying accounting standards is indeed useful to an identified user group and for a known purpose.

3.3.2.3 Identifying users and their needs

If the users of financial information are not known then any usefulness attributed to the form and content of financial information provided for users cannot be taken for granted. This issue focuses upon a particularly important gap in the literature. That is, the research seeking to identify the users of public sector annual financial reports and/or their needs has been focused on the Local Government sector, separate States, or separate government organisations. Clark (2001, p.xii-xiii) gathered data on the recipients of annual reports of government Departments and found that the majority of reports go to other government agencies and libraries. While he concluded that the primary reasons for using annual reports do not appear to be those identified by the accounting conceptual framework, he confirmed that the three broad categories of users identified in the framework: resource providers, recipients of goods and services, and parties performing a review or oversight function (AARF 1990, SAC2 Paras.21-5) provide an adequate representation of users.

The AARF refined the definition of *users* of the financial reports of government in AAS31 (AARF 1998, Para.3.2) to include parliamentarians, the public, providers of finance, the media and other analysts. It may be that the needs of only some of these users are served by whole-of-government consolidated financial reports. For instance, Clark (2001, p.xiii) found that parliamentarians as a specific-user group held significantly different views to those of non-parliamentarians. The AARF appears to have relied upon a, perhaps, conceptually flawed view, that there is a widespread public understanding of the function and limitations of consolidated financial information. Further, some of these users may not need the information at all, and the needs of others captured in this definition may be only partly satisfied.

Tayib, Coombs and Ameen (1999) explored the needs of Local Authority taxpayers in Malaysia for financial information and found a large expectation gap between those needs and the financial reporting practices adopted. Challen and Jeffrey (2003, p.50) asserted that financial markets, credit-rating agencies and other analysts generally make little use of whole-of-government financial reports that are produced in accordance with AAS31. The reason for this they argue is that ‘the whole-of-government reports appear a long time (up to eight months, but the average is six months) after the end of the financial year to which they relate’.

Until the specific users of Australian whole-of-government consolidated financial reports and their particular needs have been clearly identified rather than presumed there appears little justification for the production of consolidated reports for any user group other than governments. Comparisons of actual outcomes with budgeted outcomes utilising the Accrual-UPF framework would be likely to satisfy this need. However, as the role of consolidated reports for governments (as users) has been narrowly confined in AAS31 (Para.3.2) to one of ‘assisting governments to discharge their financial accountability’ it has been presumed in this study, that the paramount purpose for the production of whole-of-government consolidated financial reports is, in line with AAS31, to assist Parliamentary Ministers (Goldberg’s [1965] *top-level commanders*) in the discharge of their financial accountability.

A review of the user-needs literature shows that the match between the needs of users and the output of preparers is often surprisingly poor. Baker and Haslem (1973) used a questionnaire to determine the information needs of investors and

found that actual disclosure is not always in line with stated user requirements. Chenhall and Juchau (1977) selected items based on a literature review and documents from the Australian Accounting Standards Steering Committee. They learned that risk-averse and high-risk investors value different sets of information differently. Benjamin and Stanga (1977) also identified a controversy between users in their finding that bank officers who make loan decisions and financial analysts who make equity investment decisions value information differently. Firth (1978) found differences between users noting that users attach higher importance to directors' disclosures than do preparers. Kahl and Belkaoui (1981) found low consensus between the preparers and users of the annual reports of 70 commercial banks across 18 countries. McNally, Eng and Hasseldine (1982) found a divergence between actual disclosure made by preparers and the degree of disclosure that is perceived to be desirable by external users and they concluded that voluntary disclosure of a wide variety of items is important. Wallace (1988) found a lack of consensus between accountants as a user-group and all other user-groups.

For financial reports to be useful to users, the information that is relevant to users must be known and be disclosed by report preparers. In the absence of knowledge of user needs, report preparers make assumptions as to the relevance of the information they provide. Jonas and Young (1998) suggested that standard-setters need to improve their understanding of the usefulness of information that will be provided under proposed accounting standards. One solution they offered was to involve users and their stated needs more directly in the process, otherwise, they predicted, the outcome will be a failure to achieve the stated objective of financial reporting which they said is usefulness.

Collett, Godfrey and Hrasky (1998, p.9) signalled their concern that the increasing involvement of the Australian Stock Exchange (ASX) and Australia's Group of 100 largest publicly listed corporations (*G100*) may influence the orientation of accounting standard-setting in the future. They noted that the international harmonisation program was to a large extent facilitated through an ASX levy based on listing fees. Further they suggested (p.12):

‘... that the ‘real impetus for the changes in direction of (accounting) standard-setting in Australia derives from self-interest on the part of one powerful institutional player, the ASX to the potential detriment of both users and preparers.’

3.3.2.4 User needs and consolidated financial reporting

Consolidated financial information is complex and it may be that only those with a relevant expert background or sufficient experience with consolidated financial information will find it useful. Also the specific needs of some users may not be well satisfied by the format, content or aggregation that occurs in consolidated financial reporting. If users lack sufficient training or the educational background necessary to interpret consolidated financial information properly then a potential source of conflict would be created that could result in a lower quality in the usefulness of the consolidated financial reports than might otherwise be expected.

Sorter (1969) expressed concerns about the information loss caused by aggregation in consolidated financial reporting. He warned that aggregation made it difficult for users to achieve an understanding of the usefulness of consolidated financial reports.

Higson (2002, p.13) pointed out that in management accounting the phrase ‘different costs and benefits for different purposes’ is well known, yet in the financial accounting area there is a danger that one set of figures is assumed to suit all purposes.

3.3.3 The preparer focus

3.3.3.1 Lobbying behaviour

It is suggested in the economic-consequences literature that parties likely to experience economic consequences as a result of the introduction of new regulation including new or changed accounting standards, will actively engage in the regulatory development process. Such behaviour is referred to colloquially in the literature as *lobbying* (Watts 1977; Zeff 1978). Sutton (1984) argued that ‘lobbying provides participants with means of persuasion’.

Where the costs of participating in the lobbying process are expected to outweigh the benefits, lobbying would not be a rational action. And, where rewards and costs are perceived as neutral, there would be little, if any, incentive to participate in the lobbying process. Thus, lobbyists would be expected to act opportunistically (Watts & Zimmerman 1978, 1986, 1990) either to enhance their future rewards or to minimize their future political costs (Jensen & Meckling 1976). If compliance costs are significant, the relevant literature suggests that the parties bearing such costs will lobby against the introduction of the new regulation. Useful studies undertaken to demonstrate this effect include Jones (1991) who examined the content of petitions on the matter of import relief (in the USA).

Lobbying by report preparers against a proposal to introduce a new method of accounting and reporting, such as whole-of-government consolidated financial reporting, could be implying that these lobbyists perceive there to be adverse economic consequences associated with the method. Compliance costs in the case of a new method are likely to be adversely affected if the regulation prescribing the application of the method is inappropriate, and if the technical and/or human resource infrastructures necessary to support the method are inadequate.

The paradigm shift from the cash-based to the accrual-based accounting method in the Australian public sector and the application of private sector accounting and financial reporting standards has not been costless. The accrual method entails more bookkeeping, and the private sector approach to financial reporting increases disclosure costs in the sense that more information is provided and increases monitoring costs as these are likely to be associated with the increase in financial information reported. It has been demonstrated, in the private sector, that these costs decrease the value of an organization and that as this is reflected in its performance measures its accountable officers have an incentive to lobby against proposals that add to information production costs (Watts & Zimmerman 1978).

In so far as research has been predicated on the opportunistic behaviour of managers, the findings may not be highly relevant to the public sector where management compensation is traditionally less likely to have been linked to accounting numbers in management compensation contracts. Furthermore, if the financial report disclosure merely reveals information without transferring wealth to the public sector

manager, then it would appear that the disclosure is not based on individual wealth maximisation; instead it has a different cause. If this is the case, then this aspect of the positive accounting literature fails to provide a compelling argument for self-interested managers' wealth maximising being a significant factor in the behaviour of public sector lobbyists.

3.3.3.2 Constituents in the lobbying process

Mian and Smith (1990b) examined the lobbying behaviour of USA firms affected by proposed changes to consolidation rules. They found that financial statement users tended to lobby against the proposed change in regulation, and accounting firms tended to lobby for the proposed change more frequently than industrial companies. In respect of financial statement users, Mian and Smith (ibid) argued that sophisticated financial statement users found greater information in the disaggregated data provided by non-consolidation. This is contrary to the justification for the change offered by the standard-setters (the FASB) who asserted that users are misled by off-balance sheet techniques such as non-consolidation of finance subsidiaries. In respect of accounting firms that are report preparers, Mian and Smith (ibid) argued that they have incentives to lobby for accounting rules that reduce the risk of litigation. This contrasted markedly with industrial firms that lobbied against the proposal because the rule change would destabilise the contracts that industrial firms had with lenders and other claimants.

Other researchers investigating the lobbying behaviour of respondents to exposure drafts in the private sector have identified *preparers*, *auditors* and *others* as three potential constituent groups in the accounting standard setting process (Dunstan

1990; Roberts & Kurtenbach 1992; Staubus 1995). However, it has been found that, predominantly, the respondents are managers/report preparers where the proposed standard has potential political or economic consequences (Mian & Smith 1990b). Staubus (1995) suggested that it is managers who are the motivated to exert influence on accounting standards rather than members of any other constituency.

In the case of the Australian public sector, policy-makers and financial report preparers in Departments of Finance and Bureaus of Treasury are regarded as important lobbying groups (Fry 1990; Parker & Guthrie 1990; Gleeson 1991; Knox 1991; Carlson 1994; Guthrie 1994; Ryan 1999) that have an important influence on financial reporting reforms (Ryan, Dunstan & Stanley 1999). Auditors are another strong constituent group that usually adopt the position of their clients (Haring 1979; Puro 1984; Staubus 1995), particularly if they have expertise in the area of the proposed regulation. However, Carnegie and West (1997) found low levels of participation in lobbying by report preparers in their analysis of ED50:*Financial Reporting by Local Governments (ED50)* (AARF 1991). This phenomenon was confirmed by Ryan, Dunstan and Stanley (1999) in their examination of responses to ED55:*Financial Reporting by Government Departments (ED55)* (AARF 1992).

On the other hand, users of financial reports are not generally regarded as aggressive participants in the lobbying process surrounding proposals to introduce new accounting regulation. They tend to be under-represented in the process and this may be related to a lack of training, as the mass of users tends to be casual non-professional investors. As such, they are a group for whom achieving an understanding of the usefulness of financial information may be complex and

difficult. For instance, Staubus (1995) argued that issues involving pensions, foreign currency and leases typically elude them. Jonas and Young (1998) suggested that a low participation rate may be indicating an inability to perceive immediate and direct adverse economic consequences. Some users may perceive that they have a low potential to influence outcomes (Jonas & Young 1998; Ryan, Dunstan & Stanley 1999) and so are not motivated to study and respond to the proposals of standard setters (Staubus 1995).

In respect to more sophisticated users of financial reports, it has been suggested that they may have an advantage if financial reports are defective (Hakansson 1981) as they can still get the information they need to give them a competitive advantage over their less capable competitors. This capability may make responding to an exposure draft on accounting and reporting issues relatively unimportant to them (Staubus 1995). Other users including academics are also under-represented in the lobbying process. Staubus (1995) suggested that this could be due to a perception that such submissions are relatively unimportant in the scholarly measures of an academic's performance.

Velayutham (1990) examined the written submissions on selected Australian accounting exposure drafts to determine whether one or more groups have control over the policy-making process of the ASRB. He concluded that the commercial and industrial sector can be considered to have a greater influence on both the ASRB and the AARF because of their large representation on the Boards of these two organisations and the frequency of responses from these sectors.

Collett, Godfrey and Hrasky (1998) have noted the entrance of a major institution, the ASX, into the lobbying process surrounding the debate on progressing the AASB's Australian harmonisation program to 'a more extreme stance by adopting international standards outright'. They attribute this lobbying to the self-interest of the ASX that may otherwise lose customers to other stock exchanges that permit the listing of companies that adopt International Accounting Standards (IASs). This raises the issues in the lobbying debate of competition and market share. If the ASX board members expect that it will be difficult for the ASX to compete effectively for new business if potential customers are required to prepare their financial reports according to Australian rules, they would have a strong incentive to engage in the lobbying process.

This analysis has enabled a set of constituent groups to be identified for the purpose of analysing the lobbying behaviour surrounding the proposal in ED40 (AARF 1987) to introduce the consolidated financial reporting method to the Australian public sector at the whole-of-government level. The result of the analysis of the contents of the submissions made by the identified constituent groups is provided in Chapter 4.

3.3.3.3 Effectiveness of lobbying

Whether the preference expressed by constituents in the lobbying process is effective in securing changes to regulatory proposals was examined by Haring (1979). Haring reviewed the preferences of sponsoring organisations, accounting firms, businesses and academics. He found that the position of the standard-setter (the FASB) was positively related to the position of sponsoring organisations and accounting firms, and negatively related to the positions of corporations and academics.

Due process (AASB 1993, PS1 Appendix 2) is a procedure that has been developed to protect the openness, neutrality and independence of the Australian accounting standard-setting process (Rahman 1991; Miller 1996). However, some researchers have questioned whether the due process procedure operates in the manner intended. Tower (1991) pointed to evidence from the USA, UK, New Zealand and Australia indicating deficiencies. Robles and Tower (1993) concluded that the procedures were inadequate in the case of ED38:*Accounting for Defined Benefit Superannuation Plans (ED38)* (AARF 1986) and of ED39:*Accounting for Defined Contribution Superannuation Plans (ED39)* (AARF 1986), and the ensuing AAS25:*Financial Reporting by Superannuation Plans (AAS25)* (AARF 1990). Carnegie and West (1997) were critical of the manner in which responses to ED50 (AARF 1991) were analysed by the regulator. On that basis they questioned whether the regulator was responsive to their constituency. Ryan, Dunstan and Stanley (1999) questioned the operation of the procedure in the case of ED55:*Financial Reporting by Government Departments (ED55)* (AARF 1992). They called for further investigation of the due process for the existence of a systematic weakness. Baskerville and Pont Newby (2002) concluded that the adoption of a single and sector-neutral Financial Reporting Standards Board was undertaken with a poor appreciation of how to manage effective due process. Thus, whether due process has operated as it is purported to in the case of ED40 is a further matter of interest in this study.

3.3.3.4 Accounting policy and disclosure choice

The professional accounting bodies have provided only a vague framework of qualitative characteristics (AARF 1990, SAC3 Paras.6-38) to assist report preparers

in making their decisions about the selection and presentation of information to be included in financial reports. Likewise, in the USA, Johnson (1992, p.102) reported that the FASB provided a somewhat open-ended set of purposes for disclosure in its Statement 105 (FASB 1990, S105 Paras.71-86). In summary, the FASB asserted that there are four main purposes for disclosure that were: describing recognised items and providing relevant measures of those items; describing unrecognised items and providing relevant measures of those items; providing information to help users assess risks and potentials of recognised and unrecognised items; and, to provide important interim information.

Many studies spanning the last three decades have investigated the impact of corporate characteristics on the accounting policy and disclosure choice of report preparers. For instance, a number of studies has focused on the association of firm size with policy choice or disclosure (Holthausen & Leftwich 1983; Chow & Wong-Boren 1987; Cooke 1989, 1991; Hossain, Perera & Rahman 1993; Meek, Roberts & Gray 1995). Rosenfield (1974) associated size with reporting responsibility by suggesting that the greater the amount of government resources an entity controls, the more likely it is that users will require general-purpose financial reports from the entity.

Ball and Foster (1982) suggested that size alone may not adequately explain the choices. For example, the move in the Australian public sector towards the philosophy of new managerialism (Weller & Lewis 1989; Broadbent & Guthrie 1992) may be associated with a rise in the political visibility of the sector. Thus, political cost theory (Holthausen & Leftwich 1983; Watts & Zimmerman 1986) may

provide another explanation for accounting policy choice and disclosure practice. That is, in order to escape political scrutiny and associated political costs, management may attempt to influence the firm's level of political visibility through its choice of policy and disclosure practice. If public sector report preparers fear the public may misunderstand consolidated financial information, they may choose to implement the method only partially or improperly. For instance, by not consolidating all entities in the economic group or through inappropriate interpretation of concepts such as control.

3.3.3.5 Voluntary disclosure

Ball and Foster (1982) pointed out the general lack of analysis of the benefits associated with voluntary disclosure policy when they asserted that a heuristic framework of 'more disclosure is better' appears to guide statements in this area. Although the accounting doctrine of full disclosure urges the reporting of all information relevant to the users of financial reports (Tilley 1975, p.195), it is difficult to make predictions about the incentives that provoke report preparers sufficiently for them to disclose, voluntarily, financial information beyond that which is required by rules and regulation.

A prescriptive framework such as that contained within AAS31 (AARF 1990, AAS31 Appendix) while assisting report preparers in deciding the minimum level of information to be disclosed, provides no assistance in resolving the question of what additional disclosure is appropriate. If report preparers are faced with a weakly specified prescriptive model for financial information disclosure, it becomes necessary to search for incentives strong enough to prompt them to disclose,

voluntarily, their superior knowledge about aspects of the organisation. Positive accounting theories predict which accounting method will or will not be chosen given particular circumstances (Watts & Zimmerman 1986; Henderson, Peirson & Brown 1992). Also, harmonisation theory, as previously discussed (section 1.2.5), may provide a motivational foundation for voluntary disclosure as report preparers may find the prospect of improving financial information comparability to be compelling.

An analysis of disclosure made in whole-of-government consolidated financial reports was undertaken in this study in order to progress not only towards a more complete understanding of the extent to which prescribed disclosure affects whole-of-government consolidated financial reporting, but also to reveal the nature of voluntary disclosure in such reports. The outcome of this analysis is presented in Chapter 5.

3.3.3.6 Some determinants of voluntary disclosure

Spero (1979) investigated disclosures across national boundaries and found that disclosure increased in each sample country during the research period (1964-1972). Tuominen (1991) also found that, over time, disclosure policy became more comprehensive and diversified. Anderson and Frankle (1980) analysed voluntary social reporting and suggested a tendency for the reporting of only the most favourable activities. Ingham and Frazier (1983) found similar results for social choice reporting. Ullmann (1985) saw stakeholder power as influential in prompting more social responsibility in reporting.

Ness and Mirza (1991) reviewed annual reports of UK companies and found that social information disclosure was consistent with agency theory, which dictates that social information is disclosed to increase the welfare of management. If financial report preparers are seeking to influence their environment for self-interest, this raises a question of whether their report disclosures should be more regulated and prescribed. This could be in the form of *agency* penalties such as the costs of audit and surveillance (Gonedes & Dopuch 1974; Jensen & Meckling 1976; Benston 1982; Watts & Zimmerman 1978, 1979, 1990). Leftwich, Watts and Zimmerman (1981) suggested that the prospect of monitoring was sufficient reason for the voluntary supply of information. However, Schipper (1990) argued that agency theory and team monitoring are not refined enough to allow unambiguous predictions to be made.

Verrecchia (1983) demonstrated that proprietary costs of disclosing private information can induce less than full disclosure. Feltham and Xie (1992, p.46) also asserted that 'managers do not always report their information' and further that they reveal or withhold *good* and *bad* news. However, Nosal (1992) argued that Feltham and Xie's conclusions are inappropriate as their predictions are probably untestable. Given that both the content and the amount of information that a firm possesses is private, Nosal argued that 'an empirical researcher would be unable to observe whether a firm reveals all, some or none of its information' (Nosal 1992, p.85).

Some researchers have suggested that the accounting policies and disclosures that report preparers choose may reveal their expectations about aspects of the organisation's future. For instance, Holthausen and Leftwich (1983) suggested that

accounting methods are chosen to inform interested parties of expectations about future cash flows. This view of the information perspective of management choice suggests a users' needs focus that may not be entirely relevant to the public sector where the users' need for information is a relatively new concept and where users have not been definitively identified.

Cooke (1989) found that firms categorised as trading organisations disclose less voluntary information than do other industries. Gray and Roberts (1989) found that the indirect costs of competitive disadvantage are important in disclosure policy decisions. Schadewitz (1996) found that governance, business risk, growth, growth potential, size, and regulation are significantly related to disclosure. Priebjrvat (1992) also linked voluntary disclosure to size, ownership structure, capital structure and audit firm. Williams (1992) linked size, profitability and nationality significantly and positively to disclosure. Susanto (1992) found nationality, new regulations and size to be related to disclosure. Raffournier (1994) found size and degree of internationalisation to be related to disclosure.

Cheng (1992) found a relationship between aspects of political competition and disclosure choices in the reports of USA State governments. Giroux (1989) in a study of USA municipalities found some limited evidence of pressure from advocacy groups on the quality of disclosures. Lim and McKinnon (1993) in their study of Statutory Authorities in New South Wales found a positive correlation between political visibility of the Authority and voluntary disclosures.

3.3.3.7 Information transfer perspective

Voluntary disclosure is a form of information transfer (Schipper 1990) and the motivational foundations of such disclosure are not easily discerned. They may be associated with self-interest as suggested by agency theorists, or, potential political or economic consequence incentives may have prompted the disclosure action. Models proposed by Black (1980) and Fama (1980) are compatible with an information theory of accounting choice (Holthausen & Leftwich 1983:112).

Schipper (1990) suggested that an information transfer occurs if announcements made by one group contemporaneously affect the returns or cash flows to another group. She argued that voluntary disclosures either create information transfer effects or affect the information transfers associated with mandatory disclosures, and that such information transfer effects are externalities. That is, they are interdependencies that may affect resource allocation decisions. This may be important in the public sector if resource allocation decisions are based on whole-of-government consolidated financial reports. This particular issue of resource allocation decisions was investigated in the questionnaire administered to report preparers and the results are discussed in Chapter 6.

3.3.4 Disclosure indices

A review of the literature indicates that other studies examining the use made of accounting-based controls and/or rules have been conducted. Cerf (1961) developed a 31-item index and rated the disclosures of 527 companies in terms of a percentage score based on the number of items in the index that were included in their annual reports. Singhvi and Desai (1971) relying on the work of Cerf developed a 34-item

index. Khandwalla (1972) developed an instrument to measure the use made of accounting-based controls. Buzby (1974) developed a weighted disclosure criteria based on 39 selected items and applied these criteria to corporate annual reports. Miah (1991) modified Khandalla's model in an examination of the sophistication of public sector accounting-based controls, measured by compliance with the components of the model. Choi (1973), Barrett (1976) and Cooke and Wallace (1989) constructed indices that measured the degree of financial regulation and applied the indices to accounting systems of different nations. Although Cooke and Wallace documented broad national differences in consolidation methodologies as part of their study, they did not investigate the specific components of consolidation disclosures.

Gray and Haslam (1990), in their study of the reporting practices of British Universities, used a combination of literature and statements of standard accounting practice to form a disclosure matrix. Dixon, Coy and Tower (1991) analysed the accounting practices and changes in annual reports of the seven New Zealand Universities using an accountability framework. They compiled an index with an *accountability* disclosure score. Street and Gray (2001) developed a compliance checklist based on IASC-required disclosures. They used this in their review of the accounting practice and disclosure in the financial reports of the 279 companies in their sample that had claimed to adopt IASs. Street and Gray (ibid) were searching for factors that might explain non-compliance with IASs.

Although cross-sectional and inter-temporal differences exist among accounting practices and rules that are likely to hinder a fair comparison between separate

disclosure indices, the approaches used by Gray and Haslam (1990) and Street and Gray (2001) provided a reasonable guide that would lead to the compilation of a disclosure compliance index suitable for the study of whole-of-government consolidated financial reporting. Accordingly, and following their lead, the prescriptive requirements in accounting standard AAS31 were adopted as a suitable framework for a disclosure model against which compliance could be measured and thus enable the construction of a compliance index.

Dyckman, Gibbins and Swieringa (1978, p.301) suggested that most of the criticism about financial disclosure is not that there is something wrong with what is presently reported, but that relevant data are left out. Schadewitz and Blevins (2001) provide a useful synopsis of the literature linking disclosure indexes and business communication. However, no evidence was found in their synopsis or elsewhere of indexes that were designed specifically to analyse consolidated financial reporting practice. Therefore, it is thought the index provided in this study also extends the literature significantly in this respect.

3.4 **Review of relevant consolidated financial reporting literature**

The objectives in this section are: (1) to provide an overview of the development of the concept of consolidated financial reporting; and (2) to consider the relevance of the method for financial reporting at the whole-of-government level. Of primary concern is whether the claimed benefits on which the case for the cross-sector transfer of consolidated financial reporting to the public sector is based exist, and whether they have been convincingly presented.

3.4.1 **Understanding consolidated financial reporting**

Consolidated financial reports represent financial data about a set of related yet separate business entities that are referred to collectively as an *economic* entity. One business entity is assumed to be at the head of the economic entity and is generally referred to as the *holding* or *parent* entity (*parent*). All other entities in the economic entity are subsidiary to the head entity and are referred to as *subsidiary* entities. The reports for this organisational structure are prepared by aggregating the separate financial reports of individual entities. A set of principles is then applied, designed to eliminate artificial inflation or deflation that may otherwise occur in a simple aggregation process of financial data from businesses that, as well as transacting with other entities, are trading or transacting with each other. Thus, application of the principles of consolidation accounting give rise to financial reports known as consolidated financial reports, for an entity known as an economic entity.

3.4.2 **Function of consolidated financial reporting**

From the outline presented above it can be seen that the function of consolidation of financial reports is to present a picture of an economic unit as a whole, rather than an exact representation of the combined reports of a set of single entities.

Hatfield (1927, pp.439-55) wrote that the consolidation method of financial reporting had its roots in business merger and acquisition activity in the USA. He related the development of the method to the tendency of business to form larger industrial and financial units as a means for securing relatively large amounts of capital and greater efficiency and to the organisational structure of these units as parent companies. Hatfield contended that conventional financial reports of individual business entities did not provide a satisfactory picture of the reality of the larger business operation following business acquisition activity. He asserted that it is the larger picture presented in some form of combined financial report that portrays reality, as what actually existed was an *economic* unit working for a common end and under uniform management. Under Hatfield's (1927) holistic framework, a collection of separate sets of accounts from individual entities within an economic unit that are not aggregated, would be deemed unsatisfactory as it would fail to provide an adequate picture of the economic reality of the whole unit.

Consolidated reports were developed to provide this portrayal of economic reality. The consolidation process removes the single item that represents an investment in an entity and replaces it with the individual assets and liabilities (or part thereof) that the investment represents. In so doing, consolidation accounting reports on a notional entity – one that exists in an economic sense not a legal sense.

3.4.3 Consolidation models

3.4.3.1 Consolidated reports as supplements and substitutes

A review of the literature reveals the existence of more than one theoretical perspective on the principles and practice of consolidated financial reporting. Chambers (1969, p.631) identified two approaches to consolidation. The first approach regarded consolidated financial information as supplementary and so individual subsidiary's reports were annexed to the parent entity's financial reports. Bedford (1952, 1953) suggested such an approach was needed to facilitate interpretation of consolidated reports. Sims and Clift (2001, p.521) report that the Australian Associated Stock Exchanges (now the Australian Stock Exchange) in 1925 required any company applying for listing to agree to publish with its financial reports, separate reports for any company in which it held a controlling interest. Similarly, Nobes and Parker (1988, p.52) report that the UK Stock Exchange, from 1939, required consolidation reporting in the form of supplementary reports as a condition of new issues. Some researchers (Walker 1978b; Nobes & Parker 1988) have asserted that this approach reflected the nature of acquisition and merger activity in this region, which did not usually involve companies *holding* investments in other entities. Rather the entities in the economic entity tended to be a dominant (or *parent*) operating company in a group of operating entities.

While in the UK consolidated financial reports were seen as supplements, in the USA they were regarded as substitutes. In this region the holding company was prevalent. A holding company presented a single item in its own report that represented its investment in a subsidiary. Thus, the second approach to

consolidation was to combine the separate reports of the parent and its subsidiary entities. This process involved accounting adjustments aimed at the elimination of inter-entity security holdings, transactions and profits. Walker (1978b), and Nobes and Parker (1988) have also asserted that this method reflected the different nature of acquisition and merger activity in the USA, and also the fact that the tax regime in the USA accepted this form of consolidation for tax purposes.

3.4.3.2 Pooling, Purchase and New Entity methods

The FASB in a discussion memorandum (FASB 1976), asserted that investors in a parent company are really investing in a group of affiliated companies as a whole, and that consolidated reports are thus more relevant than separate statements when reporting on a group. The FASB considered that the omission of certain subsidiaries would fail to represent faithfully the group of affiliated companies as a whole. Three possible methods of consolidation accounting were outlined. One method, known as *pooling of interests*, uses the existing book values of the combining entities, the purpose being to preserve distributable profits. A second method, known as *purchase* accounting assumes that one dominant entity, the parent, purchases another entity, the subsidiary. For this reason it is also known as the *uniting of interests* approach (Zeff 1998). The assets and liabilities of the subsidiary are valued at market value at the time of purchase and the parent's assets and liabilities are valued at book value. The purpose of this method is to force disclosure of goodwill arising on acquisition. The third method results in all entities' assets and liabilities being revalued to market values at the time the combination originates. The rationale is that the business combination results in a substantially *new entity* and so more is involved than merely one entity purchasing and integrating another into its own

operation. Leo (1984) described this method as *new entity pooling*. Wolk, Francis and Tearney (1992, pp.548-50) provide a summary of each of these methods. A fuller explanation of the antecedents and theoretical justification for each of these methods can be found in Leo (1984).

Where the organisation of a business is based on divisions, departments or branches, the manner in which financial reports are prepared is mostly a matter for the internal management of that business. However, where the business is made up of a number of separate legal entities, under the Corporations Law consolidated reports must be prepared (ACL:Division 4A, Chapter 3.6). The Corporations law also requires (S.296) that general-purpose financial reports be prepared in accordance with Approved Accounting Standards (AASBs). So, where the financial reports are to be in the form of consolidated financial reports, the accounting standard approved within the law (AASB1024:*Consolidated Accounts*) is applicable. The contents of this accounting standard have, since 1 January 2000, been applicable to all types of entity including the public sector (Knapp & Kemp 2003, p.xix). Prior to this date, the accounting standards relevant for public sector consolidated financial reporting were AAS31 and AAS24 (see also sections 1.2.3, 2.4.5, 3.2.5.1). The purchase method is the approach adopted under these accounting standards.

3.4.3.3 Proprietary, Parent entity and Entity concepts

Under the proprietary view, the economic entity constitutes the parent entity and its proportionate ownership interest in each of its subsidiaries (AARF 1987, ED40 Para.44). Leo and Leftwich (1974) defined the economic entity as the assets and liabilities of the parent entity plus the parent entity's share of the assets and liabilities

of the subsidiary. This is based on the assumption that any minority ownership interest is *external* (currently described as the *Outside Equity Interest*) to the consolidating group and so their interest in the financial report items should not be included in the consolidated reports. This concept has been discussed under other names including the 'proportionate consolidation method' Leo (1987, p.27). The method is unlikely to be suitable for the public sector where control rather than ownership is the predominant organisational characteristic.

The parent entity concept is similar to the proprietary view in that any minority ownership in a subsidiary is regarded as external to the group (AARF 1987, ED40 Para.45). Essential differences relate to: the application of the elimination adjustments to reflect the apportionment of the interest in financial report items amongst the majority and minority ownership interests; and the recognition of the minority ownership interest as an obligation (liability) of the group. Again, the concept is unlikely to be considered suitable for the public sector as it is ownership rather than control focused. There is some disagreement also as to whether or not the item *Outside Equity Interest*, representing the proportional interest of any minority ownership, satisfies the definition of a liability under SAC4 (AARF 1995) of the accounting conceptual framework.

The entity concept is consistent with the view that the criterion of control determines the concept of the economic entity for which consolidated financial reports are prepared and that the economic entity comprises the parent entity and all entities subject to its control (AARF 1987, ED40 Para.42). This characteristic makes the

concept suitable for an organisational group such as the public sector, which is characterised by control arrangements rather than ownership.

3.4.4 Mixed results on the usefulness of consolidated financial reporting

The research literature that has examined the usefulness of consolidated financial information has produced mixed results. Reasons for this absence of theory closure (Rahman1989, p.1) include the evolution in nation-specific environments, notably the UK and USA, of the differing rationales and methodological approaches to consolidated financial reporting (Walker 1976, 1978b). Walker's criticisms may have been major concerns for constituents in the lobbying process surrounding the proposal in ED40 to transfer consolidated financial reporting to the public sector. The criticisms may have been acute for public sector report preparers who may have felt that their individual professional competencies (Virtanen 2000) or the resources and infrastructure available to them were not adequate to perform the task of consolidated financial reporting.

McKinnon (1984, 1986) investigated the adoption by Japan in 1977 of consolidated corporate reporting. Her findings were that: (i) historical and cultural determinants provided significant contrasts between corporate group associations in Japan and Anglo-American nations; (ii) Anglo-American methods of consolidation failed to reflect adequately the nature of corporate group associations in Japan; and (iii) the adoption of consolidation in Japan represented a response to situation-specific change stimuli rather than a general acceptance of the intrinsic merit of consolidation. A parallel might also be drawn between McKinnon's finding in (ii)

and the adequacy of consolidated financial reports to reflect the nature of the whole-of-government unit.

The FASB in *SFAS94: Consolidation of all Majority-Owned Subsidiaries* (SFAS94) (FASB 1987) according to Wolk, Francis and Tearney (1992, p.559), asserted rather than demonstrated, that consolidated financial reporting, and the accounting entity thus created, is more relevant to investors than are separate entity reports. The FASB argued that the purpose of consolidated financial reports is to present, primarily for the benefit of the shareholders and creditors of the parent company, the results of operations and the financial position of a parent and its subsidiaries essentially as if the grouping were a single company with one or more branches or divisions. The FASB acknowledged (FASB 1987, SFAS94 Para.1) its presumption that consolidated reports are more meaningful than separate statements and asserted that:

... they are usually necessary for a fair presentation when one of the companies in the group directly or indirectly has a controlling financial interest in the other companies.

Other authors appear to have accepted the view that consolidated financial reports provide information that is generally useful for an understanding of the organisation as a whole. For instance, Grainger (1994), while pointing out the complexity generally associated with contracting and transacting arrangements within an economic entity, asserted that consolidated financial reports are needed in order to form a view of the business entity as a whole. Bazley et al. (1999) contended that since users need to examine the performance and financial position of the combination of the parent entity and the other entities in an economic entity,

aggregated reports are prepared. They also argued that the resulting consolidated financial reports are useful to the management and shareholders of the parent entity in judging how well the parent has achieved its goals; and that other users such as creditors find this information useful in their decision-making.

Some researchers have questioned whether consolidated financial reports are useful at all. Chambers (1969, pp.631-5) questioned whether consolidated financial reports were really necessary. While acknowledging that consolidated reports have become an accepted part of reporting he argued that such reports did not satisfy the information needs of shareholders in parent entities who he said, needed ‘... some idea of the ultimate investments of the subsidiaries in legal rights and tangible goods’.

Walker (1976) argued that the alleged usefulness of consolidated financial reports is not self-evident. Using hypothetical illustrations ‘to point to anomalies and inconsistencies in the theory and practice of preparing consolidated reports’, he evaluated seven propositions concerning the alleged usefulness of consolidated financial reports compared to separate entity financial reports of parent and/or subsidiary companies. In this manner, Walker (ibid) rejected outright the claims that (1) consolidated income statements provide a better basis for reporting parent company income than parent company statements; and (2) consolidated balance sheets provide creditors and potential creditors with a better basis for assessing the risks attaching to claims than would parent company statements alone. Walker contended that there was only conditional support for other propositions that consolidated statements provide a better basis for predictions about parent

company's earnings; assessments of future profitability and the volatility of earnings'. The support was conditional, he argued, mainly because it was not self-evident that consolidated reports were always, under all conditions, superior to separate entity reports, especially if subsidiaries were less than 100 percent-owned or when there were no cross-guarantees of debt between the parent and subsidiaries.

Another criticism of consolidated financial reporting is the loss of detail that occurs as a consequence of the aggregation process. A number of authors has found that disaggregated data are more useful in forecasting earnings and in valuing the firm. For instance, Ijiri (1967, p.120) pointed out:

... any aggregation generally involves loss of information in that the resulting total value may be composed of many – possibly infinitely many – different components.

Mohr (1983) contains a summary of relevant empirical research on this issue. Kim (1987) provided a theoretical development of the argument. More recently Mathews and Perera (1991) expressed serious doubts about the benefits of consolidated financial reports owing to the significant aggregation problems involved. Other authors have been ambivalent towards the impact of aggregation including Jones and Pendlebury (1996, p.197) who said that '... at a high level of aggregation and for an annual period, it is not easy to see how most stakeholders would change their behaviour because of them'. They also suggested that aggregated statistics might hide specific areas of ineffectiveness or of high achievement.

The FASB considered the appropriateness of aggregating dissimilar business activities into one consolidated financial report when it reviewed ARB51:*Consolidated Financial Statements* (ARB51) (AICPA 1959) and ARB43:*Restatement and Revision of Accounting Research Bulletins* (ARB43) (AICPA 1953). ARB51 specifically permitted separate reporting for heterogeneous subsidiaries instead of consolidation: ARB43 (Chapter 12) permitted a similar reporting exception for foreign subsidiaries. The FASB rejected these exclusions when in SFAS94 (FASB 1987) it required all majority-owned companies to be consolidated except if control is temporary or if the majority owner does not have effective control. This may have relevance for the public sector where many different activities and operations would be combined under consolidated financial reporting. Accordingly, a question aimed at discovery of preparers' perceptions of the appropriateness of consolidating dissimilar activities and operations was also included in the study questionnaire.

Walker (1994) suggested that the usefulness of government reporting in the Public Accounts is compromised by the readiness of governments to move agencies on or off-budget so that the scope of the budget sector is not consistent over time. He implied that the consistency and comparability of whole-of-government consolidated financial reports might be superior to the Public Accounts. Mellor (1996) asserted that the end result of applying the consolidation method is that financial report users are provided with a more complete picture of government finances, and are assisted in assessing the financial performance and financial position of a government, the sustainability of its policies and intergenerational equity issues.

3.4.4.1 Aggressive use of consolidated financial reporting

Aggressive misuse of consolidated financial reporting has also been noted in the literature. For example, subsidiaries have been used to alter risks such as the threat of takeover by another entity (Clift & Sims 1993, p.522); aggregation has been used to obscure items reported at net cost (Walker 1978b); and disclosure of sensitive items, such as recognising profits while ignoring losses, has been managed. Haddon (1992) described how the Adelaide Steamship/David Jones group of entities was characterised by a network of cross-holdings at just or below the ownership level of 50%, which enabled the group to avoid consolidation of debt-laden controlled associates. Lambert (1994) argued that controlled associates have been used to conceal debt. However, Mian and Smith (1990a, p.141) provided evidence that offered 'no support for the hypothesis that organisations use unconsolidated financial subsidiaries to understate the fixed claims on their balance sheets'. Clarke, Dean and Houghton (2002, p.65) contend that the holding company/subsidiary structure has been a vehicle for 'financial finagling and obfuscation for more than 80 years'. The group structure, they argue, has been a recurring mechanism for redistributing wealth between various stakeholders, and that regulation has failed miserably in this area.

3.5 Summary

In this chapter the relevant literature on three major issues of interest in this study was considered. These issues are: the accountability model of financial reporting theory; the usefulness of financial information; and the concept of consolidated financial reporting. This body of literature is supplemented by other literature considered in this study and provides a basis for the present research into the usefulness of whole-of-government consolidated financial reports for the discharge

of financial accountability. It is evident that although there is an established literature on the accountability model, the usefulness of financial reporting and the concept of consolidation, there has been little research attempting to combine the three literature streams in a search for an explanation of financial reporting performance in the public sector.

What is clear from the literature review is that these issues have been widely debated across a prolonged period of time. There have been successive efforts to establish the financial accountabilities of government, the users and uses of financial reports and the function of consolidated financial reporting. What is less clear is whether the experiment of applying the consolidated financial reporting method to the public sector has either ignored or overlooked these debates. The answer may be found in measuring the success with which the consolidated financial reporting method has become an embedded process in public sector financial reporting and the beliefs of those most closely connected with the preparation of the reports about the usefulness of the reports for accountability and other purposes.

The consideration of the literature undertaken and reported in this chapter suggests that the consolidation question for the public sector should not be reduced to a question of whether it is the right or only way of reporting. Rather, it raises the issue of whether consolidation accounting is a useful way of summarising overall financial results as if the whole-of-government entity is a relevant reporting unit.

Chapter Four

ED40 submissions –

Research methodology and analysis

4.1 Objectives and structure

As discussed earlier (sections 1.1; 2.4), in 1987 the AARF released an exposure draft, ED40 (AARF 1987), in which it proposed extending the consolidated financial reporting method to the public sector. As a precursor to the formulation and release of an accounting standard on this matter, the AARF canvassed opinions from interested parties on a range of relevant issues contained in ED40.

The proposal contained in ED40 posed a completely different way of presenting public sector operations based on the newly introduced accrual-based accounting technique. This approach would require public sector financial report preparers to depart from the traditional cash-based accounting and reporting method, and embrace concepts such as the recording and revaluation of assets and the recognition of equitable as opposed to legal liabilities, concepts hitherto not used in the public sector for accounting and financial reporting purposes. Additionally, the proposal in ED40 implied a broader concept of government accountability reporting, by forging a link between the explicit and implicit reporting responsibilities of an economic entity and its controlled entities, and the consolidated financial reporting method which provides aggregated, general purpose financial information to a potentially wide audience of users, advocacy groups and the public.

The call for opinions in the form of submissions from interested parties, on the proposal to introduce an unfamiliar and radically different method of accounting to a new jurisdiction, the public sector, provides an opportunity to examine the perceptions of potential users and preparers of whole-of-government financial reports of the usefulness of the method. The views of users and preparers in respect of the suitability of the consolidated financial reporting method to the public sector for accountability performance purposes, and any substantial implementation issues they perceived as associated with introducing the method, were of interest in this study.

4.2 Review of submissions

In total sixty-five responses to ED40 were received by the AARF. Submissions were received from interested parties in both the public sector (21 responses) and the private sector (44 responses). The contents of these submissions have been reviewed and are analysed and interpreted in this chapter. A list of the respondents is presented in Appendix 3.

The AARF, by using the exposure draft approach as a means of general notification of its intentions, could reasonably expect to attract commentary and submission from a broad cross section of interested and/or affected constituents. This communication approach is part of the due process mechanism (AASB 1993, PS1) and has a number of implications. First, it allows for the recognition of potential theoretical and practical impediments to the introduction of a proposed accounting standard. Second, the process should assist in identifying areas in an exposure draft that may be in need of redrafting prior to the formulation of an accounting standard. Third, respondents' comments are made available through the libraries of the professional

accounting bodies, so knowledge of the specific implementation difficulties foreshadowed by respondents are publicly available. This information should assist managers in their overall planning for a smooth transition to the proposed new accounting practice. Fourth, the process enables the standard-setters to pre-empt any contest to the eventual introduction of an accounting standard by developing counter-arguments to respondents' concerns. The standard-setters review all submissions and without further consultation they produce a draft accounting standard (AASB 1993, PS1 Para.28). The deliberations of the standard-setters at this stage are not transparent and this may be the underlying reason for perceptions noted in the literature review (section 3.3.3.3) that the regulator is unresponsive to the constituents and as a result that the due process mechanism has failed.

4.3 Research questions and hypotheses

The general issues emerging from the literature review, to which answers are sought in this study, have been posed in the form of the research questions that were presented in section 1.4. In order to formulate answers to these questions, four specific hypotheses were advanced, and findings from the analysis of ED40 submissions were used to determine whether the hypotheses are supported by these data.

4.3.1 Hypothesis 1

The issue in Question 1 is whether user-commanders perceived the proposed consolidated financial reporting method to be useful for the purpose of discharging their financial accountabilities. In the private sector the primary role attributed to financial reporting has traditionally been that of stewardship (Whittred, Zimmer &

Taylor 2000, p.14). That is, elected and appointed office-bearers entrusted with valuable resources were called upon to provide reports to resource providers who were usually either owners or finance providers, in order to discharge their accountability for the handling of those resources. In more recent times the conceptual framework for financial reporting has broadened this role in a formal way, beyond that of stewardship, so that one of the purposes of financial reporting is now to discharge the accountability of governing bodies to all those who provide resources including the public (AARF 1990, SAC2 Para.14).

General purpose financial reporting also provides a mechanism to enable ... governing bodies to discharge their accountability ... to those who provide resources to the entity. In a broader sense, because of the influence ... on members of the community at both the microeconomic and macroeconomic levels, they are accountable to the public at large.

Thus, general purpose financial reports are used in the private sector to discharge accountabilities (inter alia) to a broad range of resource providers. Although general purpose financial information has a significant role in determining accountability in the private sector, numerous studies (section 2.4) have questioned the usefulness of such reporting in the public sector.

The literature on lobbying suggests that individuals have incentives to participate in lobbying behaviour if the outcome is expected to maximise their own utilities. In the case of the ED40 proposal, if user-commanders of financial information believe the consolidated financial reporting method is useful in enhancing their accountability performance and, so, improving their individual utilities, they are likely to lobby in

favour of the method. If, on the other hand, they believe the method to have adverse consequences, they have an incentive to lobby against it. If they believe the method will have only a minor or no impact then the costs of lobbying are likely to outweigh the benefits and so they would not be expected to participate in the lobbying process.

Submissions to ED40 are regarded as a form of lobbying behaviour, in that the respondents have publicly articulated their views and perceptions in an effort at persuading the accounting regulators to maintain or change their proposed course of action. The lobbying behaviour of user-commanders is, therefore, reviewed in an attempt to determine whether this potential group of respondents to ED40 perceived the consolidated financial reporting method to be useful for accountability purposes.

Therefore the issue raised in Question 1 is addressed in the first hypothesis (*H1*) as follows:

H1: User-commanders' believe whole-of-government consolidated financial reporting is useful.

4.3.2 Hypothesis 2

It makes sense to study preparer-commanders' choices because they are the providers of financial reports to user-commanders. User-commanders and preparer-commanders may not hold the same views about the demand for and usefulness of general-purpose and other types of financial information. For instance, if preparer-commanders perceive a weak demand for consolidated financial reports, they may

have little incentive to prepare and provide that information, particularly if they perceive it to have a low value for accountability purposes, and if that information is difficult and costly to extract, compile and present.

Lobbying behaviour theory suggests that the incentives for preparer-commanders will be similar to those for user-commanders. That is, they will have an incentive to participate in the lobbying process if such behaviour maximises their own utility. If they believe the introduction of the consolidated financial reporting method will be costly insofar as it will reduce their own utility they can be expected to lobby against the introduction. If they believe the method will improve their own utility they can be expected to lobby for the introduction of the method. If they do not believe that they will experience any significant impact from the introduction of the method, they are not expected to participate in the lobbying process as the pay-off to them in doing so would be trivial.

As a result of the issue raised in Question 2, the second hypothesis (*H2*) is as follows:

H2: Preparer-commanders believe whole-of-government consolidated financial reporting is useful.

4.3.3 Hypothesis 3

Jones (1992) suggested that there may not be a strong demand for the information contained in public sector general purpose financial reports. Others have questioned whether users need the information provided in such reports (Rutherford 1992). Furthermore, the professional accounting standard for whole-of-government consolidated financial reporting, AAS31 (AARF 1998) includes only a *recommended* reporting format and set of contents. The optional nature of this reporting approach implies that there is disagreement as to both the concept and content of a public sector general purpose consolidated financial report that is suitable for the needs of most users. The third hypothesis (*H3*) is used to address the issue of the commitment, that is, the willingness of preparer-commanders and their ability to implement the cross-sector transfer of the consolidated financial reporting method. The third hypothesis is stated as follows:

H3: Preparer-commanders' commitment to the cross-sector transfer of the consolidated financial reporting method is positive.

4.3.4 Hypothesis 4

Since the early 1980s, public sector financial reporting has evolved in an increasingly regulated environment to provide general purpose financial information to a broader range of stakeholders. While stakeholders can obtain some of their information from a variety of sources, financial reports can provide them with a substantial part of the basic information platform for understanding the financial performance and net wealth of a reporting entity. It has been asserted that the information content of

public sector financial reports can assist stakeholders with forecasting the future performance of the government reporting entity and can be used in assessments of inter-generational equity.

This implies an importance for sound accounting systems (technical infrastructure) and financial reporting policies, and a proficient human resource infrastructure, particularly if there are strong incentives for preparers to disclose *proprietary* information to users. For instance, the data provided from such technical systems and policies operating within a strong human resource infrastructure can be politically advantageous if it enhances accountability performance of the user-commander. It may also be useful for improving resource allocation decisions within, or by, government units. Furthermore, it may have positive economic consequences, that is, it may be more efficient if it reduces duplicative information processing costs that may otherwise be incurred on behalf of stakeholders by information processing intermediaries, such as political or financial analysts.

If the embedded systems, processes and personnel used to extract, accumulate, reformat, compile and display the data necessary to facilitate consolidated financial reporting are inadequate, potentially significant implementation difficulties and costs would arise. This issue is addressed in the fourth hypothesis (*H4*).

H4: The status of the technical and human resource infrastructure are associated with the usefulness of consolidated financial reporting.

4.4 Data and methodology

4.4.1 Data collection

To be included in the sample group a subject was required to have submitted a response to the AARF in respect to the proposal in ED40 to introduce consolidated financial reporting to the Australian public sector. The submissions were obtained from a file of submissions on ED40 compiled by AARF and held in the Melbourne library of CPA Australia (*CPAA*). The database contained 65 responses submitted across a one-year period (June 1987 – June 1988). One response held on the CPAA file, from a private sector accounting firm, was a very poor photocopy and illegible apart from the letterhead identifying the firm. Eliminating this response left a collection of 64 usable responses.

4.4.2 Content analysis of ED40

Content analysis of secondary data was the technique adopted to achieve the aims in this section of the study, as it is a useful way to review, analyse and categorise the issues (Holsti 1968, 1969) raised by respondents to ED40. The content analysis was focussed on both conceptual and practical implementation issues: that is, it was used to identify and codify the perceived benefits of, and the impediments to, the cross-sector transfer of the consolidated financial reporting method to the public sector.

The content analysis in this study is limited to a review of formal written responses to ED40. Some interested groups may possibly have used other means to convey their views on the key issues involved. A review of the literature and the submissions showed that the AARF, in fact, extended the submission date to enable

such parties to submit their views via the formal process. Therefore the submission process can be assumed to have been adequate to capture such views.

There was a concern that the respondent group may not be a true representation of the whole population; in particular, some stakeholder groups may be under-represented. However, the population of primary interest in this study is a small but authoritative group of public sector officers. A review of the submissions indicated that responses had been submitted from preparer-commanders in most jurisdictions of interest.

4.4.3 **Coding categories**

4.4.3.1 **Dimension 1: Data constituencies**

a) *Primary constituency category*

Each submission was analysed to determine the category of respondent. This analysis resulted in two primary categories. The division of the primary data dimension into two categories was straightforward as the major group of interest was the *public sector*. All non-public sector submissions were captured in a second group, the *private sector*. See Table 4.1, for a presentation of the division of the primary category.

Table 4.1
ED40 coding categories -
Dimension 1, constituency categories

Primary categories	
Public Sector	Private Sector

b) Secondary constituency category – (i) Public sector

Until the 1980s, public sector accounting practices had traditionally been formulated within government Departments of Finance and Bureaus of Treasury. The introduction of an accounting standard-setter, the Public Sector Accounting Standards Board (*PSASB*) (now subsumed into the AASB), did little to change this role, as the legitimacy of the PSASB was dependent on the support of the Finance Departments and Treasuries (Ryan, Dunstan & Stanley 1999). This group has been described as the dominant preparer-commander group (section 1.2.2.1), therefore their responses were important and so recorded in a separate secondary category (1).

The review of literature conducted in Chapter 3 led to an expectation that responses were likely from at least two other broad categories. These were: (i) auditors (Mian & Smith 1990a; Roberts & Kurtenbach 1992; Puro 1984); and (ii) individual managers or other public sector representatives (Ryan, Dunstan & Stanley 1999). Although the likelihood was smaller (Carnegie & West 1997) that submissions would be made by individual managers/public sector representatives it was anticipated that those who believed they would experience economic, political or social consequences from the proposed change (Jensen & Meckling 1976) would respond.

As monitoring (oversight) responsibility for public sector financial reports rests with Government audit offices, the responses from the offices of the Auditors-General were considered to be another important category (2). This category was regarded as part of the preparer-commander group as one of the roles of the constituents in the

category is advisory. That is, the Auditors-General not only monitor the accountability performance of user-commanders by reviewing the financial reports, they also provide an audit opinion and other advice on the preparation of the financial reports.

A third category was used to capture the responses of all other public sector respondents. As the review of literature indicated that the volume of responses from others within government were likely to be low, all other submissions from public sector respondents were captured in a single category (3). In this manner, the first of the two primary data categories was sub-divided into three secondary categories. These three public sector categories are presented in Table 4.2.

Table 4.2
ED40 coding categories -
Dimension 1, Secondary (public sector) categories

Primary category of interest	
Public Sector	
Secondary (public sector) categories	
1	Departments of Finance and Treasury
2	Offices of the Auditors-General
3	Others

c) Secondary constituency category – (ii) Private sector

Although the primary category of interest in this study comprises the public sector, the review of literature provided an expectation that responses would also be received from private sector sources. This was confirmed in the review of

submissions. Therefore, a taxonomy based on expectations drawn from the relevant literature was prepared for the private sector responses. Although descriptive statistics drawn from the content analysis of private sector submissions have been presented in this study, a detailed within-group analysis has been restricted to public sector response as this is the sector of interest.

In the private sector, industry and commerce representative groups have played an active lobbying role in the accounting standards-setting process as management advocates (Zeff 1978) and so were separately categorised (category 4). Accounting firms whose employees advise clients on consolidation accounting matters could also reasonably be expected to respond to ED40 (Staubus 1995). For instance, the principals of these firms may have anticipated a favourable economic impact as a result of an increased need for their specialist advisory and/or auditing role from the introduction of the proposed new accounting standard. Therefore, this group was included as a distinct category (5). The proposed consolidation practice had received media exposure prior to and during the submission period. In particular, academic commentators had publicly expressed views in respect of conceptual issues (Walker 1987). Although the review of literature led to a prediction that a response from academics or representatives of tertiary institutions would be relatively low (Staubus 1995), a sixth category was created for them (6). Lastly, a category capturing all other private sector responses, for instance, from individuals, was included (7). All primary and secondary categories are presented in Table 4.3.

Table 4.3
ED40 coding categories -
Dimension 1, All secondary categories

Primary categories			
Public Sector		Private Sector	
Secondary categories			
1	Departments of Finance and Treasury	4	Industry & commerce representative groups
2	Offices of the Auditors-General	5	Accounting firms
3	Others	6	Academia .
		7	Others

The list of respondents appearing in Appendix 3 has been classified according to these primary and secondary categories.

4.4.3.2 Dimension 2: Data characteristics

Initially the 64 usable ED40 submissions were reviewed to determine whether respondents had identified any theoretical or structural issues likely to impede the cross-sector transfer of consolidated financial reporting to the public sector. Following the initial reading of submissions a coding structure was designed to provide a precise description of the characteristics of interest in this study and to ensure that all the content characteristics relevant to the study were captured and were in mutually exclusive categories. The categories in this dimension needed to include both theoretical concerns and structural issues likely to create implementation problems. Thus, criteria might be conceptual relating to theoretical failings or pragmatic relating to issues of practicability, judgment or inexperience.

4.4.4 Unit of content

The unit of content (Holsti 1968) used to identify data characteristics is described as a *theme*. For the purposes of this study the approach adopted by Haggarty (1995) in which a theme was defined as a discussion or monologue about a particular idea or event was appropriate. A theme could involve a particular issue being explained, questioned or discussed; a particular question examined, clarified or debated; or a particular event recalled, described, interpreted or judged.

4.4.5 Unit of enumeration

The unit of enumeration chosen is simply that a theme has occurred in a particular submission (Holsti 1968). The direction of that theme is assigned a score as either agree (+ 1) or disagree (- 1). This dichotomous scoring technique is typical for coding responses to a discussion memorandum, or an exposure draft, as either agreeing or disagreeing with the proposed standard (Holthausen & Leftwich 1983, p.104). It is suitable for use in this study where the directional statements are clear and dichotomous. Haring (1979) examined individual issues within a discussion memorandum using this technique. Others (Watts & Zimmerman 1978; DeFond & Jiambalvo 1991) have also used this classification approach.

The directional statement was important as it indicated either that the respondent supported (+ 1) (indicating *willingness* to comply), or rejected (- 1) (indicating *unwillingness* to comply) the theoretical perspective, or that the respondent perceived a structural constraint (- 1) (indicating *inability* to comply) that would impede the cross-sector transfer of the consolidated financial reporting method. The analysis was aimed at determining whether public sector constituents perceived the proposed

theoretical concept to be useful, and whether they foreshadowed significant implementation issues associated with transferring the method to the public sector.

Pacecca (1995, p.98, p.107) weighted the accounting preferences that she identified in submissions to a proposal released by the Accounting Standards Review Board (Release 411:*Foreign Currency Translation – Key Issues Questionnaire*) (ASRB 1986). A similar scaled approach as used by Pacecca (1995) was not considered necessary in this study as the issue of importance was whether or not a theme had occurred, and not the *strength* of the preference. Therefore, the frequency with which the theme was detected within a particular submission was the unit of importance as the cumulative total score would provide an overall measure of the relative extent to which the respondents perceived the consolidated financial reporting method to be useful in the public sector.

4.4.6 Primary thematic data categories

The categories used for coding this dimension are now discussed. ED40 respondents were asked to comment on a specific set of six criteria. The six ED40 criteria are: (1) Usefulness; (2) Scope; (2) Control; (4) Preparation; (5) Disclosure; and (6) Transitional provisions. Each of the six criteria was considered and a decision made to combine three of the six criteria: (1) was combined with (5) and (6). The rationale for this aggregation is provided in the following discussion. Thus, data were coded into four separate primary thematic data categories, which are presented in Table 4.4. The six original ED40 criteria are now discussed.

(1) *Usefulness of consolidated financial reporting*

This criterion was considered to be a characteristic of interest if respondents indicated specific uses for public sector consolidated financial information such as performance indicators. It was also considered that commentary surrounding this issue might include critical discussion of the generally accepted qualitative characteristics of financial information as discussed in SAC3 (AARF 1990) including relevance, reliability, comparability, understandability, timeliness, materiality and cost-benefit of information, as these were, at the time, under consideration for inclusion in the Australian conceptual framework for financial reporting.

(2) *Scope and application of consolidated financial reporting*

This criterion was considered to be a characteristic of interest because the ED40 proposal applied consolidated financial reporting to all reporting entities within an economic entity. Adoption of this conceptual approach represented a significant shift in accounting practice for the public sector and was considered likely to provoke critical discussion from respondents.

(3) *Control*

This criterion was considered to be relevant to the study because the definition of control, provided in ED40, relied on professional judgment in ascertaining which entities to include in a consolidated financial report. Furthermore, the definition was in stark contrast to relevant legislation at the time that required the application of consolidated financial reporting to *majority owned companies* only.

(4) *Preparation of consolidated financial reports*

This criterion was considered to be of relevance to the study because it was likely to elicit commentary and critical discussion concerning a range of structural implementation issues. These might deal with the state of the technical infrastructure and the proficiency of the human resource infrastructure.

(5) *Disclosure requirements*

This criterion was not treated as a separate data category because it was considered to be a sub-category of criterion 1: *Usefulness of consolidated financial reporting*. Any comments in the submissions about disclosures were likely to focus on the relevance, comparability, understandability and cost/benefit of the proposed disclosures.

(6) *Transitional provisions*

This criterion was not recognised as a separate data category as it was also considered to be a sub-category of criterion 1: *Usefulness of consolidated financial reporting*. That is, any comments in submissions about transitional arrangements were likely to focus on the qualitative characteristics of comparability, timeliness, and cost-benefit.

4.4.7 Secondary thematic data categories

Respondents to ED40 were also asked to provide any further comments they believed were relevant to the issue, so further important data categories which reflected the respondents' perceptions about applicability of consolidated financial reporting to the public sector were likely to be identified. The content analysis

resulted in the identification of twenty-two (22) separate secondary thematic data categories within the four primary data themes. The four primary and 22 secondary, thematic data categories identified in ED40 submissions are presented in Table 4.4.

Table 4.4
ED40 coding categories -
Dimension 2, Thematic data characteristics

Primary category		Secondary category	
1	Usefulness of consolidated financial reporting	1	Consolidated financial reporting is appropriate
		2	Consolidated financial reports are useful
		3	Public sector consolidated financial reports are useful
		4	Consolidated performance indicators are relevant
		5	Consolidated financial information is comparable
		6	Consolidated financial information is understandable
		7	Benefits of preparing consolidated financial reports outweigh the costs
		8	Consolidated financial reporting should take priority over other proposed government financial reporting reforms
2	Scope and application of consolidated financial reporting	9	Scope of reporting entity is appropriate
		10	Definition of reporting entity is appropriate
		11	Appropriate to consolidate dissimilar activities
		12	Consolidated financial reporting should extend to the public sector
3	Control	13	Concept of control is appropriate
		14	Definition of control is appropriate
		15	Control criteria are able to be applied
		16	Concept of economic entity is appropriate
		17	Definition of economic entity is appropriate
4	Preparation of consolidated financial reports	18	Technical infrastructure is adequate
		19	Human resource infrastructure is proficient
		20	Compatible with existing public sector reporting requirements
		21	Appropriate to aggregate cash and accrual data
		22	Consolidated entities should have the same balance date

4.4.8 Coding validity and reliability

4.4.8.1 Research plan

As in any content analysis study, there was the potential for methodological problems in gathering the data. In particular, the methodology is subject to a subjectivity constraint that means the reliability of the method as a suitable means of analysing submissions may be affected by the consistency of the researcher's coding. In anticipation of such problems, a research plan was prepared that contained several procedures to enhance the reliability and validity of the data collection and classification processes. This was consistent with the recommendations of Holsti (1968, 1969) and included repeating the coding to establish that consistent coding is taking place (Haggarty 1996). After examination and approval by the researcher's supervisor, the research plan was implemented.

The researcher scanned all submissions and made detailed preliminary records of the data content in each submission. Subsequently, all public sector submissions were typed up by the researcher into separate Microsoft Word documents and systematically recorded in a Microsoft Excel spreadsheet in preliminary data categories. The Microsoft Excel data set was cross-checked by the researcher for consistency with the preliminary data records. Variations occurred only between the preliminary and final descriptive titles applied to the themes identified. All directional statements were found to be consistent.

4.4.8.2 Validity

Concept validity (Haggarty 1996) was addressed by linking each of the 22 secondary thematic data categories (Table 4.4, columns 3 and 4) to the four primary data

categories (Table 4.4, columns 1 and 2). The secondary categories were classified in accordance with the relevance of each to the primary data categories. This process resulted in a coding sheet that was used to enhance reliability of the coding process by using it to code the private sector submissions. This allowed the researcher to establish whether consistent coding had occurred. Each private sector submission was recorded in a Microsoft Excel spreadsheet using the coding sheet containing the operational definitions employed in recording the public sector data. The private sector data set was cross-checked against the preliminary data records and also found to be consistent. This was regarded as sufficient evidence of coder reliability and did not suggest the need for inter-coder checking.

Phenomenological validity, that is, whether the researcher interprets what is said in the way participants intended (Haggarty 1996) was also addressed. The background of the researcher is as a university lecturer trained in consolidation accounting concepts and practice, so it is assumed that the ideas, contexts and directional statements were likely to have been correctly understood.

4.5 **Analysis and interpretation of results**

4.5.1 **Distribution of responses**

A frequency distribution of the 64 usable responses to ED40 is presented in Table 4.5. The responses are sorted according to the categories previously identified and shown in Table 4.3.

Table 4.5
Frequency distributions of ED40 submissions
by constituency category
***n* = 64**

Secondary category	Category description	Totals		
		No.	% within sector	% of total responses
1	Departments of Finance and Treasury	3	14	5
2	Offices of the Auditors-General	10	48	16
3	Others	8	38	12
Total within public sector		21	100	33
4	Industry & commerce representative groups	21	49	33
5	Accounting firms	13	30	20
6	Academia	5	12	8
7	Others	4	9	6
Total within private sector		43	100	67
Total all sectors		64		100

4.5.2 Descriptive statistics

Descriptive statistics from the responses to ED40 that were received across the one-year period June 1987 – June 1988 were compiled, and are presented in Table 4.6.

Table 4.6
Descriptive statistics from responses to ED40
n = 64

Mean	9.1
Mode	n/a
Median	8

No direct responses were submitted from the commander group identified in this study as user-commanders. This was not an unexpected outcome as the user-commanders are Parliamentary Ministers (sections 1.2.2; 2.2.2.1) who delegate their authority to permanent Heads of the Departments of Finance and the Bureaus of Treasury to direct the policy guiding the preparation of financial reports. Thus, for the purposes of the analysis conducted in this section of the study, the views of the Heads of Finance and Treasury who constitute the dominant preparer-commander group are regarded as providing a strong proxy for the views of user-commanders.

Respondents who were classified into categories 1, 3, 6 and 7, had a response (submission) rate lower than the mean. The literature review indicated that for categories 3, 6 and 7, this was not an unexpected outcome (Staubus 1995). Category 1 is regarded as influential in the process of introducing new accounting methods and practices. The category 1 respondents included the Commonwealth Department of Finance and the NSW State Treasury, which was an early adopter (since 1992) of

accrual accounting (Clark-Lewis 1996). These constituents may have been acting in the role of spokespersons for all Heads of Finance and Treasuries. This interpretation would support the suggestion of Ryan, Dunstan and Stanley (1999, p.578) that substantial input from the central Departments of Finance and the Bureaus of Treasury may stifle input from other interested parties, in particular those in the agencies implementing changes (category 3). Combining categories 2 and 3, which are both regarded in this study as subordinate preparer-commanders, produces a *community* (Homeshaw 1995; Ryan 1999) of respondents with a far higher (within-group) aggregate response rate of 28%.

There is no mode in this set of observations, and the measure of location represented by a mode is likely to be of limited value in interpreting those data. Categories 1, 3, 6 and 7 are at, or below the median level. As discussed above, this outcome is not unexpected, and in the case of category 1 this result may be explained by reference to the probable authoritative role of the particular respondents in the constituent category.

4.5.3 Primary thematic data characteristics

The results from the content analysis of ED40 submissions have been analysed and classified into four primary data themes as explained in section 4.4.6. A summary of response scores is presented in Table 4.7.

Table 4.7
Primary thematic data characteristics
Summary of response scores - all categories

Primary category labels	Category descriptions	Secondary category labels	Cell labels; Response scores; Totals	Total of scores						
				Public sector		Private sector		All categories		
				No.		No.		No.		%
1	Usefulness of consolidated financial reporting	1 – 8	Cell label	C1		C5				
			Response score	22	-20	24	-60	46	-80	
			Total	+2		-36		-34		16.1
2	Scope and application of consolidated financial reporting	9 – 12	Cell label	C2		C6				
			Response score	16	-36	38	-32	54	-68	
			Total	-20		+6		-14		6.6
3	Control	13 – 17	Cell label	C3		C7				
			Response score	17	-37	28	-98	45	-135	
			Total	-20		-70		-90		42.7
4	Preparation of consolidated financial reports	18 – 22	Cell label	C4		C8				
			Response score	2	-37	12	-50	14	-87	
			Total	-35		-38		-73		34.6
Totals				-73		-138		-211		100

4.5.3.1 Summary of response, all categories

The content analysis resulted in the identification of two primary *constituent* categories: (1) Public sector and (2) Private sector. It also resulted in the identification of four primary *thematic data* categories: (1) Usefulness of consolidated financial reporting; (2) Scope and application of consolidated financial reporting; (3) Control; and, (4) Preparation of consolidated financial reports.

Overall, all constituents, across all data categories, indicated a belief that the form of consolidated financial reporting proposed in ED40 was either unsuitable for use in

the public sector or would be problematic to apply. Only two cells returned net positive results ($c1$ and $c6$) and within these cells the responses were extremely mixed ($c1$: +22: -20 [or, +1.1 : -1]) and ($c6$: +12 : -6 [or, +2 : -1]).

4.5.3.2 Within-group response, public sector category

As the first primary category (see Table 4.7, Column 5: Total public sector), is the sector of interest, a detailed *within-group* analysis was performed on the responses from that group. This analysis is summarised below and the details of scores are presented in Table 4.8.

a) Primary data category 1 (Usefulness)

Overall, category 1, which was used as a proxy for user-commanders, provided a negative response ($c1.1$ -2) to the view that the consolidated financial reporting method proposed in ED40 would provide useful information. Further analysis was conducted to identify the details of this response. Details are provided in Table 4.9. This analysis provided evidence that while these respondents considered the consolidated financial reporting *method* to be appropriate, they believed the methodological approach presented in the ED40 proposal, that is, the entity concept (AARF 1987, ED40 Para.42), to be inappropriate for the public sector. Auditors-General and Others when considered as a community of preparer-commanders, viewed the proposal more favourably, and overall ($[c1.2 +5; c1.3 -1] = +4$), they considered it would provide useful information. This finding is consistent with an expectation (Ryan, Dunstan & Stanley 1999, p.180) that public sector auditors might support accrual accounting in the public sector on improved accountability grounds.

b) Primary data category 2 (Scope and Application)

All categories of respondent disagreed (*c2.1* -2, *c2.2* -7, *c2.3* -11) with the proposed scope and application of the methodology as proposed in ED40. The dominant preparer-commanders (*c2.1*) registered 3 positive and 5 negative responses, while the subordinate preparer-commander community (*c2.2* and *c2.3*) registered a total of 13 positive, and 31 negative, responses.

c) Primary data category 3 (Control)

All categories of respondent considered that, overall, the concepts and definitions comprising the elements of control, were inappropriate for cross-sector transfer to the public sector (*c3.1* -5, *c3.2* -10, *c3.3* -5). Dominant preparer-commanders (*c3.1*) provided five negative and no positive responses. The community of subordinate preparer-commanders (*c3.2* and *c3.3*) registered some agreement ($9 + 8 = 17$) with the concepts and definitions provided in ED40, but the large number of negative responses registered ($19 + 13 = 32$), signified their belief that the definitions would not be interpreted or implemented appropriately.

d) Primary data category 4 (Preparation)

All categories of respondent foreshadowed preparation and implementation problems associated with the method. Dominant preparer-commanders (*c4.1*) submitted only one positive comment and noted six potential problems. Significantly, the subordinate preparer-commander community (*c4.2* and *c4.3*), which would be required to implement the method, also submitted only one positive comment and in 31 (20 + 11, respectively) instances, made mention of potential impediments or problems.

Table 4.8
Primary thematic data characteristics -
Summary of *within group* response from the public sector

Dimension 2 Data categories			Dimension 1 Public sector categories								
Primary categories		Secondary categories	Cell labels;	1		2		3		Total score (from Table 4.7 Column 5)	
			Response scores; Net scores	Finance & Treasury (Dominant preparer- commanders)		Auditors- General - (Subordinate preparer- commanders)		Others - (Subordinate preparer- commanders)			
1	Usefulness	1-8	Cell label	C1.1		C1.2		C1.3		C1	
			Response score	4	-6	13	-8	5	-6	22	-20
			Net scores	-2		5		-1		2	
2	Scope	9-12	Cell label	C2.1		C2.2		C2.3		C2	
			Response score	3	-5	10	-17	3	-14	16	-36
			Net scores	-2		-7		-11		-20	
3	Entity & Control concepts	13-17	Cell label	C3.1		C3.2		C3.3		C3	
			Response score	0	-5	9	-19	8	-13	17	-37
			Net scores	-5		-10		-5		-20	
4	Preparation & implement- ation	18-22	Cell label	C4.1		C4.2		C4.3		C4	
			Response score	1	-6	1	-20	0	-11	2	-37
			Net scores	-5		-19		-11		-35	
Total scores				-14		-31		-28		-73	

4.5.4 Secondary thematic data characteristics

The components comprising the primary data categories have earlier been described as secondary data themes (section 4.4.7). These themes were presented in Table 4.4.

The primary data comprises 22 secondary categories. The results from an analysis of the response in each secondary category are summarised in Table 4.9 (see also, Table 4.7 Column 5; Table 4.8 final Column/Row).

4.5.4.1 Within primary data category response

A detailed *within primary data category* analysis was performed on the public sector response. The results are discussed below and the details of scores are presented in Table 4.9.

Table 4.9
Secondary thematic data characteristics - Summary of public sector response -
within primary data category

Data Categories			Agree	Dis-agree	Net Totals (+ , -)	Constituent categories			
	Primary	Secon-dary (SC)				C1	C2	C3	Totals
1	Usefulness of consolidated financial reports	1	18		+18	3	10	5	+18
		2			0	0	0	0	0
		3	4	6	-2	0	1	-3	-2
		4		2	-2	-1	0	-1	-2
		5		2	-2	0	-2	0	-2
		6			0	0	0	0	0
		7		7	-7	-2	-4	-1	-7
		8		3	-3	-2	0	-1	-3
Primary Data Category 1 (C1) – Totals			22	20	+2	-2	+5	-1	+2
2	Scope and application of consolidated financial reports	9	2	6	-4	-1	-2	-1	-4
		10	1	14	-13	-1	-8	-4	-13
		11	2	11	-9	-2	-2	-5	-9
		12	11	5	+6	2	5	-1	+6
Primary Data Category 2 (C2) – Totals			16	36	-20	-2	-7	-11	-20
3	Control	13	9	5	+4	-1	3	2	+4
		14	1	10	-9	-1	-5	-3	-9
		15	1	8	-7	-1	-1	-5	-7
		16	6	4	+2	-1	0	3	+2
		17		10	-10	-1	-7	-2	-10
Primary Data Category 3 (C3) – Totals			17	37	-20	-5	-10	-5	-20
4	Preparation of consolidated financial reports	18		11	-11	-2	-6	-3	-11
		19		9	-9	-2	-4	-3	-9
		20		5	-5	-1	-3	-1	-5
		21	1	10	-9	0	-6	-3	-9
		22	1	2	-1	0	0	-1	-1
Primary Data Category 4 (C4) – Totals			2	37	-35	-5	-19	-11	-35
All Primary Data Categories - Totals			57	130	-73	-14	-31	-28	-73

a) Primary data category 1 (Usefulness)

Primary data category 1, comprises eight secondary data categories (*sc1* .. *sc8*). Although all public sector respondents (*c1*, *c2* and *c3*) agreed that consolidated financial reporting was a relevant reporting practice (*sc1*) they made no other direct comment as to whether or not they believed consolidated financial reports to be useful (*sc2*) Their views on the usefulness of public sector consolidated financial reports (*sc3*) were conflicting. They did not agree that the characteristics identified in SAC3 (AARF 1990, SAC3 Paras. 3, 8-15, 31-8) of relevance (*sc4*), comparability (*sc5*), and understandability (*sc6*), that purportedly make financial information useful, would be satisfied by public sector consolidated financial information. The respondents also expected that the preparation costs would outweigh the benefits of the information (*sc7*) (AARF 1990, SAC3 Paras. 42-5), and that the implementation of the method should, in their view, have low priority relative to other proposed government financial reporting reforms (*sc8*).

These responses demonstrate that while respondents were favourably inclined towards the concept of consolidated financial reporting, there was a general concern that the conceptual approach proposed in ED40 would not satisfy the information needs of users of public sector financial reports. One respondent (No.20) said that the proposed standard appeared to have been ‘formulated without fully considering the ...ultimate usefulness of the end product to any of the nominated users’. This finding, and the respondent’s comment reflects a weakness of the user-needs orientated theoretical framework underpinning the Australian conceptual framework for financial reporting that was identified in the literature review in Chapter 3.

b) Primary data category 2 (Scope and Application)

Primary data category 2 comprises four secondary data categories (*SC9* .. *SC12*). Respondents clearly supported the cross-sector transfer of consolidated financial reporting to the public sector (*SC12*). However, they expressed strong disagreement as to the propriety of the proposal in ED40 that would result in an aggregation of all activities of a reporting entity (*SC9*), many of which, in the public sector, were disparate (*SC11*) and so the respondents argued, not comparable (also see *SC5*). Reference to the European Economic Community's Seventh Directive (EEC 1983) implemented in 1988 (during the period of interest in this study), may have influenced this view, as that Directive explicitly excluded the consolidation of subsidiaries on the ground of different activities if this was considered necessary to enable a true and fair view.

The respondents submitted views indicating that the definition of a reporting entity was unclear (*SC10*). They also considered that report preparers' application of this definition could, and should (*SC11*), result in some activities being excluded from consolidated financial reports. This phenomenon has implications for the soundness of the true and fair view purportedly provided in consolidated financial reports (Walker & Mack 1998). Evidence of the consternation this phenomenon causes for Auditors-General whose responsibility it is to provide an opinion as to the rigour of report preparers' adherence to relevant accounting principles and the resultant completeness, correctness, and ultimately the truth and fairness of the financial reports, was provided in Chapter 2. See sections 2.3.3.1 and 2.5.4.1 where evidence of significant activities and entities excluded from whole-of-government consolidated financial reports was discussed.

c) *Primary data category 3 (Control)*

Primary data category 3 comprises five secondary data categories (*SC13* .. *SC17*). Respondents tended to support the concept of *control* (*SC13*) rather than *ownership*, as an appropriate criterion to identify entities for the purposes of including them as part of an economic entity (*SC16*) for which consolidated financial reports are prepared. This finding is consistent with the theoretical basis of Commander Theory (Goldberg 1965) in that ownership and control are regarded as separate notions and that financial reports are accountability statements prepared in respect of entities under a commander's control. It also reflects the suitability of the commander framework to the public sector where control as opposed to ownership is the predominant organisational structure.

Respondents predicted that the concepts of *control* and the *economic entity*, as they were defined in ED40 (*SC14*, *SC17*), would be difficult for report preparers to apply consistently (*SC15*). These responses support the interpretation of results in primary data category 2, in that the definitions are sufficiently unclear to enable report preparers, either selectively or inadvertently, to exclude specific entities and or activities when preparing consolidated financial reports.

d) *Primary data category 4 (Preparation)*

Primary data category 4 comprises five secondary data categories (*SC18* .. *SC22*). The respondents registered considerable concern in every category. They argued that structural inadequacies, relating to both the technical infrastructure (*SC18*) that existed in the public sector at the time and the proficiency of the human resource

infrastructure (*SC19*) would make timely implementation of the consolidated financial reporting method extremely difficult to achieve. Arguments centred on the need to satisfy pre-existing government financial and other reporting regulations, before consolidated financial reports could be prepared (*SC20*). The review of literature confirmed that governments have experienced considerable delays in the compilation of these reports and that timely reporting has not yet been achieved (Walker 2002, p.47).

Respondents also believed, despite the assertions in ED40 (AARF 1987, ED40 Para.3) to the contrary, that the applicability of the method in the public sector is affected by failure to use accrual accounting. The respondents disagreed that a mix of theoretical bases of accounting was appropriate. Instead, they argued, the accrual-based practice should fully supplant the cash-based method in the public sector before consolidated financial reporting could or should be transferred to it (*SC21*).

The respondents also foreshadowed potential problems in reformatting the underlying data where public sector entities had dissimilar balance dates (*SC22*). For example, one respondent (No.9) argued that certain 'trading funds did not have the same accounting period as the general fund' and that the reporting entity should not be burdened with the task of preparing consolidated financial statements as if the balance dates were co-terminous as proposed in ED40 (AARF 1987, ED40 Para.31). Another respondent (No.20) cited 'different year endings ranging from March to December', some of which are 'not necessarily fixed from year to year but rather are determined by the date of closure of seasonal transactions' as likely to make inclusion of some entities extremely difficult. Respondents also expressed some

concern about the initial inclusion of new entities and the cost of reformatting data so as to reflect the balance date of the economic entity.

4.6 Hypothesis testing

4.6.1 Hypothesis 1

H1: User-commanders’ believe whole-of-government consolidated financial reporting is useful.

The response recorded in secondary data category *SCI (C1)* is used to test this hypothesis. The data recorded in Table 4.9 indicate that for *SCI*, 100% (3 of 3) of respondents believed whole-of-government consolidated financial reporting to be useful. These results have been interpreted as providing support for Hypothesis 1.

4.6.2 Hypothesis 2

H2: Preparer-commanders’ believe whole-of-government consolidated financial reporting is useful.

The response in secondary data category *SCI (C2 + C3)* is used to test this hypothesis. Table 4.9 shows that for *C2 + C3*, 83% of respondents (15 of 18) believed whole-of-government consolidated financial reporting to be useful. These results have been interpreted as providing support for Hypothesis 2. This issue is examined again in Chapter 5 as part of the discussion surrounding the annual report compliance index developed in this study.

4.6.3 Hypothesis 3

- H3: Preparer-commanders' commitment to the cross-sector transfer of the consolidated financial reporting method is positive.

The response in secondary data category *sc12* is used to test this hypothesis. *Commitment* refers to the willingness and ability of preparer-commanders to apply the method (section 2.3.3). The data summarised in Table 4.9 indicate that for *sc12*, 69% of respondents (11 of 16, [5 of 16 responses were negative]) showed a positive commitment to the cross-sector transfer of consolidated financial reporting. These results provide limited support for Hypothesis 3. The full data set for *sc12* indicates that the positive commitment of the proxy group for user-commanders (section 4.5.2), at 67% (2 of 3), closely approximates that of subordinate preparer-commanders.

4.6.4 Hypothesis 4

- H4: The status of the technical and human resource infrastructure is associated with the usefulness of consolidated financial reporting.

The responses recorded in secondary data categories *sc18* and *sc19* are used to test this hypothesis. The data summarised in Table 4.9 indicate that for *sc18*, 100% (11 of 11), and also for *sc19*, 100 % (9 of 9) of comments made indicated a belief that weaknesses in the technical and human resource infrastructure are negatively associated with the usefulness of consolidated financial reporting. As 62% of public

sector responses (Table 4.5, categories 1, 2), emanated from the Departments of Finance, the Bureaus of Treasury and the offices of the Auditors-General, it is unlikely that these results are indicating a weakness in their own technical capacity. This matter is pursued further in Chapter 6 where the preparer-commanders' responses to a question on this issue are considered.

4.7 Summary

In this section of the study, participation in the lobbying process surrounding the proposal to transfer consolidated financial reporting to the Australian public sector has been documented, analysed and interpreted. This process indicated that respondents were not convinced of the merits of the proposal. Apart from the problems that would arise from subjective interpretations of weakly defined concepts, the proposal to adopt the entity concept was controversial. This reinforces Walker's observations (1976) that, while many concepts of consolidated financial reporting exist, general agreement on an appropriate conceptual approach is elusive. This finding should be of concern to accounting standard-setters who have advocated the entity concept for whole-of-government consolidated financial reporting. Apart from having to deal with the obvious problems of fully implementing accrual-based accounting including the recognition of assets and liabilities and the inter-period allocation of items, dealing with weakly defined concepts ensured that further controversy would attend the implementation of whole-of-government consolidated financial reporting.

Chapter Five

Whole-of-government consolidated financial reports

- Research methodology and analysis

5.1 Introduction

It became clear in the analysis and interpretation of responses to ED40 (AARF 1987), in Chapter 4, that considerable concern about the propriety of a cross-sector transfer of consolidated financial reporting existed in the public sector around the time that ED40 was released (1987-1988). More recently, evidence (discussed in Chapter 1) indicates that there is confusion about the extent of compliance with financial reporting, generally, and the consolidated financial reporting method, in particular (Micallef 1997; Miley 1999).

These apparent inconsistencies in the literature are investigated in this chapter through an analysis of the extent to which the consolidated financial reporting method has been applied at the whole-of-government level across the two reporting periods subsequent to the application date of AAS31. By choosing a *post*-regulation setting, it is likely that a far more consistent and widespread application (Miley used the term *harmonious* to describe this situation) of the consolidated financial reporting method will be observed. Certainly if the prescribed requirements outlined in AAS31 are effected, they would represent a degree of harmonisation that may not have existed in Miley's data.

5.2 Objectives and structure

The specific objectives in this section of the study are: to examine the whole-of-government consolidated financial reports to explore the extent of compliance with the prescribed requirements of AAS31; and, to provide information about the factors associated with non-compliance. This proceeds with an identification of the type of financial information provided in the reports. This identification is undertaken: (1) to understand the extent to which whole-of-government consolidated financial reports of separate jurisdictions are consistent; (2) to ascertain the relative level of importance report preparers have assigned to particular items of financial information; and (3) to determine the type of voluntary disclosures that have been provided.

Further insight into the debate about the usefulness of financial information is offered in this process. It is suggested in the conceptual framework for financial reporting that consistency is generally regarded as a characteristic of financial information that promotes understandability and thus usefulness (AARF 1990 SAC3 Paras.31-8). The relative importance assigned to particular display formats and content identifies those items report preparers have been most willing and able to disclose and serves to validate the usefulness of components of the prescribed requirements. The type of voluntary disclosure provided in the reports identifies areas where the prescribed requirements appear to be deficient. A fuller understanding of the factors driving non-compliance should assist the accounting regulators and other interested parties in addressing the problems that hinder the harmonisation of financial reporting in the public sector.

5.3 Disclosure model

No attempt was made to develop an optimal set of disclosures, as this would require an extensive and intensive investigation of all other users' needs that is beyond the scope of this study. Instead, a *model* was developed that captured all the single items recommended for disclosure in AAS31 and in the Appendix to AAS31. As the PSASB (of the AARF) supported AAS31, by implication this standard provides an example of a report that both the public and private sector financial reporting regulators deemed suitable for the presentation of whole-of-government consolidated financial information.

Although the format and content of the AAS31 prescriptive requirements can be modified and altered to suit the particular needs of reporting entities, it still provides a useful benchmark for a comparison undertaken to establish the consistency of whole-of-government consolidated financial reports with the relevant regulation. Further, the measures of compliance can be compiled to enable the preparation of a compliance index for use in cross-sectional comparison of whole-of-government consolidated financial reports. An optimal ranking of items within the model has not been attempted as the opinions that constitute such a ranking are likely to change over time and this opinion drift would generate some biases and inconsistencies.

5.3.1 Thematic data characteristics

AAS31 requirements are that whole-of-government consolidated financial reports *must* include three primary financial reports (AARF 1998, AAS31 Para.10.1). These are: a consolidated (1) *Operating Statement*; (2) *Statement of Financial Position*; and (3) *Statement of Cash Flows*. These reports are to include the assets controlled and

liabilities incurred, the revenues and expenses, and the cash inflows and outflows of the appropriate groups of entities. The reports must be accompanied by *Supplementary Notes*, in which additional explanatory detail is provided.

Based on the prescribed disclosures in AAS31, a coding structure was designed that provided a precise specification of the three mandatory reports, together with all other prescribed Supplementary Note disclosures. This analysis provided four (4) *primary* thematic data categories. Each AAS31 item was regarded as a separate data item, so within each of the primary data categories, secondary data items were identified. Category one (C1) contained 23 secondary data items; category two (C2) had 33 secondary items; category three (C3) had 36 secondary items; and category four (C4) had 45 secondary items. Within category C4: *Notes to the financial reports*, a further 221 separate prescribed disclosures were identified. In total the categorisation provided 358 separate data items prescribed in the AAS31 Appendix for disclosure. A summary of the major components of the model is presented in Table 5.1.

Table 5.1
Whole-of-government consolidated financial reporting -
Summary of AAS31 compliance model

Primary category	Description of primary category	Number of secondary items within each primary category
1	Consolidated Operating Statement	23
2	Consolidated Statement of Financial Position	33
3	Consolidated Statement of Cash Flows	36
4	Notes to the Financial Reports	45+221 = 266
	Total number of separate recommended disclosures (items)	358

The full model, containing the secondary data items within each of the three primary financial reports is presented in Tables 5.2, 5.3 and 5.4. The full list of secondary data items prescribed for disclosure in the Supplementary Notes appears in Table 5.5.

Table 5.2
Compliance model – (1) Consolidated Operating Statement

Secondary item number	AAS31 Consolidated Operating Statement	Applied AAS31	
		Yes	%
1	REVENUES		
2	Taxation		
3	Fines & regulatory fees		
4	Investment income		
5	Grants		
6	Sale of goods & services		
7	Net revenues from disposal of physical assets		
8	Fair value of assets received free of charge or for nominal consideration		
9	Other		
10	Total revenues		
11	EXPENSES		
12	Employee entitlements		
13	Superannuation		
14	Depreciation		
15	Amortisation		
16	Interest & other finance costs		
17	Grants & transfer payments		
18	Supplies & consumables		
19	Other		
20	Total Expenses		
21	OPERATING SURPLUS / (DEFICIT)		
22	Operating surplus attributable to Outside Equity Interests		
23	OPERATING SURPLUS / (DEFICIT) ATTRIBUTABLE TO GOVERNMENT		

Source: AAS31: Appendix (AARF1998)

Table 5.3
Compliance model – (2) Consolidated Statement of Financial Position

Secondary item number	AAS31 Consolidated Statement of Financial Position	Applied AAS31	
		Yes	%
1	ASSETS		
2	Current Assets		
3	Cash		
4	Investments		
5	Receivables		
6	Prepayments		
7	Total Current Assets		
8	Non-Current Assets		
9	Investments		
10	Receivables		
11	Land & buildings		
12	Plant & equipment		
13	Roads		
14	Other		
15	Total Non-Current Assets		
16	TOTAL ASSETS		
17	LIABILITIES		
18	Current Liabilities		
19	Payables		
20	Borrowings		
21	Employee entitlements		
22	Superannuation		
23	Total Current Liabilities		
24	Non-Current Liabilities		
25	Payables		
26	Borrowings		
27	Employee entitlements		
28	Superannuation		
29	Total Non-Current Liabilities		
30	TOTAL LIABILITIES		
31	TOTAL NET ASSETS		
32	OUTSIDE EQUITY INTERESTS		
33	NET ASSETS		

Source: AAS31: Appendix (AARF1998)

Table 5.4
Compliance model – (3) Consolidated Statement of Cash Flows

Secondary item number	AAS31 Consolidated Statement of Cash Flows	Applied AAS31	
		Yes	%
1	CASH FLOWS FROM OPERATING ACTIVITIES		
2	Receipts		
3	Taxation (by type)		
4	Fines & regulatory fees		
5	Grants from other governments		
6	Sales of goods & services		
7	Interest received		
8	Dividends received		
9	Other receipts		
10	Payments		
11	Grants & transfer payments		
12	Employee entitlements		
13	Superannuation		
14	Suppliers		
15	Interest paid		
16	Other payments		
17	Net cash used in operating activities		
18	CASH FLOWS FROM INVESTING ACTIVITIES		
19	Purchase of plant & equipment		
20	Proceeds from sale of plant & equipment		
21	Purchase of shares		
22	Proceeds from sale of shares		
23	Purchase of foreign currency term deposits		
24	Purchase of Australian dollar term deposits		
25	Net cash used in investing activities		
26	CASH FLOWS FROM FINANCING ACTIVITIES		
27	Proceeds from issue of shares		
28	Proceeds from borrowings		
29	Repayment of borrowings		
30	Distributions paid		
31	Net cash from financing activities		
32	NET CASH FLOWS FROM FINANCIAL INSTITUTIONS		
33	NET INCREASE/(DECREASE) IN CASH HELD		
34	Cash at the beginning of the reporting period		
35	Effect of exchange rate changes on balances held in foreign currencies at beginning of the reporting period		
36	CASH HELD AT 30 JUNE 20X1		

Source: AAS31: Appendix (AARF1998)

Table 5.5
Compliance model – (4) Supplementary Notes

Secondary item number	Within-item count	AAS31 Supplementary notes	Applied AAS31	
			Yes	%
1	1	Significant accounting policies		
2	1	-Accounting standards		
3	1	-Identification of accounting policy where alternatives allowed		
4	1	-The government reporting entity		
5	1	-Basis of accounting		
6	1	-Conformity with applicable AASs acknowledged		
7	1	-Relevant legislative/regulatory framework identified		
8	1	-Use of accrual accounting acknowledged		
9	1	-Basis of measurement		
10	1	-Depreciation and amortisation of non-current assets		
11	1	-Employee entitlements		
12	1	-Leases		
13	1	-Revenue recognition		
14	1	-Foreign currency - transactions		
15	1	-Foreign currency - hedges		
16	1	-Rounding		
17	3	Disaggregated information		
18	3	Sectors		
19	3	Revenues from taxation		
20	2	Investment income		
21	3	Grant revenue		
22	3	Net revenues from disposal of physical assets		
23	2	Assets received free of charge or for nominal consideration		
24	4	Depreciation expense		
25	1	Amortisation expense		
26	3	Interest and other finance costs		
27	4	Grants and transfer payments		
28	6	Other expenses		
29	8	Investments		
30	26	Receivables		
31	6	Land and buildings		
32	8	Plant and equipment		
33	5	Roads		
34	3	Other assets		
35	20	Payables		
36	11	Borrowings		
37	10	Employee entitlements		
38	3	Superannuation		
39	45	Reconciliation of changes in equity		
40	51	Supplementary cash flow information		
41	6	Commitments for capital expenditure		
42	4	Operating lease commitments		
43	4	Contingent liabilities		
44	1	Compliance with appropriations		
45	2	Disclosure of controlled entities		
	266	Total within-secondary items		

Source: Adapted from AAS31 (AARF1998)

5.4 Review of whole-of-government financial reports

Content analysis was used to review all whole-of-government consolidated financial reports from the study period (30 June 1999, 30 June 2000). Content analysis was used because it is eminently suited for applications in which the data are textual in nature (Haggarty 1995). The purpose of the review was to identify the content and assess the level of compliance with relevant regulation after an important intervening event. That is, after the mandatory application date in AAS31 for consolidated financial reporting to be implemented in the Australian public sector. An exhaustive analysis of the content of the financial reports reviewed is presented in Appendix 5.

5.4.1 Constituents, data collection

Legislation providing for the preparation and audit of financial reports was presented earlier in Table 2.3. Further, as the requirements in AAS31 define each of the Commonwealth, State and Territory governments as separate reporting entities, those entities are required to prepare, annually, an accrual-based whole-of-government consolidated financial report. Therefore, the key underlying elements to be subjected to review in this study were the whole-of-government consolidated financial reports of the nine Commonwealth, State and Territory governments.

Although the database contained nine reports, one preparer-commander (Northern Territory) deferred the implementation of whole-of-government consolidated financial reporting. The Northern Territory report was not a consolidated financial report and so it could not be used for the purposes of the review that was undertaken. Rather the Northern Territory financial report was prepared to present the

information required by the relevant legislation (FMA&A 1995) and the Treasurer's prescribed format, which did not require the application of AAS31.

There are several possible explanations for such *resistance* (Carpenter & Feroz 2001). For instance, the preparer-commander may have been uncertain of the effects of consolidated financial reporting and may have adopted this stance as an initial strategic response, to be moderated as the consequences, in other jurisdictions, of employing the method emerged and became better understood. Or, the preparer-commander may have been unwilling to accept the imposition of regulatory instructions from an external regulator. Possibly, the embedded systems and processes within the Northern Territory were inadequate to support the compilation of the reports. The review of responses to the ED40 proposal that emanated from the Northern Territory tended to be favourable, and as no additional information was found in the review of the Northern Territory financial reports including the auditor's report to assist in clarifying this matter, the reasons offered for deferral of the method are speculative. Whatever the reason(s) might have been for the decision not to apply the consolidated financial reporting method, it is clear that, in the Northern Territory, the Treasurer's Instructions are far stronger as a regulatory device than the professional regulation of the accounting bodies (sections 2.3.3). Eliminating the Northern Territory report provided a data set, of eight usable, whole-of-government consolidated financial reports.

Although AAS31 was first applicable to government reporting entities for the period ended 30 June 1999, it could be applied prior to that date. At the time of the data collection for this study, a second, full reporting year had elapsed since the AAS31

application date had become effective. As ED40 had been released in 1987, more than a decade prior to the AAS31 effective date, it was likely that public sector report preparers had been given sufficient time to become familiar with the consolidated financial reporting requirement. This also provided them with sufficient time to upgrade their technical skills as necessary to implement the method properly for the purposes of 30 June 1999, and the subsequent 30 June 2000, consolidated financial reporting.

The 30 June 2000 consolidated financial reports of three governments were not available at the time of undertaking this review. Walker (2002, p.47) pointed out to his readers that Australian governments had experienced considerable delays in the compilation of their whole-of-government financial reports. He noted that some governments were:

routinely taking more than eight months to produce consolidated statements, and others taking even longer with their initial efforts’.

Where available, the 2000 financial reports have been used: where the reports were not available, the prior year, 30 June 1999, reports were used.

Consolidated financial reports were located on the *Internet*. Locating the reports on this medium was in some instances difficult and assistance had to be sought from individual government officers. The nine primary constituency groups and the dates of the reports available for the purposes of this study are identified in Table 5.6.

Table 5.6
Whole-of-government consolidated financial reports -
Entities and dates of reports reviewed

Entity	Report title	Date 30 June
Commonwealth Government of Australia	Consolidated Financial Statements	2000
Australian Capital Territory	Consolidated Financial Statements 1999-2000 Financial Year	2000
New South Wales	Consolidated Financial Statement of the NSW Total State Sector (incorporating the NSW Public Accounts)	2000
Northern Territory	Treasurer's Annual Financial Report for the year ended 30 June 2000	2000
Queensland	Consolidated Financial Report of the Government of Queensland	1999
South Australia	Consolidated Financial Statements for the year ended 30 June 1999	1999
Tasmania	Consolidated Financial Statement for the State of Tasmania 1998-99	1999
Victoria	1999-2000 Financial Report for the State of Victoria	2000
Western Australia	Consolidated Financial Statements year ended 30 June 2000	2000

Of concern is that the 30 June 1999 consolidated financial reports (the first AAS31 reporting period) may have been of a lower quality, when judged on the basis of compliance with the model, than the 30 June 2000 reports. Evidence of such a systematic bias was sought in an analysis of the contents of the relevant audit reports. The outcome of the review of the audit reports for the whole-of-government consolidated financial reports is summarised in Table 5.7.

Table 5.7
Review of audit reports

Jurisdiction	Auditor-general	Qual-ified	Nature of qualification
Commonwealth	P J Barrett	Yes	Tax revenue not recognised on an accrual basis
Australian Capital Territory	J A Parkinson	No	
New South Wales	R J Sendt	Yes	Not all assets and obligations included; not all controlled entities included; income recognised in prior year relates to current year
Northern Territory	I Summers	Yes	Is not in accordance with the requirements of AAS31
Queensland	L J Scanlan	No	
South Australia	S O'Neill (Deputy)	Yes	Not all entities included; Consolidated information contains some unaudited data; Uncertainty over some asset values; Uncertainty over some provisions
Tasmania	A J McHugh	No	
Victoria	J W Cameron	No	Inherent uncertainty regarding outstanding WorkCover claims
Western Australia	D D R Pearson	No	

5.4.2 Summary of audit reports

The nature of the audit qualifications suggests that while the model requirements have generally been embraced by all jurisdictions with the exception of the Northern Territory, there may still be some difficulty in applying some facets of full accrual-based consolidated financial reporting. Two of the three jurisdictions for which 30 June 2000 reports were not available, Queensland and Tasmania, comprise 50% of the *unqualified* audit reports. This does not suggest a systematic adverse quality in the reports of these two jurisdictions.

Problems encountered in: (1) identifying the *reporting entity*; (2) determining the necessary degree of compliance with AAS31 recommendations; and (3) the adequacy of the embedded systems and processes used to extract, accumulate and manipulate the data necessary to facilitate consolidated financial reporting, were

indicated in the South Australia audit report. As at least some of these same concerns also appear to be affecting the Commonwealth and the New South Wales reports, there is no special case for eliminating the South Australia report from the review, or for expecting that including the South Australia data will significantly bias the findings of the study.

This discussion signals a major concern about the content of consolidated financial reports. That is, even though consolidated financial reports may resemble AAS31 prescribed formats and so provide a benchmark for comparative purposes, it cannot be assumed that within such reports the consolidated financial reporting methodology has been either properly or fully applied. For example, as noted in the New South Wales and South Australia audit reports, report preparers may have omitted some entities through interpretational differences, inadvertently or deliberately, from the overall (consolidated) economic entity.

5.4.3 Compliance

Compliance by report preparers is interpreted as evidence of their uncritical acceptance of the *model* and by implication the requirements of the accounting standard AAS31, and of their ability to comply. Non-compliance can be interpreted as either rejection of the model or an inability to comply. The rate of compliance was measured by reference to the model's specifications. This method resulted in a maximum possible count of 2860 (184+264+288+2124) items (see Table 5.8). Compliance was regarded as achieved when the model format and prescribed contents were adopted within a whole-of-government consolidated financial report.

5.4.4 Data processing

Compliance with the model was measured as follows. The population effectively comprised eight whole-of-government reports and each was examined for compliance with the model. The observations of compliance noted in this examination determined the extent to which the report preparers had applied the model in their financial report disclosures. Separate items observed within each primary and secondary class were counted providing an *actual* measure. From these data, a compliance rate (*CR*), expressed as a percentage, was determined.

5.4.5 Incidence of a data theme

The incidence of a thematic data category was defined as a disclosure if it was similar to the presentation format or content prescribed in AAS31. A theme could involve a particular issue being disclosed or described in language similar to that used in the model. For example, similar language such as, *Taxation*; *Taxes*; *Tax* was regarded as synonymous. Also, descriptors stated in the singular (or plural) form were regarded as plural (or singular). However, the adoption of different terminology, for instance *Borrowing expenses* rather than *Interest costs*; and combinations of items such as *Taxation* combined with *Fines and Regulatory Fees*, have been regarded as exceptions (*non-compliance*) to the application of the model.

Quantitative disclosures were defined as including items *brought to account* in the three primary financial reports. Qualitative disclosures are defined as including all items whether reported in quantitative or qualitative terms, *not* brought to account in the three primary financial reports.

5.4.5.1 Unit of enumeration

The unit of enumeration chosen was simply that a theme had occurred in a particular report. The detection of a theme was important as it indicated an ability and willingness to comply with the model. The occurrence of a theme was recorded with a score of +1. Consistent with Cooke (1992) each disclosure item received equal weighting. Departures from the model were regarded as an inability or unwillingness to comply with the model. They were treated as exceptions and coded as (0). Where an item prescribed in the model for disclosure did not appear in a whole-of-government consolidated financial report, this situation was also regarded as an inability or unwillingness to comply, and not counted (score = 0).

This method of coding is similar to that applied by Street and Gray (2001, p.23) in their study of factors explaining non-compliance with IASs. The coding used in this study differs in one respect to Street and Gray's index coding approach. Street and Gray applied an additional code where an item was non-applicable (na) to a reporting entity as a result of its country of domicile not having to comply with particular IASs (Street & Gray 2001, Appendix B). In this study compliance with the prescribed requirements of a single accounting standard was investigated, and non-applicability of many components of that standard to each jurisdiction required a subjective judgment that could not be justified and so was not applied for coding purposes.

An inability to comply might arise because the model specifications did not reflect the particular circumstances of the reporting entity. For instance, a model recommendation is that *Operating Lease Commitments* be disclosed according to a

maturity horizon. If a reporting entity did not have any *Operating Leases* it was unable to comply and an exception for non-compliance was recorded.

Voluntary disclosure may occur if a report preparer believes the model does not adequately illustrate the circumstances of the government reporting entity. For instance, if the model does not include a particular item of significance (for example, *Gambling Taxes*) some report preparers may believe it necessary to disclose details of the item. Thus, voluntary disclosures may be potent indications of weakness in the model and so they were noted and discussed.

An item may have been combined with another item or disclosed simply as *Other*, or the preparer-commander may have been unwilling to disclose the item. To manage this problem it has been assumed that if deliberate non-disclosure or obscuring of information was occurring, this would be detected in the audit process and noted in the audit report. The audit reports were subsequently reviewed and no comments of this nature were observed. Therefore, the compliance rate would appear to be providing a reliable measure of the ability and willingness of report preparers to comply with the model.

5.5 Compliance index

The eight usable reports were reviewed to determine whether the display format and prescribed disclosures in the model had been applied. Items were recorded on the basis of the observed disclosure and this measure was used to calculate a compliance rate. The summary that is provided in Table 5.8 presents the results of this analytical review in the form of a compliance index. Thus, the *index* provides a *measure of*

application of the *model* for compliance with AAS31 prescribed disclosures, and, an objective measure of the level of compliance of whole-of-government consolidated financial reports with the relevant accounting standard. It can also be used for subsequent inter-temporal comparison of consistency in whole-of-government consolidated financial reports. An index measure also allows statements to be made about the success of the professional accounting bodies' financial reporting harmonisation initiative. The index compiled for the purposes of this study is presented in Table 5.8.

Table 5.8
Compliance index - Compliance of whole-of-government consolidated financial reports with AAS31 disclosure model

Secondary item number	Consolidated operating statement			Consolidated statement of financial position			Consolidated statement of cash flows			Supplementary notes		
	Count		%(CR)	Count		%(CR)	Count		%(CR)	Count		%(CR)
	Max.	Actual		Max.	Actual		Max.	Actual		Max.	Actual	
1	8	8	100	8	5	63	8	8	100	8	8	100
2	8	6	75	8	7	88	8	8	100	8	8	100
3	8	5	63	8	8	100	8	6	75	8	2	25
4	8	6	75	8	8	100	8	5	63	8	8	100
5	8	7	88	8	8	100	8	7	88	8	8	100
6	8	6	75	8	2	25	8	8	100	8	8	100
7	8	5	63	8	7	88	8	7	88	8	8	100
8	8	2	25	8	7	88	8	4	50	8	8	100
9	8	8	100	8	7	88	8	7	88	8	8	100
10	8	8	100	8	7	88	8	7	88	8	8	100
11	8	8	100	8	5	63	8	8	100	8	8	100
12	8	8	100	8	5	63	8	7	88	8	7	88
13	8	4	50	8	0	0	8	5	63	8	8	100
14	8	2	25	8	8	100	8	6	75	8	7	88
15	8	1	13	8	7	88	8	5	63	8	6	75
16	8	6	75	8	8	100	8	8	100	8	8	100
17	8	8	100	8	5	63	8	8	100	24	17	71
18	8	6	75	8	7	88	8	8	100	24	17	71
19	8	8	100	8	6	75	8	2	25	24	13	54
20	8	8	100	8	7	88	8	1	13	16	12	75
21	8	7	88	8	7	88	8	0	0	21	6	29
22	8	1	13	8	4	50	8	0	0	24	20	83
23	8	1	13	8	7	88	8	1	13	16	7	44
24				8	7	88	8	1	13	32	25	78
25				8	3	38	8	8	100	8	5	63
26				8	7	88	8	8	100	24	7	29
27				8	6	75	8	0	0	32	2	6
28				8	4	50	8	6	75	48	25	52
29				8	7	88	8	8	100	64	35	55
30				8	8	100	8	1	13	208	61	29
31				8	1	13	8	8	100	48	36	75
32				8	1	13	8	6	75	64	33	52
33				8	7	88	8	8	100	40	7	18
34							8	8	100	24	9	38
35							8	2	25	160	93	58
36							8	8	100	88	21	24
37										80	47	59
38										24	14	58
39										360	120	33
40										408	216	53
41										48	26	54
42										32	21	66
43										32	30	94
44										7	6	86
45										16	15	94
Totals	184	129	70.1	264	193	73.1	288	198	68.8	2124	1064	50.1
Average compliance rates	$(129+193+198) / (184+264+288)$ $= 520 / 736$ $= 70.7\%$									$(520 + 1064) / (736 + 2124)$ $= 1584 / 2860$ $= 55.4\%$		

See also, Appendix 5: Detailed analysis of compliance with AAS31 in whole-of-government consolidated financial reports.

5.6 Analysis and interpretation of data

Overall, a compliance rate of 55.4% was observed (Maximum possible count, 2860; Actual count, 1584). None of the consolidated financial reports of the governments examined in this study were found to comply completely with the prescribed requirements of AAS31. As the reporting framework presented in the AAS31 Appendix may be varied to suit the particular needs of each reporting entity to accommodate different underlying information sources and business operations, some report preparers may have varied their presentation to better reflect the circumstances of the reporting entity. Others may have decided that certain AAS31 requirements were unsuitable and for this reason were unwilling to comply with them.

The reports from two States, Victoria and South Australia, were notable in their similarity to the model. This high level of consistency may be a reflection of the South Australian and Victorian report preparers' belief in the propriety of the AAS31 prescribed requirements and, if so, indicates their *willingness* to comply. This interpretation supports Micallef's (1997) assertion that by 1996, most governments had committed to preparing consolidated financial reports broadly in line with AAS31. This finding also reflects the capacity of the infrastructure in these jurisdictions, for instance, the strength of the embedded accounting systems, for the accumulation and extraction of the data necessary for consolidated financial reporting. That is, it is indicating an *ability* to comply.

5.6.1 **Ranked order**

The ranked order presented in Table 5.9 indicates the closeness of fit (compliance) of the primary components of whole-of-government consolidated financial reports with the model. The four primary data categories were identified earlier in Table 5.1.

Table 5.9
Ranked order of primary data categories

Item ranked by compliance rate	Primary data categories	Compliance rate %
1	Consolidated Statement of Financial Position	73.1
2	Consolidated Operating Statement	70.1
3	Consolidated Statement of Cash Flows	68.8
4	Supplementary Notes	50.1
	Mean Compliance Rate	55.4%

Although overall the compliance rate is fairly low at 55.4%, the report preparers achieved a much higher compliance rate (around the 70% level) in respect to each of the three primary financial reports (Table 5.9; Items 1, 2, 3). This suggests that if an unwillingness or inability to comply exists, or if the prescribed requirements in the accounting standard, AAS31, are weakly specified, it is more significant in respect to the prescribed Supplementary Note disclosures than for the display format and content of the three primary financial statements.

The finding that compliance with the requirements for primary financial reports is relatively strong supports the conclusion reached by the FASB (FASB 1984, SFAC5 Para.9) that ‘generally, the most useful information about assets, liabilities, revenues,

expenses, and other items of financial statements ... should be recognised in the financial statements'. Also, Maschmeyer and Daniker (1979) in their user study in the USA, provided evidence to suggest that the statement of income and expenditure was the most important fundamental financial statement. Ingham and Frazier (1983) found that descriptive information is monitored less closely than quantitative information. The finding in this section of the study implies that where monitoring is likely to be lower, compliance may also be lower.

5.6.2 The hypotheses

The compilation of the data in the compliance index provides an opportunity to further consider two of the hypotheses that were considered in Chapter 4. These hypotheses are:

H2: Preparer-commanders believe whole-of-government consolidated financial reporting is useful.

H3: Preparer-commanders' commitment to the cross-sector transfer of the consolidated financial reporting method is positive.

A compliance rate of greater than 50% is interpreted in this study as implying that preparer-commanders are willing and able to comply with the model. The higher the compliance rate, the higher the level of uncritical acceptance and of the ability to comply. Compliance thus can be used to infer whether or not preparer-commanders believe disclosure of the information in the AAS31 prescribed format to be useful.

In respect to the three primary financial reports, the compliance rates (>50%) noted in Table 5.9 support hypotheses H2 and H3. *That is, preparer-commanders believe the three primary financial reports are useful; and, they are committed to, that is, willing and able to apply, the cross-sector transfer of the methodology.* These compliance rates indicate that a substantial level of compliance is possible. Further, preparer-commanders have *acquiesced* (Carpenter & Feroz 2001) (section 1.2.6) in the sense that they have conformed to the prescribed requirements.

A compliance rate that is less than 50% suggests that either preparer-commanders are critical of the prescribed requirements and do not believe the resultant information to be useful, or they are unable to comply. In respect to the Supplementary Notes, a mean compliance rate of only 50.1% was noted. This may be implying *defiance* (Carpenter & Feroz 2001). That is, preparer-commanders are critical of the requirements and unwilling to comply. It could also be indicating that they are unable to comply. As the audit reports provide no indication of fundamental weakness in the embedded systems necessary to support the methodology, it is unlikely that inability to comply is the cause of the low compliance rate. Rather, it appears that the low compliance rate is associated with weakness in the prescribed requirements. That is, the circumstances of the reporting entity are not adequately illustrated and so preparer-commanders have chosen either disclosure that does not substantially conform to the prescribed requirements or no disclosure.

5.6.3 Consolidated Operating Statement

The results presented in the compliance index and summarised by ranked order in Table 5.9 indicate an overall compliance rate of 70.1% across the eight jurisdictions for the Consolidated Operating Statement. Discussion in AAS31 (AARF 1998, Para.10.1.1) asserts that the information in a Consolidated Operating Statement is useful for identifying the expenses relating to government activities and the extent to which those expenses are recovered from revenues. It is also asserted on AAS31 that the information is necessary for an assessment of the efficiency of service delivery, resources required and inter-generational equity. Additionally, it has been argued in this study, that the information disclosed in such a statement provides a set of financial data that can be used by user-commanders as a mechanism for discharging their ministerial accountability for granted responsibilities, authorities and conduct.

With the exception of the Commonwealth report, all preparer-commanders have utilised a primary reporting format similar to the model. In the Commonwealth report *Revenue* is disclosed according to source (*Taxation* and *Non-taxation*) rather than by type. This anomalous presentation is rationalised on the basis that the Commonwealth has the unique power of government to impose taxation (Bartos 2000a, p.43). *Revenue* by type is disclosed in a separate schedule in the Commonwealth report and disaggregated on the basis of sector and so, comparability, although difficult, is not altogether compromised.

A number of exceptions arose because preparer-commanders chose to use non-complying terminology. For instance, in one case the term *Operating Result* was substituted for the model's term of *Operating Surplus*. These two terms have

different meanings in the context of financial reporting where *Result* is used less precisely to signify either a surplus or a deficit. The individualistic flair adopted by this particular preparer-commander reduces the level of consistency in the reports, and adds unnecessarily to the comparability burden of report users. Other exceptions occurred as the result of combinations of items that, under the model, are disaggregated. For example, *Taxation* has, in a number of incidences, been combined with *Fines and Regulatory Fees*.

The language applied when describing *Employee Entitlements* is inconsistent, with only two preparer-commanders using the model terminology. *Superannuation* expense appears in only four reports yet as all jurisdictions make extensive disclosures in the Supplementary Notes in respect to superannuation, there seems little justification for obscuring this particular expense. However, this finding is consistent with Gallery (2003) who showed frequent instances of non-compliance with the requirements of AASB1028:*Employee Benefits (AASB1028)* (AASB 1994). Gallery attributed this to inherent weaknesses in the mandatory disclosure requirements and concluded that present superannuation disclosure requirements do not meet the objective of providing useful information.

Most preparers have combined *Depreciation* and *Amortisation*. This aggregation constitutes an exception (non-compliance) for the purposes of this analytical review as the model format displays the items separately. It may also be indicating that preparer-commanders view the items as sufficiently similar in nature as not to justify disaggregation.

The Commonwealth report preparer voluntarily included a *Grant* expense disclosed under a separate sub-heading with *Subsidies* and *Benefits*. These are all substantial items, representing 62% of total Commonwealth expenses in the year under review. By providing this additional piece of information the Commonwealth preparer is signalling a major weakness in the specification of the accounting standard.

5.6.4 Consolidated Statement of Financial Position

The index shows that preparer-commanders achieved an overall compliance rate of 73.1% (Table 5.9) in their compilation of this report. AAS31 (AARF 1998, Para.10.1.2) contains discussion suggesting that the information in the Consolidated Statement of Financial Position is useful for assessing the financial performance, structure, and capacity for adaptation, of the reporting government. Within the constraints of government funding and regulatory boundaries, these are issues for which user-commanders are held accountable. Therefore, the information provided in this statement provides a useful means by which the accountability performance of user-commanders may be assessed.

The Commonwealth preparer-commander has chosen to categorise items according to nature as *Financial/Non-financial* with the model format of presentation being provided in supplementary schedules. Bartos (2000b, p.8) justified this approach on the basis that it provides ‘a more important indicator in assessing the capacity of an organisation’s ability to meet liabilities and sustain operations’. So long as the regulators allow this degree of presentation flexibility they must also accept the adverse implications for the harmonisation initiative and the consistency of disclosure that permeates whole-of-government consolidated financial reports.

Prepayments have been disclosed in only two reports. The relatively low financial magnitude of this item implies that it is (relatively) trivial and may not be a useful disclosure. It is likely that some report-preparers have combined it with another current asset. The implication of a prescribed item of low magnitude appearing in relatively few reports is that the accounting standard in this respect is weakly specified. This highlights the need for the accounting standard-setters to examine all items in the AAS31 prescribed requirements with a view to removing items that, either by nature or size, are unimportant in terms of an appropriate theoretical framework for whole-of-government consolidated financial reporting.

A category does not exist in the model for the item *Inventories*. In seven of the eight reports this item has been disclosed separately. This *clustering* effect (Holthausen & Leftwich 1983, p.82), that is, the frequency with which the report preparers have chosen to volunteer this information, is significant as it provides a compelling indication of their belief as to the usefulness of the information. *Inventories* is similar in size to the amounts reported as *Other* current assets providing further support for separate disclosure of the item. What appears likely is that the item was inadvertently overlooked when the accounting standard was drafted.

Selective use by preparer-commanders of the terms *Property* and *Infrastructure* made it difficult to determine in which category(ies) specific items had been included as, usually, few other details were provided. Craig (2002) reported similar findings in respect to the 2000-01 annual report of the office of the Inspector-General of Intelligence and Security (*IGIS*) when he noted that ‘The terms *Infrastructure*, *plant*

and equipment; *Property, plant and equipment*; and *Plant and equipment* appear to be used interchangeably'. The IGIS report is consolidated into the Commonwealth whole-of-government report. Craig's review was based on the year subsequent to the period of this study so it appears that the problem identified in this study has not yet been resolved.

Importantly, *Roads* did not appear as a separate category in any of the eight reports although the model shows that roads are required to be disclosed separately. Under the prescribed requirements of AAS31, Roads must also be independently valued. Considerable controversy has surrounded the proposal to value Roads and the *Land Under Roads*, and it is likely that this finding is associated with on-going concerns about the validity of recognising these resources as assets in government financial reports (Barton 1999a) and the potential for measurement bias.

Only in the Commonwealth government report is an *Outside Equity Interest (OEI)* in controlled entities separately identified. This item reflects the partial ownership interest of the Commonwealth government in public trading enterprises (section 2.5.3) such as Telstra Corporation Limited. In all other reports the preparer-commanders have used the option, available under the model, of disclosing this information in the Supplementary Notes. As noted in the discussion of *Revenue* reporting and the adoption of the *Financial/Non-financial* format style in the Commonwealth report, the presentation flexibility permitted in the accounting standard adversely impacts on the consistency of presentation of the information. It also increases the information-processing burden of any user who attempts to compare whole-of-government consolidated financial reports.

5.6.5 Consolidated Statement of Cash Flows

The results presented in Table 5.9 indicate an overall compliance rate of 68.8% across the eight jurisdictions, for the Consolidated Statement of Cash Flows. It is suggested in AAS31 AARF 1998, Para 10.1.3) that the information in this statement is useful as it may assist in assessing the future cash requirements of governments, their ability to generate cash inflows and their ability to fund changes in the scope and nature of their operations. These same arguments may be used to suggest that this particular financial statement provides a suitable means by which user-commanders can discharge their accountability for cash flows under their control.

The South Australian preparer-commander chose to present *Payments* before *Receipts*. The confusion caused by this unique ordering pattern during the conduct of this review again highlights the comparability burden for users of whole-of-government financial reports as a result of the presentation flexibility available under the accounting standard.

The terminology used in the reports for *Employee Entitlements* is inconsistent. This same item was also a matter of concern in the presentation of the Consolidated Operating Statement. One report contains a significant cash outflow described as *Personal Benefits*. Although the preparer has chosen to make this discretionary disclosure, the exact nature of the item was left unclear.

In some instances the model terminology appeared to be too narrow. For instance, the term *Property, Plant and Equipment*, which is widely used and understood in the

private sector, has been used in six of the eight reports in preference to the narrower model terminology - *Plant and Equipment*. A similar situation was detected in respect to the terms *Purchase of/Proceeds from Shares*, with a zero application rate noted for this terminology. Instead preparer-commanders chose the term *Investments*. This pragmatic response of the government report preparers provides a compelling reason for reviewing the terminology in the accounting standard with a view to simplification and improving understandability (AARF 1990, SAC3 Paras 37-9).

One preparer-commander described some maturing *Investments* as *Loan Repayments*. This misleading use of terminology may result in *Loans* being interpreted as *Borrowings*, which, for cash flow reporting purposes, are not classified as *Investing* activities. *Net* proceeds from, and *net* repayments, of *Borrowings*, have been disclosed in two reports. As both proceeds and repayment, of *Borrowings* are required to be disclosed on a gross basis, it was not possible to determine whether the term *Net* was intended to indicate *Net of costs* or *Net of proceeds less repayments*. The confusion this style of presentation creates not only reduces the level of consistency across the whole-of-government consolidated financial reports, it also increases the difficulty associated with achieving an accurate interpretation and understanding of the reports.

5.6.6 Summary of the three primary financial reports

The overall application of the model in respect to the three primary financial reports (Consolidated Operating Statement 70.1%; Consolidated Statement of Financial Position 73.1%; Statement of Cash Flows 68.8%) and thus the level of compliance is

remarkably consistent. Across all jurisdictions, preparer-commanders appear united in the view that presenting the three primary financial reports substantially in compliance with the prescribed requirements results in useful information.

A number of concerns noted has been discussed, including the: (1) inconsistent use of terminology; (2) unexplained combinations of items; (3) flexibility available for presentation of display format and content; and (4) voluntary disclosure of additional information. The inconsistency created by the diversity in presentational aspects of the reports unquestionably creates substantial problems of inter-entity and inter-temporal comparability and thus has implications for the ease and level of understanding of financial report users. Price and Wallace (2003) investigated international guidance associated with the materiality concept and found a proliferation of terms with similar meanings. They also argued that alignment of terminology could enhance harmonisation of standards and increase the chances that application of standards is comparable.

A substantially higher degree of consistency in terminology alone would improve comparability of information in whole-of-government consolidated financial reports. It would also be likely to reduce confusion, enhance understandability and generally reduce the cost associated with re-processing to aid interpretation of the information. Where consistent additional disclosure has been noted, the phenomenon may be reflecting a harmonisation initiative on the part of report preparers.

5.6.7 Supplementary Notes

Relative to the three primary financial reports, the ranked summary of compliance shown in Table 5.9 shows a low overall compliance rate for the Supplementary Notes of 50.1%. Within this fourth primary category, some very high compliance rates and some particularly low rates have been recorded.

To assist in the interpretation of this phenomenon, a compliance rate ranking of the items appearing in this section of the index has been prepared and is presented in Table 5.10. As noted in section 5.3, an optimal ranking within the model has not been attempted as the opinions that constitute such a ranking would be subjective. Rather the rankings presented in Table 5.10 have been objectively determined according to the compliance rate. To aid in the interpretation of the data in Table 5.10, the highest ranked items are those items in the model with which preparer-commanders are most willing or able to comply, through to the lowest ranked items that indicate those items with which they are least able or willing to comply. The presentation of ranked items in Table 5.10 is followed by a discussion.

Table 5.10
Ranked order by compliance rate of disclosures within Supplementary Notes

Compliance rate	Relative rank	Item	
		Number	Description
100	1=	1	Significant accounting policies
100	1=	2	> Accounting standards
100	1=	4	> The government reporting entity
100	1=	5	> Basis of accounting
100	1=	6	> Conformity with applicable AASs acknowledged
100	1=	7	> Relevant legislative/regulatory framework Identified
100	1=	8	> Use of accrual accounting acknowledged
100	1=	9	> Basis of measurement
100	1=	10	> Depreciation and amortisation of non-current assets
100	1=	11	> Policy on employee entitlements
100	1=	13	> Revenue recognition
100	1=	16	> Rounding
94	2=	43	Contingent liabilities
94	2=	45	Disclosure of controlled entities
88	3=	12	> Policy on leases
88	3=	14	> Policy on foreign currency – transactions
86	4	44	Compliance with appropriations
83	5	22	Net revenues from disposal of physical assets
78	6	24	Depreciation expense
75	7=	15	> Policy on foreign currency – hedges
75	7=	20	Investment income
75	7=	31	Land and buildings
71	8=	17	Disaggregated information
71	8=	18	Sectors
66	9	42	Operating lease commitments
63	10	25	Amortisation expense
59	11	37	Employee entitlements
58	12=	35	Payables
58	12=	38	Superannuation
55	13	29	Investments
54	14=	19	Revenues from taxation
54	14=	41	Commitments for capital expenditure
53	15	40	Supplementary cash flow information
52	16=	28	Other expenses
52	16=	32	Plant and equipment
44	17	23	Assets received free of charge or for nominal consideration
38	18	34	Other assets
33	19	39	Reconciliation of changes in equity
29	20=	21	Grant revenue
29	20=	26	Interest and other finance costs
29	20=	30	Receivables
25	21	3	> Id. of accounting policy where alternatives allowed
24	22	36	Borrowings
18	23	33	Roads
6	24	27	Grants and transfer payments

5.6.8 Qualitative disclosure

The ranking resulted in qualitative information disclosures being ranked highest in terms of the compliance rate. The first 16 highest ranked of the 45 items in Table 5.10, representing 35% of all items in this section, were Supplementary Notes containing qualitative information about the nature of transactions and operations, business associations and methods of accounting and valuation. One of these items (Item 3) had an anomalous outcome with a very low level of compliance (Relative rank, 21). This result demonstrates the unwillingness of preparer-commanders to comply with the prescribed requirement in AAS31 that *Alternative accounting policies* be disclosed within a designated sub-section of the Supplementary Notes. One intuitive explanation of this response is that the preparer-commanders chose to reduce repetition within the financial reports and, accordingly, did not repeat information in the prescribed location that they had provided elsewhere in the Supplementary Notes. The high level of non-compliance indicates that this is a requirement of the accounting standard that needs review.

Grants Revenue (Item 21) had a relative ranking of 20. This low rank reflected the general unwillingness of the preparer-commanders to comply with the prescribed requirements. Instead of linking Grants Revenue to a particular purpose as prescribed, they chose to describe the revenue by nature as *Specific*, *General*, or by source as received from the *Commonwealth* government. *Grants and Transfer Payments* (Item 27) had the lowest relative ranking at 24. In the Commonwealth report (one of only two observations of compliance), the components of this item were disclosed by destination, not by function as prescribed. Preparer-commanders clearly preferred to associate Grants Revenue and Grants and Transfer Payments by

source/destination and not by function/purpose. There may be some political sensitivity explaining this outcome that was unanticipated in the drafting of the accounting standard. For instance, linking Grants Revenue to a particular purpose may inadvertently imply a singularity of use of funds that may or may not be intended. Another explanation is that as the two items would be eliminated in a whole-of-government consolidated financial reporting exercise at the national level (a horizontal consolidation), preparer-commanders saw little advantage, and potentially much political disadvantage in disclosing the information. Such a response would be consistent with the method adopted in respect to the reporting of the GST that was discussed in section 2.3.3.1.

Plant and Equipment (Item 32) has a low relative ranking at 16. As there is no provision for disclosing items as *Other* preparer-commanders have responded by presenting data voluntarily in additional categories and this has caused considerable presentation inconsistency. This appears to be a drafting oversight and could be resolved quite simply with an adjustment to the accounting standard to include the item.

As Australia has only one Department of Defence (the Commonwealth; section 2.3.2), *Military Equipment* can only be disclosed in one whole-of-government consolidated financial report despite the fact that military bases and equipment are located in different States and Territories. Whether an asset that is specific to only one reporting entity should be singled out for disclosure may be defensible on the grounds of materiality. In that case, comparability becomes a matter of contrasting the item against other selected items on an intra-entity, inter-entity, or inter-sector

basis, and not necessarily against identical or even similar items. In the case of the Commonwealth's *Military Equipment*, the Net Book Value, at \$29,210m (45% of *Total Land, Buildings, Infrastructure, Plant and Intangibles*), is a significant item (Commonwealth Government of Australia 2000, p.94).

Assets received free of charge or for nominal consideration (Item 23), also has a relatively low ranking of 17. In two reports more simple language describing this item as *Donations* was used. Although comparability is not enhanced by the use of alternate (albeit similar) language, it is arguable that preparer-commanders by choosing simple language are inferring that unnecessarily complex terminology should be removed from the accounting standard. This is an issue that has implications for financial report disclosure more generally.

5.6.9 Reclassification of data

To facilitate statistical description, the data were reclassified into deciles, and frequency distributions were calculated according to these class *ranges*. The overall compliance rate for groups of items falling within the ranges was then ranked from highest (1) to lowest (10). As this ranking is based on the observed tendency of preparer-commanders to comply with the model it may be providing a measure of their beliefs about the relative importance of disclosing particular items. The results of this reclassification and the rankings are presented in Table 5.11.

Table 5.11
Frequency distribution of items by range and relative importance of the compliance rate

Frequency		Actual observations by range		Between-decile compliance ranking, (1=highest; 10=lowest)
Compliance range	f (items in class)	/Total	%	
91-100%	14	141 / 1064	13.2	2
81-90%	4	40 / 1064	3.8	6
71-80%	6	113 / 1064	10.6	4
61-70%	2	26 / 1064	2.4	7
51-60%	9	502 / 1064	47.2	1
41-50%	1	7 / 1064	.7	8=
31-40%	2	129 / 1064	12.1	3
21-30%	5	97 / 1064	9.1	5
11-20%	1	7 / 1064	.7	8=
0 - 10%	1	2 / 1064	.2	10
Totals	45	1064 / 1064	100	

Analysis of Table 5.11 indicates the most commonly occurring rate of compliance was between 51% and 60%. The group of (502) observations of items in this range includes a detailed set of (five) Supplementary Note disclosures concerned with cash flows (Tables 5.5, 5.8, Item 40). Given the traditional reliance in the public sector on cash-based accounting processes and reporting methods, a relatively low level of compliance with disclosures about cash flows is perplexing. Further, Jones, Sharma and Mock (1998, p.51) provides details of many representative studies indicating that cash flow information has been favoured by a number of advocates for its simplicity, understandability, objectivity and freedom from ambiguity. Therefore, this finding appears anomalous and warrants further investigation. The low compliance rates, for example, *Net Cash Flows from Financial Institutions*, and *Cash Flows Presented on a Net Basis* had compliance rates of 57% and 9% respectively (see Appendix 5 for full details) may be indicating that much of the prescribed disclosure is not relevant to the activities or operations of many of the reporting governments.

Further investigation revealed that one government, the Australian Capital Territory, did not disclose any controlled Financial Institutions as controlled entities. Therefore, some of the prescribed requirements of AAS31 were not relevant to this government. An adjustment to measure this effect increased the relevant compliance rate from 57% to 65%, but overall, the impact resulted in only a marginal increase from 53% (Table 5.8 Item 40) to 56%. This investigation illustrates that using a standardised presentation model (AAS31 Appendix), while facilitating the investigation of consistency may cause the observed compliance rate to be a conservative indicator as previously discussed in section 5.4.5.1.

The second most commonly occurring rates of compliance occurred within the decile ranging from 91% to 100%. The 141 observations noted within this range contain qualitative information clarifying the major accounting concepts and principles upon which the three primary financial reports are based. The disclosure of this information is consistent with the relatively high compliance priority already noted (Table 5.9) that preparer-commanders have accorded to the three primary financial reports.

The result for the third most commonly occurring rates of compliance falls within the 31% to 40% range. The count of observations in this range is skewed by the decision of seven of the (eight) preparer-commanders to disclose details about equity interests in the Supplementary Notes, rather than directly in the Statement of Financial Position. Again, the Commonwealth report was exceptional in adopting the latter option. The removal of flexibility from the accounting standard for this item would

do much to improve the consistency of whole-of-government consolidated financial reports.

The lowest overall compliance rankings by group of items occurred in the ranges 0% to 10%, 11% to 20% and 41% to 50%. The low compliance rate associated with one particular item (Table 5.8; Item 27) *Grants and Transfer Payments*, indicates the difficulty preparer-commanders experienced in determining the relevance of the item. The low compliance rate for *Roads* (see Table 5.8, Item 33:) is noteworthy. It confirms Rowles, Hutton and Bellamy (1997) who surveyed local government entities and found that most opposed the requirements to value Roads and *Land Under Roads* and that very few complied with the requirements. This is an important outcome not only because it confirms prior research of the same issue, but because it does so in a broader whole-of-government context. As a result of its controversial nature, the requirement to value Roads was subject to transitional provisions and did not have to be fully accounted for in terms of AAS31 requirements until 30 June 2002. The low compliance rate noted for item 23 (Table 5.10) *Assets received free of charge or for nominal consideration* is associated with the choice by report preparers to use simpler language (*Donations*) and has already been discussed (section 5.6.8).

5.7 Summary

In this section of the study, a measure of the level of consistency of disclosure in whole-of-government consolidated financial reports has been provided. This was achieved by establishing the rate of compliance of those reports with the AAS31 modelled prescribed requirements. While the participation in whole-of-government consolidated financial reporting was found to be high, compliance achieved with the

prescriptive framework is weak and the disclosures are characterised by inconsistency. A major finding is that the lack of consistency noted in a pre-regulation context (Miley 1999; Paice 2000) is still evident in the post-regulation environment. Reports that are not consistent generate serious doubts about the validity of intra-sector, inter-sector and inter-temporal comparisons based on the financial information in such reports. The findings direct attention to the wide diversity in terminology and display format practised which indicates that either the accounting doctrine of full disclosure (Tilley 1975) has no real meaning or it is being ignored in the preparation of whole-of-government consolidated financial reports.

A concern raised by respondents to ED40 that the method could not be implemented on a timely basis has proved to be portentous. The findings also lend weight to the criticism by Carnegie and West (1997) that the accounting regulators and standard-setters were unresponsive to their constituency through the due process procedure (AASB 1993, PS1 Appendix 2). These findings add support to the call by Ryan, Dunstan and Stanley (1999) for further investigation of the apparent existence of a systematic weakness in the due process procedure.

The structure of the prescribed requirements suggests that the Commonwealth government reporting entity may have been used predominantly as the benchmark for the development of the AAS31 prescribed requirements. The use of a unique entity as a benchmark for a prescribed set of disclosures limits the generalisability of such a framework and this may be one reason for the low compliance and inconsistency noted in this review. Whether a revision of the prescribed requirements is needed is an important question for the accounting regulators.

The beliefs as to the usefulness of whole-of-government consolidated financial reporting and the hindrances limiting the ability to comply with the prescribed requirements can only be partially understood by an examination of this type. Further enlightenment may be achieved by a more direct approach. To this end, a survey of preparer-commanders' views was conducted in a questionnaire and is the subject of the analysis and interpretation presented in Chapter 6.

Chapter Six

Survey of preparer-commanders –

Research methodology and analysis of results

6.1 Objectives

A second empirical technique is employed in this chapter in order to test further the hypotheses advanced in this study. The objective is to reduce the threats to validity and reliability of the results summarised in Chapters 4 and 5 arising from the use of a single analytical method, content analysis.

To the extent that researchers using content analysis have given attention to the usefulness of financial information, they argue by assertion as to the usefulness of the information. This is not the same as directly seeking the views of the relevant constituents, be they users or preparers. A questionnaire survey (the *questionnaire*) of preparer-commanders' beliefs as to the need for financial reports, in particular consolidated financial reports, would assist in validating the findings and assertions made in the previous two chapters that were based on content analysis alone. The matters chosen for further investigation in the questionnaire are consistent with the issues examined in the content analysis. In this way, specific issues relevant to the hypotheses can be examined from another perspective. If the same results are obtained using an alternative investigatory technique, the validity and the reliability of those results will be improved.

A questionnaire technique has been chosen as an appropriate method to achieve this aim, as it is a more, rather than less, controlled method than content analysis. Also it may provide information that may be useful in improving the understanding of data drawn from two previous points in time, that is, from the ED40 submissions (June 1987 – June 1988) and the whole-of-government consolidated financial reports (June 1999 and June 2000). It may also assist in identifying the emergence of new or previously unidentified cross-sector transfer issues across the study period, and it may confirm or repudiate the persistence of issues already identified.

6.2 Methodology

Questionnaire methods of data collection are common in the investigation of financial report disclosure. They can provide a first step in identifying and defining features that are likely to influence financial reporting policy choices or lobbying behaviour. Although the questionnaire method is typically one of the quickest and easiest, and usually amongst the cheapest data collection tools to use in accounting research, results may be unreliable if the response rate is low. However, non-respondent bias may be overcome through the use of inference and suitable allowances (Smith 1989).

A purposive sampling technique was chosen as a means of producing a sample that is typical of the cases of interest. That is, dominant and subordinate preparer-commanders were chosen as the subjects because the pattern of their responses will provide a good idea of the outcome of whole-of government consolidated financial reporting. De Vaus (1995) suggests that such a selection method can provide efficient predictions.

The size of the sample selected to receive the questionnaire was relatively small. It comprised the Head of the Department of Finance and the Bureau of Treasury, and the Auditor-General from each of the Commonwealth, States and Territories. The sample size was extended in an effort to capture the views of officers in the role of deputies or senior advisors. Accordingly lists of all such officers were accessed from relevant organisation charts and contact lists displayed on the Internet. This approach generated a list of 52 dominant and subordinate preparer-commanders and their deputies and senior advisors. This list is presented as Appendix 6. A questionnaire package comprising the questionnaire (Appendix 7) and relevant accompanying letters (Appendix 8) was mailed to each Department/Bureau Head and Auditor-General. A request to distribute the questionnaire to the identified officers and any other relevant officers accompanied each package. The recipients were asked to complete and return the questionnaire within a period of four weeks.

6.2.1 Response rate

Of the 52 questionnaires sent, 17 usable responses were received. The frequency table of total questionnaires sent and responses received appears in Appendix 9. Five questionnaires were sent to the Northern Territory and six questionnaires to Tasmania. Both of these jurisdictions had a response rate of zero. Ryan, Dunstan and Stanley (1999) in a study of responses to ED55 observed a non-response from Tasmania. For a variety of reasons the subjects selected in these two jurisdictions may not have responded. The concern in this study is whether non-response would create problems of size or bias.

In respect to size, probability sampling techniques are unnecessary in this section of the study as the concern is not one of generalising from a sample to a large population. Instead of being concerned with determining what proportion of the population gives a particular response, the research is aimed at obtaining an idea of the ranges of responses or ideas that an authoritative sub-set of the population hold. Accordingly, the methods selected to test the hypotheses are suitable for small sample testing. Also as the aim is to determine whether the same results can be obtained using an alternative investigatory technique, using more sophisticated statistical techniques will likely yield little more than self-evident results (Mattessich 1984, p.15).

As regards bias, Smith (1989) suggested that suitable allowances could be made after obtaining information about the source of the non-response. To this effect, two allowances were made in this study in respect to the Northern Territory and to Tasmania. The Northern Territory was eliminated from the annual report analysis conducted in Chapter 5 as whole-of-government consolidated financial reports were not prepared for this jurisdiction. Questionnaire data were sought from the Northern Territory report preparers, as it was believed that responses to the open-ended questions in the questionnaire would strengthen and enrich the information base. However, the non-response from this source was not unexpected as the majority of questions addressed beliefs and views of preparer-commanders who had actually been involved with the preparation of whole-of-government consolidated financial reports. Preparer-commanders in the Northern Territory had not.

Micallef (1997) noted that Tasmania was one of only two jurisdictions that had not (by 1996) committed to preparing consolidated financial reports for the whole-of-government reporting entity broadly in line with the requirements in AAS31. Although the reporting infrastructure had been expanded sufficiently to enable the preparation of such reports by the end of the 1999 financial reporting year, the 2000 report was not available in time for the review conducted in this study (Table 5.6). Relative to a number of measures including population and consolidated net assets, Tasmania is less significant than the other States. This has implications for the ability of the State to fund the timely preparation of the whole-of-government consolidated financial reports prescribed under AAS31. The completion of a questionnaire on the matter of consolidated financial reporting could only add to the administrative and, thus, funding burden of the State. For these reasons, of all the States contacted, Tasmania was the most likely to be a non-respondent.

As responses were received from the Departments of Finance and Bureaus of Treasury in five of the seven remaining jurisdictions, and from the offices of the Auditors-General in all other jurisdictions, the non-response from the Northern Territory and Tasmania was unlikely to be a significant source of bias in the overall responses. Of the 17 preparer-commander responses received, seven (41%) emanated from the Departments of Finance and Bureaus of Treasury and ten (59%) from the offices of the Auditors-General. Accordingly, the responses received were considered to provide a strong response from these authoritative sources and the response rate was recalculated after eliminating the Northern Territory and Tasmania. Details of the overall response rate are outlined in Table 6.1.

Table 6.1
Destination of questionnaires, and response rate classified by constituency category

Number of questionnaires	Finance and Treasury	Auditors-General	Overall
Sent	24	28	52
Adjustment	6	5	11
Adjusted number	18	23	41
Returned	7	10	17
Response rate (%)	39%	43%	41%

6.3 Questionnaire development

The questions were developed pursuant to the issues examined in the content analysis conducted in Chapter 4 where ED40 submissions were reviewed, and in Chapter 5 where whole-of-government consolidated financial reports were analysed. Recipients were asked to indicate their views and perceptions on a number of issues related to the consolidated financial reporting methodology proposed in ED40 and to the usefulness of whole-of-government consolidated financial information. This approach enabled a variable/case matrix to be constructed as shown in Table 6.2 that is useful in questionnaire analysis for facilitating a comparison of the cases.

Table 6.2
Variable by Case matrix (model)

Variables	Cases	
	Preparer-commanders' perceptions	
	Finance & Treasury	Auditors-General
ED40 primary thematic data characteristics		
ED40 respondents' concerns (secondary themes)		
Financial report preparers' concerns		

Responses on each variable were sought by using a range of questions and measurement approaches. The strategy of using multiple-item indicators was chosen as a means to ensure more reliable results for each variable than would be the case if only a single question were used for each variable. Different measurement methods were also adopted and three distinct types of question content; beliefs, attitudes, and attributes, were included in the instrument.

A Likert-style, five-point, rating scale approach, was adopted for the questions relating to the respondents' *beliefs* about the four ED40 primary thematic data categories of Usefulness, Scope, Control, and Preparation (Table 4.4). This system allocates a score depending on the answer to each question. The scores from each respondent for each question were added together to provide an overall score for each question. The resultant scale (*sum of scores*) was taken to indicate the respondents' position on the dimension the question was intended to tap. In this manner, the intensity of respondents' beliefs (+5 = very strong positive, to +1 = very

strong negative) was measured. Other researchers (Cushing & Loebbecke 1986; Pacecca 1995) have used a similar approach as it is suitable for determining a total score and an average score per element of interest. By combining the scales from a number of related questions the strength of beliefs on particular items was investigated.

The scale has been weighted to overcome the limitation that arises in interpreting the data when positive responses (+5, +4) score more highly than no opinion (+3) and negative responses (+2, +1). The weighted average score occurs at 3.335 (or 66.7% of the maximum score). The scale adopted in the questionnaire and the weighting adjustment applied to the scale is shown in Table 6.3.

Table 6.3
Likert scale used in the study, including weighting adjustments

<div>Belief</div>	Strongly disagree	Disagree	No opinion/Not encountered	Agree	Strongly agree
Score	+1	+2	+3	+4	+5
Weightings	1/15	2/15	3/15	4/15	5/15
%	6.7%	13.3%	20.0%	26.7%	33.3%
Cum. %	6.7%	20.0%	40.0%	66.7%	100.0%
Adj %	6.7%	13.3%	40.0%	10.0	16.7
Cum.adj.%	6.7%	20.0%	50.0%	66.7%	100.0%

The questionnaire was designed to provide a logical flow to questions and to encourage respondents to complete it. To this end, the questionnaire design methodology as suggested by de Vaus (1995) was adopted. The end product was a questionnaire that grouped questions into *sections*, provided a variety of question

formats, including a minimal number of open-ended questions and that contained appropriate response instructions such as tick, rank and choose.

The Likert-style questions were presented as a matrix. A range of general questions formulated from the analysis of responses to the ED40 proposal was also asked, using the Likert-style rating scale approach. Questions aimed at understanding why the consolidated financial reporting method may not have been fully or properly implemented were developed using a mix of scaling and ranking. Although more complex and, so, more difficult for respondents to complete than Likert-style questions, the ranking-style questions provided an opportunity for respondents to indicate their *attitudes* towards certain issues.

Where questions related to the *attributes* of the respondents it was sufficient to indicate by placing a tick (✓) in a space provided in the questionnaire. One contingency-type question requiring the respondents to complete two following questions only if their response was *Yes* was included. A comparative review of the literature on ratings and rankings indicated that these techniques may be interchangeable for the purpose of preparing aggregate preferences (Alwin & Krosnick 1985, p.537-8) and so the mix of approaches adopted in the format of the questionnaire was considered to be appropriate.

In some questions, *Other* was provided as a possible response and respondents were asked to specify or to explain their answer. This open-ended component in the questioning was considered desirable where the use of the closed question format may not have provided an exhaustive list of choices. Open-ended questioning

reduces the likelihood that respondents will choose answers that they might perceive as *acceptable*, as well as providing them with an opportunity to qualify their answers. Gallup (1947) suggested that a combination of closed and open-ended questions may be useful in allowing the researcher to see if a respondent has thought about or is aware of the issue; to get at the specific aspects of the issues; and, to determine how strongly the opinion is held. It also enables the researcher to understand the respondents' general feelings on the matter and to find out their reasons for their opinions.

6.3.1 Questionnaire pre-testing

An academic colleague with a background in the regulation and preparation of consolidated financial reports tested the questionnaire. The manner of testing was designed to provide an appropriate age and educational matching to the selected sample group. The test-respondent was asked to indicate the time taken to complete the questionnaire, whether any questions were difficult to interpret or to understand and whether there was sufficient space provided for answers to the open-ended questions. Minor adjustments were made as a result of this process.

6.3.2 Questionnaire summary

In order to demonstrate the style of questions included in the questionnaire selected questions are presented in Exhibit 6.1. The final questionnaire consists of sixty questions and is presented in full in Appendix 7. The response data has been summarised and descriptive statistics are presented in Table 6.5.

Exhibit 6.1

A sample of questions from the questionnaire

For the purposes of completing this questionnaire the following two terms have been defined.

- **Efficiency** refers to cost efficiency
- **Effectiveness** refers to achieving objectives

1. What group do you represent? (please tick)

Finance and Treasury Auditors-General Other Public Sector Entity

☐ ☐ ☐

The following statements are designed to understand your views in respect to *whole-of-government* consolidated financial statements, and situations you envisage, or have encountered in their preparation.

Consolidated whole-of-government financial information is *useful* because it is:

- 3. of a specific nature appropriate to meet the needs of specific stakeholders groups.
- 4. both of a general and a specific nature to ensure the needs of different stakeholders are met.
- 5. enables more cost-efficient decision-making than from using unconsolidated information.
- 6. enables more effective decision-making than from using unconsolidated financial information.
- 7. comparable to financial data of other whole of government entities.
- 9. understandable.

General questions.

- 45. Improving consolidated whole-of-government financial data should take priority over other government financial reporting reforms.
- 49. In your view the following stakeholders use consolidated financial information:
 - (a) Policymakers.
 - (b) Regulators.
 - (c) Managers of controlling entities.
 - (d) Managers of controlled entities.
 - (e) Users other than management.

Following are some reasons that may explain the successful application of whole-of-government consolidated financial reporting. Rank responses by entering numbers in the spaces below. Rank 1 = Most important; Rank 11 = Least important.

- 52. Consolidated financial reporting has been successfully implemented at the whole-of-government level because:
 - (a) it is a professional requirement of AAS 31.
 - (b) it is required under government regulations.
 - (c) managers are convinced of its merits.
 - (k) other reasons (please specify).
- 57. If your answer to Question 55 was 'Yes', who received the training? Please indicate by ticking (✓) one or more of the spaces below
 - (a) Managers, professionally qualified as accountants.
 - (b) Other staff, not professionally qualified as accountants.
 - (c) Other (please specify).
- 59. As a result of the introduction of AAS31, has the financial recording and reporting system in your jurisdiction been modified so as to facilitate the preparation of consolidated financial information? Please indicate by ticking (✓) only one of the spaces below.
 - (a) Yes.
 - (b) No.
 - (c) Not yet, but it is intended to make modifications.
- 60. If your answer to Question 59 was (a) or (c), please describe the modifications.

6.4 Analysis of data

6.4.1 Respondents’ beliefs - ED40 data themes

An analysis and interpretation of respondents’ beliefs was performed in respect to the four primary data themes identified in the review of ED40 and the 22 secondary data categories identified in the content analysis of the ED40 submissions (Table 4.4). The analysis and interpretation was accomplished as follows.

First the questions were matched to the appropriate secondary data categories and thus to the ED40 primary data themes. This matching has been shown in Table 6.4. Second, descriptive statistics from the responses to each of these questions were computed and are presented in Table 6.5. As questions are designed to address different aspects of the primary themes it was not appropriate to collapse all statistics into a single aggregate. However, where several questions cover the same issue they have been collapsed into single aggregates. Third, Pearson correlations were computed for each set of associated questions to assist in understanding whether respondents had correctly interpreted related sets of questions that were designed to tap a similar issue. These correlations are presented as a matrix and shown in Table 6.6. The triangle above the diagonal in the matrix is a mirror image of the triangle below the diagonal (de Vaus 1995, p.188). Therefore, for a simpler presentation the data above the diagonal have not been shown. The descriptive statistics and correlations are interpreted in the analysis and interpretation of the results of the responses to the questions.

Table 6.4
ED40 - Matching of questions to primary and secondary data themes

Primary category		Secondary category		
		Theme	Questions	Variables
1	Usefulness of consolidated financial reports	1	2,3	Consolidated financial reporting is appropriate
		2	4,6,12,13,	Consolidated financial reports are useful
		3	18,19	Public sector CFRs are useful
		4	15,16,10	Consolidated performance indicators are relevant
		5	7,8	Consolidated financial information is comparable
		6	9	Consolidated financial information is understandable
		7	5,11,14,17	Benefits of preparing CFRs outweigh the costs
		8	45	Consolidated financial reporting should take priority over other proposed government financial reporting reforms

Primary category		Secondary category		
		Theme	Questions	Variables
2	Scope and application of consolidated financial reporting	9	33	Scope of reporting entity is appropriate
		10	30	Definition of reporting entity is appropriate
		11	36	Appropriate to consolidate dissimilar activities
		12	20,21,22, 23,24,25	Consolidated financial reporting should extend to the public sector

Primary category		Secondary category		
		Theme	Questions	Variables
3	Control	13	31,39,40	Concept of control is appropriate
		14	28	Definition of control is appropriate
		15	26,27	Control criteria are able to be applied
		16	32,41	Concept of economic entity is appropriate
		17	29	Definition of economic entity is appropriate

Primary category		Secondary category		
		Theme	Questions	Variables
4	Preparation of consolidated financial reports	18	34,47	Technical infrastructure adequate
		19	35	Human resource infrastructure is proficient
		20	46	Compatible with existing public sector reporting requirements
		21	37	Appropriate to aggregate cash and accrual data
		22	38	Consolidated entities should have the same balance date

Table 6.5
Descriptive statistics for secondary data themes

Question		Response count and scale			Extremity of views		Dispersion		Median	Mode
Num-ber	Questionnaire section	Count	Sum of scores (Scale)	Average score	Mini-mum	Maxi-mum	Std. Dev.	Var.		
2	2	16	55	3.44	2	5	1.0308	1.0625	4	4
3	2	16	52	3.25	2	5	1.1832	1.4000	4	4
4	2	16	52	3.25	2	4	1.0000	1.0000	4	4
6	2	16	59	3.69	1	5	1.0145	1.0292	4	4
12	3	16	61	3.81	2	5	.6551	.4292	4	4
13	3	16	55	3.44	2	5	.8921	.7958	4	4
Aggregate 4,6,12,13		64	56.75	3.55	1	5				
18	5	16	43	2.69	1	4	.9465	.8958	2.5	2
19	5	16	47	2.94	1	4	.9979	.9958	3	4
15	4	16	56	3.50	2	4	.7303	.5333	4	4
16	4	16	51	3.19	2	4	.8342	.6958	3	4
Aggregate 15,16		32	53.5	3.34	2	4				
10	2	16	54	3.38	2	5	1.0247	1.0500	4	4
7	2	16	63	3.94	2	5	.7719	.5958	4	4
8	2	16	51	3.19	2	4	.9811	.9625	4	4
Aggregate 7,8		32			2	5				
9	2	16	66	4.13	4	5	.3416	.1167	4	4
5	2	16	54	3.38	1	5	1.1475	1.3167	4	4
11	3	16	55	3.44	2	4	.8139	.6625	4	4
14	4	16	52	3.25	2	4	.7746	.6000	3	4
17	5	16	45	2.81	1	4	.9811	.9625	3	2
Aggregate 5,11,14,17		64	51.5	3.22	1	5				
45	13	17	44	2.59	1	4	1.0037	1.0074	2	2
33	10	16	64	4	2	5	.6325	.4000	4	4
30	9	17	60	3.53	2	5	1.0676	1.1397	4	4
36	12	17	57	3.35	1	5	1.2217	1.4926	4	4
20	6	16	58	3.63	2	5	.8851	.7833	4	4
21	6	16	48	3.00	2	4	1.0328	1.0667	3	2
22	6	16	49	3.06	2	5	1.1236	1.2625	3	2
23	7	17	47	2.76	1	5	1.3005	1.6912	2	2
24	7	17	68	4.00	2	5	.9354	.8750	4	4
25	7	17	42	2.47	1	5	1.2307	1.5147	2	2
31	10	16	65	4.06	2	5	0.6801	0.4625	4	4
40	12	17	71	4.18	2	5	0.7276	0.5294	4	4
Aggregate 31,40		33	68	4.12	2	5				
39	12	16	44	2.75	2	5	1.1832	1.4000	2	2
28	9	17	57	3.35	2	5	1.2217	1.4926	4	4
26	8	17	69	4.06	2	5	0.7475	0.5588	4	4
27	8	17	70	4.12	2	5	0.7812	0.6103	4	4
Aggregate 26,27		34	69.5	4.09	2	5				
32	10	16	65	4.06	2	5	0.6801	0.4625	4	4
41	12	17	41	2.41	1	4	1.0037	1.0074	2	2
29	9	17	58	3.41	2	5	1.1757	1.3824	4	4
34	11	17	65	3.82	2	5	0.6359	0.4044	4	4
47	13	16	46	2.88	2	5	0.9574	0.9167	3	2
35	11	17	57	3.35	2	5	0.9963	0.9926	4	4
46	13	17	58	3.41	2	4	0.8703	0.7574	4	4
37	12	17	44	2.59	1	5	1.1757	1.3824	2	2
38	12	17	66	3.88	2	5	0.7812	0.6103	2	5

Figure 6.1
Legend for interpretation of the descriptive statistics

- **Question**
 - **Number** Indicates the question number in the questionnaire
 - **Section** Indicates the section within the questionnaire
- **Response count and scale:**
 - **Count** Indicates the number of respondents to a question
 - **Scale** Indicates sum of scores for all respondents to a question.
 - 5 = Strongly agree
 - 4 = Agree
 - 3 = Not encountered
 - 2 = Disagree
 - 1 = Strongly disagree
 - **Average score** is the sum of scores divided by number of respondents
 - **Weighted average** score is 3.335 (see Figure 6.1)
- **Extremity of views**
 - **Minimum** 1 = Strongly disagree
 - **Maximum** 5 = Strongly agree
- **Dispersion**
 - **Std. Dev.** Standard deviation from the central tendency (the mean)
 - **Var.** Variance (about the mean)
- **Median** The *middle* measurement in the responses
- **Mode** The *most frequently occurring* responses in the scale

6.4.2 Analysis and interpretation of results

6.4.2.1 (1) Usefulness of consolidated financial reporting

a) *Secondary category 1 – Consolidated financial reporting is appropriate*

The scores for Question (Q) 2 (3.44) and Q3 (3.25) when compared to the weighted average score (WAvS.) (3.335) do not provide strong evidence of an overall *belief* that consolidated financial reporting is appropriate to satisfy both the general and specific information needs of stakeholder groups. It was expected that respondents would regard Qs.2 and 3 as mutually exclusive and the low correlation coefficient confirmed that this occurred.

b) *Secondary categories 2 and 3 - Consolidated (public sector) financial reports are useful*

The aggregate of Qs.4, 6, 12 and 13 resulted in an average score (AvS.) of 3.55. Measured against the WAvS. of 3.335 this result indicates an overall belief that whole-of-government consolidated financial reports are useful. Analysing the components of this set of questions reveals that respondents believe the reports can be used to make effective decisions (Q6 AvS.3.69; Q12 AvS.3.81). There was some evidence, although weaker (Q13 AvS.3.44), to suggest the reports may also be useful for resource allocation decisions.

These results were confirmed in the responses to Qs.18 and 19 where respondents indicated that unconsolidated information was less useful (AvS.2.69, 2.94) for both decision-making and resource allocation. The high positive correlations between Qs.6 and 12, and between Qs.18 and 19 indicate that respondents answered these sets of related questions in a consistent manner.

The respondents may be implying that, whereas whole-of-government consolidated financial reports are suitable for presenting an overall view of government operations, resources and obligations, those same reports may not be suitable for use as a basis for the allocation of government resources. An implication of this interpretation is while whole-of-government consolidated financial reports may be useful for accountability purposes, they are less useful as a basis for decision-making and resource allocation. The effect that accrual-based financial information can have on the measurement and assessment of government activities and resources for the purposes of future allocation of resources and programming of government activities is an issue of concern that was raised in the literature review in Chapter 3. The matter of new allocative and distributional arrangements connected with the utilisation of new accounting standards in the public sector concerned Aiken and Capitanio (1995). They warned that ‘accounting standards which can surreptitiously manipulate the flow and distribution of funds in government may need to be disestablished’.

The generally weak results found in parts (a) and (b) [appropriateness and usefulness of consolidated financial reporting, and in the public sector specifically] may be linked to the concerns raised by Quinlan (in Awty 2002, p.40). Quinlan suggested that it may be timely to question and to challenge what the public sector is trying to achieve through accrual accounting and to ‘consider whether all the traditional accrual concepts applied to the private sector should be applied to the public sector’.

c) *Secondary category 4 - Consolidated performance indicators are relevant*

The review of literature led to an expectation that the respondents would not find consolidated financial performance indicators useful because of the aggregation of information and the consequential loss of detail that occurs in the consolidation process (Jones & Pendlebury 1996, p.197). The combination of Qs.15 and 16 resulted in an AvS. of 3.34. Measured against the WAvS. of 3.335, this outcome provides only weak evidence of a belief that consolidated performance indicators are useful. When the results of the two questions are viewed separately, while the respondents' view performance indicators as useful for decision-making (AvS. 3.50) they do not hold the same view about the usefulness of performance indicators for resource allocation decisions (AvS. 3.19). In respect to Q10 respondents indicated a belief although not strong (AvS. 3.38), that consolidated financial reports could be used for benchmarking purposes.

d) *Secondary category 5 - Consolidated financial information is comparable*

Questions 7 and 8 have an AvS. of 3.56 (WAvS. 3.335). This indicates that respondents believe consolidated financial information is comparable. The separate measurements show that while respondents hold a relatively strong view that whole-of government consolidated financial information is comparable on an intra-sector basis (Q7 AvS. 3.94), they do not believe it is readily comparable to the consolidated financial data of other reporting entities (Q8 AvS. 3.19).

e) *Secondary category 6 - Consolidated financial information is understandable*

Respondents believe the reports are understandable (Q9 AvS. 4.13; WAvS. 3.335). The quality of understandability is regarded by some as an important attribute of

effective reporting (Jones 1988; Schroeder & Gibson 1990). If financial information is not understandable then decisions such as the resource allocation decisions of government based on information that has not been properly comprehended are questionable (Jackson 1993). SAC3 (AARF 1990) lists *understandability* (Paras.36-8) as a characteristic that financial information should have in order for it to be useful. Question 9 was used to test this proposition. There are two implications of this response: (1) that in the respondents' view consolidated financial information meets the criterion of understandability; and (2) respondents' believe they understand consolidated financial information.

f) Secondary category 7 - The benefits of preparing consolidated financial reports outweigh the costs

Questions 5, 11, 14 and 17 cover this issue. These questions have an AvS. of 3.22 (WAvS. 3.335). The implication of this result is that respondents are not convinced the benefits of preparing consolidated financial reports outweigh the costs. However, the average for Q17 is 2.81, which indicates a very strong belief that, in terms of cost-effectiveness for decision making, unconsolidated information is much less beneficial than consolidated information.

g) Secondary category 8 - Consolidated financial information should take priority over other proposed government financial reporting reforms

The descriptive statistics presented in Table 6.5 indicate the respondents' lack of support for further government effort to improve whole-of-government consolidated financial reporting. The AvS. for Q45 was only 2.59 (WAvS. 3.335) indicating the respondents' strong opposition to giving consolidated financial reporting a high

priority on the financial reporting reform agenda. Both the median and the mode were recorded as +2 (*Disagree* on the Likert scale), which provides evidence of the intensity of the negative response.

6.4.2.2 (2) Scope and Application of consolidated financial reporting

a) Secondary categories 9 and 10 – Scope and Definition of reporting entity are appropriate

That some financial report users may not be able to command an entity to prepare special purpose financial information to suit their needs and so are reliant on general purpose financial reports, is recognised in the reporting entity concept. Respondents provided a relatively strong response to Q33 (AvS. 4.0; WAvS. 3.335) that implied the *reporting* entity concept in their view, is appropriate for whole-of-government consolidated financial reporting.

Question 30 was developed to address the definition of the reporting entity. Respondents provided a positive response to this question (AvS. 3.53; WAvS. 3.335). This result provided some evidence that respondents believed the definition of a reporting entity, as provided in AAS31 (AARF 1990), to be clear and unequivocal. This is an important outcome as it implies that compliance with the consolidated reporting methodology as prescribed in AAS31 was unlikely to be confounded by an inability to apply this definition.

As Qs.33 and 30 were designed to examine a similar issue, the responses were correlated to test the consistency of responses. At 0.6172 (Table 6.6) the correlation

is strong providing reassurance that the respondents are answering similar questions, on separate occasions, in a consistent manner.

b) Secondary category 11 - Appropriate to consolidate dissimilar activities

The responses to Q36 showed much variability ranging from Likert scales of +5 (Strongly agree) to +1 (Strongly disagree). The median and mode were both 4 (agree) and the AvS. was 3.35 (WAvS. 3.335). This response provides only marginal support for the proposition that:

since the objective in preparing consolidated financial statements is to reflect the economic entity as a single reporting entity it does not matter whether entities comprising the economic entity are involved in dissimilar activities. (AARF 1987, ED40 Para.28).

c) Secondary category 12 - Consolidated financial reporting should extend to the public sector

Questions 20, 21 and 22 were designed to assist an investigation into respondents' beliefs about whether any external user groups had a need for whole-of-government consolidated financial reports. A positive response would be interpreted as implying that consolidated financial reporting is a relevant external reporting practice for the public sector. The responses indicated a belief that some benefits of such reporting were experienced by both external and internal stakeholders (Q20 AvS. 3.63; WAvS. 3.335). Therefore the interpretation is that respondents support the cross-sector transfer of the practice.

Questions 23, 24 and 25 were designed to examine respondents' beliefs about which stakeholder group bore the costs of whole-of-government consolidated financial

reporting. Respondents were given a choice among all stakeholders, preparer entities, and external stakeholder groups. Thus, as with Qs.20, 21 and 22, it is inappropriate to aggregate the descriptive statistics.

Respondents rejected the propositions that external stakeholders bear the costs of preparing whole-of-government consolidated financial reports (Q25 AvS. 2.47), and that the costs are borne by all stakeholders (Q23 AvS. 2.76). The intensity and consistency of the descriptive statistics for Q24 (AvS. 4.00; Median and Mode +4) indicate respondents' belief that preparer entities substantially bear the costs of whole-of-government consolidated financial reporting. The correlation matrix confirmed a low association between Qs.23 and 24 (-0.2569) and Qs.24 and 25 (0.1629); and a strong corroborating association between Qs.23 and 25 (0.8155). These correlations indicate that respondents were answering these related questions in a consistent manner.

6.4.2.3 (3) Control

a) Secondary categories 13, 14 and 15 – Concept and definition of control are appropriate and applicable

The respondents' belief about the propriety of the concept of control for the purpose of whole-of-government consolidated financial reporting was tested in Qs.31, 39 and 40. Beliefs about the appropriateness of the AAS31 definition were tested in Q28, and Qs.26 and 27 were directed towards an investigation of the applicability of the definition in a realistic environment.

The statistics provide a firm indication (Q31 AvS. 4.06; Q40 AvS. 4.18; WAvS. 3.335) of the respondents' belief that the concept of control is appropriate for whole-of-government consolidated financial reporting. That respondents are interpreting and answering these related questions consistently is confirmed in the strong correlation coefficient (0.7632).

The respondents did not appear similarly convinced that ownership was the most appropriate criterion for the application of consolidation accounting in the public sector. The statistics for Q39 return an AvS. 2.75 (WAvS. 3.335). This was not an unexpected outcome, given that the organisation of entities and services within the public sector has not traditionally been ownership based, but rather, associated with the sources of funding. The implication drawn from these results is that preparers believe the concept of control is eminently suited to the public sector.

The results for Q28 (AvS. 3.35) provide very weak support that the definition of control is clear and unequivocal. This finding is important as it has implications for the ability of preparers to implement the consolidated financial reporting method correctly and consistently. Earlier discussions in this study have alerted the reader to the implications of a weakly specified definition of control.

Qs.26 and 27 were designed to investigate whether respondents believed a strongly specified definition of control would reduce the cost of preparing (Q26) and monitoring (Q27) consolidated financial reports. The responses were strong and positive (AvS. 4.06 and 4.12 respectively) implying that if definitions used in consolidated financial reporting were unequivocal the overall cost of applying the

practice would reduce. The strong correlation between Qs.26 and 27 (0.9506) confirmed that respondents were dealing consistently with similar subject mater.

b) Secondary categories 16 and 17 - Concept and definition of the economic entity are appropriate

The respondents' belief about the propriety of the concept of the economic entity for whole-of-government consolidated financial reporting was tested in Qs.32 and 41 (concept) and the definition in Q29. Evidence from the descriptive statistics for Q32 provided support for the concept of the economic entity (AvS. 4.06). However, respondents did not support the consolidation of entities being triggered by a common economic interest such as might occur if the two entities operate in a partnership or joint venture arrangement (Q41 AvS. 2.41; WAvS. 3.335). The statistics provide some, although weak, evidence that respondents believe the definition of an economic entity (AAS24:Para.18) is appropriate (Q29 AvS. 3.41).

6.4.2.4 (4) Preparation of consolidated financial reports

a) Secondary categories 18 and 19 - Technical infrastructure is adequate and the human resource infrastructure is proficient

In financial reporting the technical and human resources infrastructures are important, as it is the people and the resources available to them that produce the reports. The respondents' belief about the adequacy of the technical infrastructure was tested in Q34. The statistics indicate a belief that the technical infrastructure of the public sector is adequate to cope with the compilation and preparation of consolidated financial reports (AvS. 3.82). When questioned about the need to

devote more resources to improve the infrastructure (in Q47) the negative response (AvS. 2.88) can be interpreted as a strongly held belief that this is unnecessary.

The respondents' belief about the adequacy of the human resource infrastructure was tested in Q35. The AvS. of 3.35 was marginally positive relative to the WAvS. of 3.335. However no strong disagreement was noted; the most intense negative response was a Likert score of +2 (Disagree), and both the median and mode were measured at +4 (Agree). This is likely to be indicating a belief that the human resource infrastructure necessary to facilitate consolidated financial reporting is proficient, but perhaps barely so. This outcome adds credibility to the comments reported by Orkopoulos (1999, p.49) from public sector financial report preparers who said that:

... they prepared the annual report on top of their other duties, and they had rarely received formal training. Further, they received little feedback from within the government system as to what was done well or done badly.'

b) *Secondary category 20 - Compatible with other public sector reporting requirements*

Whether the respondents believed that consolidated financial reporting was compatible with other public sector reporting requirements was examined in the responses to Q46. It was hoped the responses might assist in clarifying whether extant internal regulation may be impeding full implementation of the practice. The statistics, although positive (AvS. 3.41; WAvS. 3.335) are only weakly so, and have been regarded as inconclusive. The question was probably not specific enough to

direct respondents to a narrow, financial reporting interpretation of the term *Other public sector reporting requirements*.

c) Secondary category 21 - Appropriate to aggregate cash and accrual data

It was expected that most respondents would reject the implication in ED40 (AARF 1987, ED40 Para.3) that aggregation of cash-based data with accrual-based data was acceptable. Accordingly Q37 was directed towards an investigation of this matter. The respondents firmly rejected the suggestion that it was appropriate to aggregate cash and accrual data (AvS. 2.59; WAvS. 3.335). Furthermore, while responses ranged from +1 (strongly disagree) to +5 (strongly agree), both the median and mode were +2 (Disagree) confirming the interpretation that respondents believe such aggregation is inappropriate.

It would appear that the inclusion of such a statement in ED40 was aimed at motivating the initial compilation and preparation of whole-of-government consolidated financial reporting in an organisational context that was moving from a cash-based to an accrual-based reporting framework. Any comparison between reports compiled under such a combination of theoretical frameworks would be invalid as would decisions made or inferences drawn from the data in the reports.

d) Secondary category 22 - Consolidated entities should have the same balance date

Respondents provided support for the notion that consolidated entities should have co-terminous balance dates (AARF 1987, ED40 Para.31) as was indicated in the statistics for Q38 (AvS. 3.88). A median and mode of +4 (Agree) provided

corroborating evidence of this interpretation and no instances of Strong disagreement (+1) were noted.

6.4.2.5 Proper implementation of consolidated financial reporting

Respondents were asked to provide their views about the propriety of adjusting the accounting policies of subsidiaries to achieve consistency. As this question was not directly associated with the primary or secondary data categories presented in Table 6.4 the statistics were not provided in Table 6.5. The respondents agreed (AvS. 3.94) that accounting policies should be consistent for all entities comprising the consolidated entity. This response was anticipated as the various accounting standards directing consolidated financial reporting in Australia (AAS24, AAS31, AASB1024) each include a paragraph to this effect. It was thus considered likely that report preparers would have accepted the rationale of internal consistency as necessary for proper implementation of the method.

Respondents were asked (Q58) to provide their view of the extent to which they believed whole-of-government consolidated financial reporting has been properly implemented. Only 41% (7) of respondents believe the methodology has been properly implemented, and 59% (10), believe that the method has only been partially implemented. These results add support to the finding in Chapter 5 that the prescribed requirements of AAS31 have been less than fully applied. Most respondents (94%) estimated that compliance with AAS31 is between 75% and 100%, while all respondents believe that compliance is greater than 50%. This is consistent with the actual compliance rates noted in Table 5.9 for the three primary financial reports: Consolidated Operating Statement (70.1%); Consolidated

Statement of Financial Position (73.1%); Consolidated Statement of Cash Flows (68.6%); and Supplementary Notes (50.1%).

Table 6.7
Descriptive statistics of the extent to which respondents’ believe consolidated financial reporting has been properly implemented

Q number	Question	Response	%
Q58	Extent to which consolidated financial reporting has been properly implemented		
	Fully (100%)	7	41
	75% - 99%	9	53
	50% - 74%	1	6
	25% - 49%	0	
	1% - 24%	0	
	Not at all (0%)	0	
	Totals	17	100

The finding that only 41% of respondents believe the method has been properly implemented is particularly disturbing. Without proper implementation, the output is not reliable and not valid for any purpose whether it is the discharge of financial accountability of government Ministers, intra-sector or inter-sector comparison, government decision-making, or the allocation of resources. This finding provides an independent confirmation of media evidence of poor accounting and reporting processes in parts of the public sector. For instance, the following reports were noted in the *Australian Financial Review*.

The report (of the NSW Audit Office) also reveals major problems in account reporting, with one third of government agencies not providing working papers by agreed dates, 32 per cent of financial reports requiring major changes, and 17 per cent of working papers ranked “poor” (Allen 2001, p.11).

The NSW Aboriginal Land Council did not present annual reports to Parliament for 1999 and 2000 (Allen 2002, p.9).

The discovery of a \$900,000 accounting error made by the federal Department of Finance ... In the change from cash to accrual accounting an error occurred in relation to the court's library holdings ... The effect of the error was to eliminate the annual funding for library materials (Koutsoukis 2002, p.55).

Clearly there is still some way to go before any claims can be made that the cross-sector transfer of consolidated financial reporting has been successfully completed.

6.4.3 Users

Respondents were asked their beliefs about the identity of users of whole-of-government consolidated financial reports, the extent of understanding of the information they attributed to those users, and whether those users are likely to find the information useful for decision-making. These results were not presented in Table 6.5 as these questions, although interesting in light of the user-identification and needs debates revealed in the literature review (Chapter 3), were not directly associated with the primary and secondary data categories presented in Table 6.4.

In question 48 respondents were asked whether whole-of-government consolidated financial information was relevant to their own decision-making. The AvS. was 3.31; measured against the WAvS. of 3.335, this response is interpreted as indicating that report preparers did not find this type of information useful for their own

decision-making purposes. An implication of this finding is that statements that whole-of-government reports have a preparer rather than a user perspective (Collett, Godfrey & Hrasky 1998) may lack substance.

Next the respondents were asked to identify from a range of five groups, those users likely to find whole-of-government consolidated financial reports useful (Q49); their beliefs about the extent of the users’ understanding (Q50); and the usefulness of that information for the users’ decision-making (Q51). The findings are presented in Table 6.8.

Table 6.8
Identity of users; Level of users’ understanding and Usefulness for decision-making of whole-of-government consolidated financial reports

User Groups	Average Score		
	Q49	Q50	Q51
1. Policymakers	4.13	3.19	3.81
2. Regulators	3.44	3.31	3.19
3. Managers of controlling entities	3.69	3.44	3.44
4. Managers of controlled entities	2.81	2.75	2.69
5. Users other than management	4.00	2.69	3.69

These results may be interpreted as support for the view that policy-makers find the reports useful (Q49) and do use them for decision-making (Q51). The response that policy-makers and regulators do not understand (Q50) the reports is perplexing. Report preparers believe that managers of controlling entities find the reports useful (Q49), understand the reports (Q50) and use them for decision-making (Q51). The results provide support (Qs.49, 51) for the usefulness to, and use of the reports by, non-management users, but again there are concerns that non-management users do

not properly understand the reports (Q50). As regards managers of controlled entities the response is negative on all counts indicating the preparer-commanders' belief that commanders below them in the (financial reporting) hierarchical chain of command (Table 2.2) have little understanding of, or use for, the ultimate outcome of the financial information they provide to their (financial reporting) superiors. This finding has implications for the quality of the output of a consolidation process that relies on information fed into the pipeline at the grass roots level by less-senior public sector officers who may have little understanding of that output.

6.4.4 Respondents' attitudes

6.4.4.1 Ranked data

Respondents' attitudes to certain issues that were identified in the literature review and the review of ED40 submissions, as reasons likely to explain either the successful cross-sector transfer of the methodology or the impediments to that transfer, were investigated in two questions in which a ranking approach was adopted. Some respondents encountered difficulty in ranking the relatively long lists of items that were included in the questionnaire. Accordingly, only the items ranked by respondents as the two *most* important and the two *least* important were considered in this analysis. The ranked items are presented in Table 6.9.

Table 6.9
Reasons impeding or explaining the success of the cross-sector transfer of consolidated financial reporting

Question number	Question
Q52	Reasons explaining the successful transfer
	<i>Most important</i>
	(h) It is not difficult to understand
	(d) The benefits of preparation outweigh the costs
	<i>Least important</i>
	(a) It is a professional requirement (AAS31)
	(j) Adequate technical resources exist to support implementation
Q53	Impediments to the successful transfer
	<i>Most important</i>
	(e) Unconsolidated financial information provides a more cost-efficient source of information for decision-making
	(g) Unconsolidated financial information provides a more effective basis for resource allocation decisions
	<i>Least important</i>
	(b) Managers are not convinced of its merits
	(i) Technical resources are inadequate

These ranked results indicate that respondents understand the method (Q52h), and add support to the interpretation of results in section 6.4.2.1(e). The evidence that respondents believe the benefits of preparation outweigh the costs (Q52d, Q53g) assists in interpreting the inconclusive results shown in section 6.4.2.1(f). In addition to believing that the cost/benefits of consolidated financial information are positive relative to unconsolidated financial information (section 6.4.2.1(f)), from the results of Q52d and Q53g, it appears likely that respondents also believe the overall cost/benefits of consolidated financial information are positive.

The response to Q53j adds support to the interpretation in section 6.4.2.4(a) that the technical infrastructure is adequate to support the implementation of the consolidated financial reporting method. Thus, it may be inferred that the state of the technical

infrastructure does not appear to be the reason the method has not been fully implemented.

6.4.5 Attributes of the implementation process

A series of questions was designed to investigate the actual manner in which whole-of-government consolidated financial reporting was implemented and the nature of the costs involved in that process. These questions (Q54-57, 59) required respondents to indicate whether or not particular events had occurred and to describe the changes made to the technical infrastructure to support the implementation of the method (Q60). The results of questions 54-57 and 59 are summarised in the descriptive statistics presented in Table 6.10. The technical modifications are outlined in Table 6.11.

An inference drawn from these results is that incurrence of consultancy and training costs was necessary to the implementation of the method. When considered in light of the marginally positive response noted in section 6.4.2.4(a), the implication is that the outlay of more resources in this regard would have improved the proficiency of the human resource infrastructure.

Table 6.10
Descriptive statistics
of the attributes of the implementation process

Q number	Question	Response	%
Q54	Who was involved in the process?		
	Government advisors	12	23
	External consultants	10	19
	Managers professionally qualified as accountants	17	32
	Others, not professionally qualified as accountants	11	20
	Others	3	6
	Totals	53	100
Q55	Relevant training has been provided		
	Yes	15	88
	No	2	12
	Totals	17	100
Q56	Training approach		
	Intensive with time release	4	14
	Periodic on-the-job instruction	12	41
	Brief introduction	5	17
	Written internal instruction	8	28
	Totals	29	100
Q57	Who received the training?		
	Managers professionally qualified as accountants	14	56
	Others, not professionally qualified as accountants	9	36
	Others	2	8
	Totals	25	100
Q59	Has the financial system been modified to facilitate the preparation of consolidated financial information?		
	Yes	14	82
	No	3	18
	Totals	17	100

Question 60 was an open-ended question in which the respondents were asked to describe the changes that were made to the technical infrastructure necessary to support the implementation of the method. Response data have not been included with the statistics in Table 6.10. Instead the content of the responses to question 60 has been collated and is presented in Table 6.11.

Table 6.11
Modifications to accounting systems to accommodate consolidated financial reporting

1	Information from controlled entities is fed into the Treasury in a standardised form. Systems are in place to prepare consolidated financial reports by automated process. Treasury policies govern reporting practices.
2	Internet based reporting on a monthly basis to the prepared consolidated financial report utilising a specific chart of accounts and account coding.
3	Additional equipment and software; restructure of the chart of accounts; establishment of business rules associated with consolidation and elimination of related party transactions.
4	Treasury have a financial reporting system that agencies input their information to in a prescribed manner.
5	The consolidated statements are prepared by uploading previously audited information electronically into a consolidation ledger.
6	The Treasury has implemented the Treasury Information Management System to facilitate the data collection of whole-of-government financial information on a quarterly basis.
7	Adoption of an improved financial information system.
8	AAS31 financial statements are based on standardised electronic general ledger format completed by agencies. The standard format is amended to ensure compliance with AAS31 and other accounting standards.
9	Many variations.
10	New data collection and recording systems.
11	Special data collection processes. Modified existing consolidation system to reduce data collection.
12	Consolidation technology developed to facilitate speedy consolidation processes each month.
13	Consistent accounting policies; administration procedures for data collection; accrual accounting and budgeting reforms.
14	Develop an accrual information system to extract data for Treasury in the form of an extract tool and a spreadsheet to assist agencies to map chart of account data to Treasury requirements.

These findings indicate that implementation of whole-of-government consolidated financial reporting was a costly process. It was necessary to seek advice from internal and external consultants (Table 6.10), to retrain both professional and unqualified staff and to make modifications to accounting systems (Table 6.11) to enable the compilation of information necessary for the preparation of the reports.

6.5 Hypothesis testing

Three hypotheses advanced earlier in this study (section 4.3) are now re-examined.

H2: Preparer-commanders believe whole-of-government consolidated financial reporting is useful.

The analysis and interpretation of the results presented in section 6.4.2.1(b) provide confirmation of the findings noted in Chapter 4 that preparer-commanders believe whole-of-government consolidated financial reporting provides useful information.

H3: Preparer-commanders' commitment to the cross-sector transfer of the consolidated financial reporting method is positive.

Willingness and ability have been defined in this study as indicators of preparer-commanders' commitment to the cross-sector transfer of the consolidated financial reporting method. The results presented in section 6.4.2 indicate that preparer-commanders are willing (section 6.4.2.2(c)), and believe they are able (section 6.4.2.4(a)) to apply the method in the public sector.

H4: The status of the technical and human resource infrastructure are associated with the usefulness of consolidated financial reporting.

The results presented in section 6.4.2.4(a) and Table 6.11 appear to be confirming that the public sector technical infrastructure is adequate and human resource

infrastructure is sufficiently proficient to support the proper application and implementation of the method.

6.6 Summary

In this chapter a questionnaire about whole-of-government consolidated financial reporting was introduced and the results from administering that questionnaire were analysed and interpreted. This included a discussion of the research design, questionnaire development, data collection procedures, measures used, data preparation procedures, and the analytical techniques employed.

The results provided further insight into the beliefs of preparer-commanders as to the usefulness of consolidated financial reports and their commitment to the cross-sector transfer of the method. While there appears to be a belief that whole-of-government consolidated financial information may be useful for decision-making purposes, there was relatively less evidence to suggest that information was suitable for the purposes of government resource allocation decisions.

After considering the adequacy of the resources dedicated to providing relevant training, the preparer-commanders' belief that they understand the method and their view, also, that the technical infrastructure is adequate for the compilation of data and the preparation of the reports, these do not appear to be the matters impeding full implementation of the method. Rather it appears that implementation gaps are more likely to be associated with other matters. For instance, the loose definition of the control concept and the reluctance of report preparers to merge such fundamentally different concepts as the cash and accrual-based methods of accounting.

Chapter Seven

Summary, conclusions and recommendations

7.1 Introduction

The purpose of this study was to examine the issues surrounding the cross-sector transfer of a particular reporting practice, consolidated financial reporting, to the Australian public sector. A Commander Theory approach was adopted as an appropriate framework in which to conduct the examination as Commander Theory is ideally suited to the hierarchical system of control over resources that exists within the public sector.

An important objective was to provide information about the extent of compliance with AAS31 to determine whether user-commanders regarded compliance with the prescribed requirements of that standard to be useful as a mechanism for the discharge of their financial accountability as envisaged in PS4 (AASB 2000) (section 3.2.5). Another important objective was to identify factors associated with the level of compliance with AAS31 as these would provide explanations of public sector commanders' views of the nature of financial information and the manner of presentation that would best discharge their financial accountabilities.

7.2 Organisation of the chapter

The major findings are summarised in the next section. The findings in respect to accountability, usefulness and consolidated financial reporting are then discussed. Next the findings in respect of the analysis of ED40 submissions, the compliance of

whole-of-government consolidated financial reports with the prescriptive framework, and the questionnaire are reviewed. Conclusions are drawn and directions for future research are suggested.

7.3 Summary of the major findings

The major findings of this study include: that the use of the concept of control is associated with the institutional move towards cross-sector harmonisation of accounting practice in the area of whole-of-government consolidated financial reporting; and, that there is a significant level of non-compliance with the prescribed requirements in AAS31. The key factors associated with levels of compliance were found to be: lax definitions (economic entity; control) provided in the authoritative regulation (AAS24, AAS31), inappropriate definitions of important concepts, most notably, assets (in SAC4); and the limited relevance of the prescriptive content of AAS31.

The relentless pursuit of the harmonisation of private and public sector consolidated financial reporting appears to have driven the cross-sector transfer and to have been given priority over a vigorous theoretical consideration of the appropriateness of this accounting method in the public sector context. In a number of important respects the implementation of the cross-sector transfer was clumsy. These include that the philosophy of new managerialism had not been fully or widely debated and the implications for the traditional form of government financial reporting did not appear to be fully understood. The nature of public sector assets, and the possibility that a different definition of assets for the public sector may be appropriate, did not appear to have been considered. The concept of control although eminently suited to

the public sector, is so weakly specified as to deny any reasonable level of inter-entity or inter-temporal consistency of application to occur, and this in a sector that is influenced by politically motivated constituents. The identity of users and their specific needs has been presumed on the basis of no stronger evidence than embedded custom. Further, judged by the level of compliance of whole-of-government consolidated financial reports found in this study with the prescriptive content of AAS31, the cross-sector transfer of consolidated financial reporting has been badly managed if harmonisation *within* the public sector was the imperative.

Relative to the review of ED40 submissions, of whole-of-government consolidated financial reports, and of the analysis of the questionnaire used to survey the views of preparer-commanders, the findings provide evidence to support the four propositions presented in Chapter 4. These are:

- (1) that user-commanders believe consolidated financial reporting is useful (sections 4.5.3.2; 4.5.4.1; 4.6.1);
- (2) that preparer-commanders believe whole-of-government consolidated financial reporting is useful (sections 4.6.2; 5.6.2; 6.4.2.1(b));
- (3) that preparer-commanders commitment to the cross-sector transfer of the consolidated financial reporting method is positive (sections 4.6.3; 5.6.2; 6.4.2.2(c); 6.2.4.2(a)); and
- (4) that the status of the technical and human resource infrastructure are associated with the usefulness of consolidated financial reporting (section 6.4.2.4 (a)).

7.4 Accountability, usefulness and consolidated financial reporting

7.4.1 Accountability

The institutional structure of the public sector was considered in this study in an attempt to understand the nature of the financial accountabilities of Parliamentary Ministers (user-commanders) that exist as a result of the functioning of that structure. This consideration was also undertaken in an attempt to understand the relative influence of external forces as opposed to internal forces in determining the shape of financial reporting practice in the public sector. The relevant financial reporting authorities and the legislated requirements of each of the Commonwealth government, the six States and the two self-governing Territories were reviewed and summarised. The outcome of this process was a better understanding of the strength of the internal regulation and authorities vis a vis the external forces shaping financial reporting in the public sector. The form and the content of financial reports as detailed in the relevant legislation was compared and the authoritative nature of the discretionary Orders and Instructions of the relevant Heads of the Departments of Finance and the Bureaus of Treasury was noted. The Treasurers' Instructions generally provided the approval for the application of private sector professional accounting regulations in the course of compiling whole-of-government consolidated financial reports thus demonstrating the predominant influence of the internal sources of authority.

Developments and recent reforms in public sector accounting and financial reporting, including the shift to accrual-based accounting, were identified and explained. A significant development noted was the apparent philosophical shift from a narrow focus of government accountability to a wider accountability perspective

accommodating the financial information requirements of the broad electorate. In particular, it was noted that the Australian conceptual framework for financial reporting specifies (AARF 1990, SAC2 Para.14) that one purpose of financial reporting is to discharge the accountability of governing bodies to those who provide resources. The conceptual framework includes governments and Parliaments as members of the community making resource-allocation decisions on behalf of their constituents. Thus the conceptual framework provided a basis for the view that user-commanders may use whole-of-government consolidated financial reports as instruments to satisfy the accountability demands of the broad electorate.

The review that was conducted of the whole-of-government consolidated financial reports provided new evidence which demonstrated that Ministers in the Commonwealth, States and Territories signed statements in those reports verifying that they had been prepared in accordance with Australian accounting standards and having regard to the accounting concepts of the conceptual framework (section 2.2.2.1). *Thus, it may be said that whole-of-government consolidated financial reports have been used by user-commanders for the purpose of discharging financial accountability.*

The review of auditors' opinions on the whole-of-government consolidated financial reports confirms the application of Australian accounting standards and the conceptual framework in substantially all material respects in the compilation of those reports. This provides corroborating evidence that the reports have been used by user-commanders for discharge of accountability purposes.

7.4.2 Usefulness of consolidated financial reporting

Private sector theoretical models, such as the conceptual framework for financial reporting, have influenced accounting regulation as it relates to the identification of users and the likely purposes for which financial information are used. In this study, whether such a framework for the identification of the needs for and usefulness of financial information necessarily serves well as the basis for consolidated financial reporting in the public sector was investigated. It was concluded that the accounting regulators assumed both the identity of users and the needs of the users of whole-of-government consolidated financial reports.

Whole-of-government consolidated financial reports were then reviewed for usefulness as judged by compliance with a prescriptive framework (in AAS31). There was no specific evidence found in the literature that assisted in determining the basis used by the standard-setters for the development of the particular prescriptive framework in AAS31. However, the findings from Chapter 5 point to the nature and operations of one government, the Commonwealth, and the private sector accounting standards, having been used predominantly as the benchmark. It became clear that with the emphasis on harmonisation and the choice of an inappropriate benchmark, the standards-setters, in a number of respects, mis-specified the issue they were trying to tackle. The use of such a benchmark as the basis for comparison for all government reporting entities does not seem well founded as many components present in the Commonwealth government reporting model are not present in the other government reporting models and vice versa. It would have been appropriate for the standard-setters to prepare a prescriptive framework based upon a theoretical model of the nature of Australian government and its operations. In the absence of a

transparent process for the formulation of the prescriptive framework, and confronted with evidence suggesting that the framework is weakly specified, the onus is on the accounting regulators and standard-setters to prove that the framework adequately reflects the nature and operations of government.

An implication of the low overall compliance rate with the prescriptive framework, that was noted in Chapter 5, demonstrates that a prescriptive model developed from a unique base will have limited generalisability. As the information in the whole-of-government reports produced under the model are not readily comparable the implication is that they are deficient as: (1) they do not satisfy the harmonisation requirement of the accounting regulators; (2) they are unlikely to satisfy the accountability needs of user-commanders; and (3) none of the reports provides a valid benchmark against which to compare and/or assess other consolidated reports. A re-specification of the prescriptive requirements of AAS31 based on an appropriate theoretical concept of the nature and operations of the Australian public sector would improve the model's generalisability and have positive implications for both cross-sector and within-sector harmonisation and the comparability of consolidated financial reports.

In a reporting regime characterised by weak definitions, where there has been a failure to identify users, where the needs of users are unknown, and where preparers are often unable and unwilling to comply with prescribed requirements, it is not surprising that the level of compliance with the prescriptive framework was found to be variable and generally low. Given that concerns about the inappropriateness of, and lack of harmony evident in whole-of-government consolidated financial

reporting have been raised in different forums and by different advocates, it is noteworthy that the prescribed requirements have not already been reviewed and that the standard-setters appear to be resisting the review process. That the appropriateness of the prescribed requirements has not been reviewed is even more surprising in an environment where the approval and use of those requirements relies to a very large extent on the goodwill of public sector officers who are authoritative in the policy-making process. The variability in, and generally low level of concise and consistent reporting noted in Chapter 5, is regarded as a major constraint to the usefulness of the reports as a mechanism for the discharge of government financial accountability.

7.4.3 Consolidated financial reporting

There have been successive efforts across the last three decades to establish the consolidated financial reporting method for external financial reporting purposes in Australia, in an effort to monitor the financial performance of groupings of economic organisations. While this method has emerged as the primary basis of reporting about groups of entities, it has not proved to be universally relevant to the point of doing away with the reporting of separate parent entity and subsidiary entity reports.

The benefits of whole of government consolidated financial reporting are associated with it providing one reference source that allegedly details total government resources and obligations. While much of this type of information is available in the reports of individual government Departments, Authorities and other organisations, and in different forms of report such as budget documents, it is not yet provided in one reference source. Whole-of-government reporting has the potential to draw this

information together and in so doing, to provide an overall representation of the resources and obligations of government. As such, it is a reporting methodology that may allow governments to compare their aggregate financial position from one period to the next and with those of other governments. It may also have some use in the identification of trends requiring government action and in facilitating strategic assessments and planning by governments.

As identified in this study, a point of particular concern when monitoring the financial status and performance of the public sector is that not all the resources and obligations of government may have been properly included in whole-of-government consolidated financial reports, or indeed, included at all. This phenomenon is associated with the subjective interpretation of the critical element of control, and with concerns about the requirement to classify government resources as assets irrespective of their nature and to value those resources subjectively.

Subjective interpretation has resulted in the exclusion of substantial organisations such as Universities and Local Governments that are economically associated with but not necessarily totally dependant on or controlled by central governments in respect to resources and direction. Concerns surrounding the appropriateness of classifying all government resources as assets and then valuing those resources has resulted in the exclusion from the consolidated reports of a number of jurisdictions of such significant items as: Roads; Land Under Roads and other Infrastructure items; and of Cultural, Heritage and environmentally significant items. Disagreement about the exposure of governments to obligations has seen the New South Wales WorkCover Scheme Statutory Fund excluded from consolidated reports. Political

incentives have been suggested as providing sufficient motivation to exclude a significant tax, the Goods and Services Tax, from the consolidated financial reports of the Commonwealth government.

Hence, a warning is provided in this study that the propriety of, and current preference for, the outright transfer of private sector accounting standards and regulations such as consolidated financial reporting to the public sector, may be inappropriate and certainly needs to be viewed cautiously.

7.5 ED40 submissions, Financial reports, Questionnaire

7.5.1 ED40 submissions

Constituents' participation in a lobbying process surrounding the proposal in ED40 to extend consolidated financial reporting to the Australian public sector was documented, analysed and interpreted in this study. Content analysis was used in order to better understand the concerns of respondents about aspects of the proposed cross-sector transfer of the method to the public sector.

A major outcome of this analysis was the identification of concerns of the respondents to ED40 about the proposed conceptual approach and possible structural impediments. Although respondents accepted that the consolidated financial reporting approach would be likely to provide useful information about the public sector, they did not approve of significant aspects of the methodology that was proposed in ED40. The respondents indicated their belief that particular concepts, most importantly those of the *economic entity* and *control*, would be difficult to implement and apply consistently. In this respect there is little difference between

the public and the private sectors as these same difficulties have troubled regulators and auditors of private sector consolidated financial reports since the method was introduced in its present form as AAS24 in 1990. In respect to the concept of control, this finding is important as control rather than ownership is the defining form of organisation in the public sector. Yet, even in an environment of fairly clear lines of control, evidence of the inconsistent and subjective application of this concept was clear and abundant.

As regards the implications of a cross-sector transfer of the method for structural issues, an important outcome of the ED40 analysis was the identification of respondents' concerns that timely implementation of the method would be extremely difficult to achieve. These concerns were not trivial as the problems of fully implementing the accrual-based accounting method and reconciling the demands of pre-existing government financial and reporting regulations such as cash-based budgeting had to be resolved before the method could be properly implemented. The timely production of whole-of-government consolidated financial reports was found to be problematic in this study as governments struggled to produce the reports on a timely basis. Evidence from the literature review suggests that this problem persists subsequent to the period of interest in this study (Walker 2002; Challen & Jeffrey 2003).

It was only after a very long gestation period of over ten years from the release of ED40 that a professional accounting standard, AAS31, applying the consolidated financial reporting method at the whole-of-government level was released. Pacecca (1995), when considering the twelve-year time period from the release of an initial

exposure draft on Foreign Currency Translation to the issue of an accounting standard, suggested that this could be reflecting the importance and contentious nature of the topic. Certainly much controversy was revealed in the analysis of the submissions on the ED40 proposal. The negative response to the ED40 proposal that was noted in this study has been interpreted as evidence that the conceptual conflict associated with the choice of consolidated financial reporting method was, at that time (1987-1988), by no means resolved.

Eddey (1992) indicated that the accounting standard that proceeded from ED40 was almost unchanged from the contents of that exposure draft (Exhibit 3.1). This has implications for the validity of the due process mechanism (AASB 1992, PS1) that was developed to assist in identifying areas in exposure drafts that may be in need of redrafting prior to the formulation of an accounting standard. That the standard-setters were unresponsive in the case of ED40 supports the contention revealed elsewhere in the literature (section 3.3.3.3) that the due process mechanism has failed in this important respect.

7.5.2 Financial reports

The aim in this review was to measure the ability and willingness of preparer-commanders in the public sector to provide whole-of-government consolidated financial reports that complied with the prescriptive framework in AAS31. It was hoped that this review would enable an objective assessment to be made of the state of harmonisation that existed within the public sector in respect to whole-of-government consolidated financial reports. Preparing a model that reflected the prescriptive requirements of the professional accounting standard, AAS31 and then

examining compliance with that model achieved this aim. The examination took the form of content analysis of the whole-of-government consolidated financial reports. An index was developed capturing the extent of compliance with the model.

The evidence from the content analysis of whole-of-government consolidated financial reports revealed that not all governments had embraced the consolidated financial reporting method. Of the eight (of nine) governments that had adopted the method, none were found to have fully complied with the prescriptive framework. Even more troubling was the variable rate of compliance with different components of the prescriptive framework that was observed. This was important because the rate of compliance was interpreted as evidence of, and as a measure of, preparer-commanders' ability and willingness to comply with the prescribed requirements. High levels of compliance with (international) accounting standards have been interpreted in some studies as an acknowledgment that more needs to be done to overcome perceptions of poor quality relating to domestic accounting models (Street & Gray 2001). It is possible that the low levels of compliance found in this study are indicative of preparer-commanders' beliefs that the prescriptive framework in AAS31 represents a poor quality model and that variations to that model are necessary to improve the quality of the output. The voluntary disclosures observed in this analysis that are supplementary to the AAS31 model may be evidence that preparer-commanders are searching for a superior theoretical framework for a whole-of-government consolidated financial reporting model.

A key finding was that preparer-commanders appeared to regard compliance with the prescriptive framework, insofar as this may produce useful *primary financial reports*,

as important. On the other hand significantly lower levels of compliance were observed in respect to the *Supplementary Note* disclosure requirements of the prescriptive framework. Of the eight governments that did apply the prescriptive framework, the information content and display they used for the three primary financial reports complied substantially (Table 5.8, 70.7%) with the prescribed requirements. In respect to the Supplementary Notes, the overall compliance rate was, at 50.1%, extremely low. This was interpreted as evidence of both unwillingness and an inability on the part of report preparers to apply these prescribed requirements.

Overall, the tendency of preparer-commanders was to comply with the model more, rather than less. This is indicated by an observed mean compliance rate of 55.4% (Table 5.8). Total compliance with the model was not expected, as the regulation allows for some choice in presentational aspects as well as content. However, the low level of the overall compliance rate is interpreted as evidence that preparer-commanders are either unable to comply with a substantial portion of the prescribed requirements because those requirements are not relevant within the jurisdictions of the reporting entities, or they are not yet convinced that those requirements are appropriate to the public sector. In the former case, this interpretation would be indicative of a need to develop an appropriate conceptual model for whole-of-government consolidated financial reporting. In the latter case, this is interpreted as signalling that the controversy surrounding the suitability to the public sector of the consolidated financial reporting concept contained in AAS31 continues.

It became clear in conducting the review that the flexibility allowed in AAS31 to present information in different locations within the reports, and the individualistic presentation style adopted by preparer-commanders for some components of the reports, had a negative impact on the consistency of the reports. Preparer-commanders frequently used language and terminology that differed from the prescribed requirements. They varied the display format through aggregation and also through disaggregation of some items. A substantially higher degree of consistency in display format and terminology in the reports would be likely to reduce the confusion and decrease the difficulties encountered by report users when making comparisons. Any intra-sector, cross-sector and/or temporal comparisons of the reports that may be attempted would be similarly affected. The use of consistent formats and terminology is a matter with which the accounting regulators should be vitally concerned if their aim is to enhance harmonisation.

Many information items that were not contained within the prescriptive framework were added voluntarily to the financial reports. Importantly, preparer-commanders demonstrated some consistency in their voluntary disclosure choices. For instance, *Inventories* was separately disclosed in seven of the eight complying reports. This finding strengthens the conclusion drawn in this study that the prescriptive framework is weakly specified and overdue for an overhaul.

The literature review revealed that there have been opinions aired recently from authoritative quarters, specifically from the Heads of Treasuries Accounting and Reporting Advisory Committee (*HoTARAC*), that AAS31 should be dropped in favour of a sector specific standard for the public sector (Challen 2003; Fabro 2003).

The observed response of the head of the AASB that such a proposal is ‘inappropriate and unduly influenced by views of government’ and that such action would ‘irreparably damage the international image and status of the AASB as a high quality standard setter’ (Fabro 2003), is an indefensible basis for the continued application of an inappropriate accounting or reporting method to the public, or any, sector. There is a very real possibility that unless the standard-setters respond appropriately, and with action rather than rhetoric, they will undermine their own tenuous authority in public sector accounting standard-setting.

7.5.3 Questionnaire

A questionnaire was used to obtain preparer-commanders’ views as to the usefulness of whole-of-government consolidated financial information. The overall results that were presented in Chapter 6 support the findings in Chapter 5. That is, preparer-commanders of whole-of-government consolidated financial reports believe those reports are useful; but, when the AAS31 prescriptive framework is used as the *model*, preparer-commanders believe that whole-of-government consolidated financial reporting has not been either fully, or properly, implemented across the public sector. Preparer-commanders estimated that the compliance rate was approximately 75% to 100%. This is consistent with the actual compliance rates noted in Chapter 5 (Table 5.9) for the three primary financial reports: Consolidated Operating Statement (70.1%); Consolidated Statement of Financial Position (73.1%); and, Consolidated Statement of Cash Flows (68.8%). However, this finding was not consistent with the observed compliance rate for the Supplementary Notes (50.1%, Table 5.9). This information may be of importance to researchers investigating perceptions of the relative importance of components of financial reports.

The respondents to ED40 indicated that the status of technical and human resource infrastructures were likely to impede the cross-sector transfer of the method. The results of this study indicate that preparer-commanders' believe the consolidated financial reporting method is not difficult to understand; and they hold the view that the technical infrastructure is adequate for the compilation of data and the preparation of the reports. It appears that sufficient resources were made available to reduce this perceived problem to negligible proportions. There was little evidence provided by respondents to suggest that devoting more resources to improving the skills of the human resource infrastructure would have had a significant impact on the level of compliance with the prescriptive framework. The implication of this is that the adequacy of the technical infrastructure and the proficiency of the human resource infrastructure were not the matters that significantly impeded the successful cross-sector transfer of the method in those jurisdictions where the method has been applied.

This study provided some indication as to who might find whole-of-government consolidated financial reports useful. Preparer-commanders believe that public sector policy-makers and managers of controlling entities in the public sector have uses for the reports. There is also some limited evidence that non-management users may also have some use for the reports. However, preparer-commanders believe that report preparers at the controlled entity level have little understanding of, or use for, the ultimate outcome of the financial information they provide to their superiors for the purposes of consolidated financial reporting. This finding has worrying

implications for the quality of information that is integrated into the consolidation process.

7.6 Conclusion

In Chapter 1, arguments were put which justified the cross-sector transfer of the consolidated financial reporting method to the Australian public sector. The findings in this study provide strong grounds for believing that the user-commanders and preparer-commanders support the cross-sector transfer of consolidated financial reporting but not the particular methodology proposed in ED40 or prescribed in the subsequent accounting standard, AAS31.

There is a question about the extent to which the regulation of whole-of-government consolidated financial reporting should be driven by the Treasurer's Instructions of individual jurisdictions, rather than being guided by the pronouncements of the professional accounting bodies. This study provides evidence that the accounting pronouncements of the professional bodies relevant to consolidated financial reporting in the public sector (AAS24, AAS31) have influenced the reporting practices of whole-of-government reporting entities. This example of the harmonisation of private and public sector financial reporting practice has led to whole-of-government consolidated reports that, although exhibiting some consistency, lack rigour in this regard. As such, the achievement of a robust framework for whole-of-government consolidated financial reporting providing output that has validity for comparative purposes cannot yet be claimed.

Through having used professional accounting standards and the conceptual framework for financial reporting as a frame of reference for this study, there is some increased understanding about the usefulness of the information provided in whole-of-government consolidated financial reports. Considerable doubt has been raised about whether the nature and operations of all government entities are adequately reflected in whole-of-government consolidated financial reports. These findings highlight inadequacies of the accounting standard currently in place for whole-of-government consolidated financial reporting. They also point to the need for the public sector policy-makers and Auditors-General to take a solid stand and insist on implementation of appropriate public sector accounting and reporting standards.

Aside from the outcome of proposing that a review of the accounting standard for whole-of-government consolidated financial reports is overdue, an important perspective is provided in this study about the nature of users of the reports and their purposes for using the reports. It also provides some understanding of the beliefs of the preparers of the reports about the appropriate content and display format insofar as they regard it as useful.

In considering any changed requirements for the content and format of whole-of-government consolidated financial reports, an appropriate theoretical framework that adequately reflects the nature and operations of government needs to be developed. Underpinning this process is the need to identify, in addition to user-commanders, other users of whole-of-government consolidated financial reports and their information requirements, as these are likely to be very different to those identified in the private sector. In the absence of this information, the output of the whole-of-

government consolidation process will not serve any useful purpose other than by chance.

While preparer-commanders including Auditors-General and their senior advisers supported the consolidated financial reporting method as a means of enhancing accountability performance this support cannot be regarded as strong or unambiguous. They appear to have been adversely influenced by the potential problems they would encounter when interpreting or auditing such weakly defined concepts as the economic entity, control and assets. A great deal of controversy surrounded the requirements to classify government resources as assets to which a reasonable estimate of value could be ascribed. Only time will tell if the support within these authoritative elements of the public sector for the cross-sector transfer of the method will continue or if their policy-making efforts can overcome barriers such as subjective interpretation and disclosure inconsistencies. In the meantime, it seems that much can be done to improve the harmonisation of accounting practice in the area of whole-of-government consolidated financial reporting and the accounting standard-setters are urged to take the lead by reviewing the propriety of AAS31.

7.7 Directions for future research

A number of new directions for future research are suggested by the findings of this study. First, the influence of other types of users on the levels and type of public sector financial report disclosure could be tested. In addition to Parliamentary Ministers using whole-of-government consolidated financial reports for discharge of accountability purposes, the needs of the electorate, advocacy groups and other stakeholders could be investigated. Second, this study could also be replicated using

the financial reports from subsequent years. Further, the compliance index could be adapted to investigate specific types of voluntary financial report disclosure occurring in different periods, in different jurisdictions and under differing conditions. Other specific research issues are not limited to, but could include, the following.

1. Theoretically, the provision of an incomplete picture of the nature, operations, resources and obligations of government may have political or economic consequences. If the exclusion of some of these components is significant then justification exists for the re-specification of concepts such as the economic entity and of control, and of the definitions of the components of financial reports.
2. A consideration of the consolidation method that most accurately reflects the organisational and operational structure of Australian government may be useful. An appropriate theoretical specification is crucial to the successful resolution of the controversy and lack of consistency that characterises whole-of-government consolidated financial reporting.
3. Due process is a procedure that, in theory, protects the openness, neutrality and independence of the Australian accounting standard-setting process. It is observed to have failed in more than one important instance. An investigation aimed at identifying systemic weaknesses in this theoretical concept would do much to resuscitate the credibility of the process.

4. Whole-of-government financial reporting is an important step along the route to National accounts. Whether whole-of-government consolidated financial reporting based on the entity concept is the most appropriate theoretical framework to achieve this outcome is a question that is of considerable contemporary interest to public sector policy-makers.
5. A contribution of this study is that it provides information on public sector managers' revealed preferences associated with information content and disclosure formats in consolidated whole-of-government financial reports. It would be useful to know whether the preferences observed are associated with behavioural characteristics or with other theoretical variables.
6. An investigation and exploration of variables that, theoretically, may lead to improved whole-of-government consolidated financial reporting for accountability purposes would be of importance to user-commanders.

Appendix 1
Australian Territories not directly represented
in Parliament

Number	Name
1	Ashmore and Cartier Islands
2	Australian Antarctic Territory
3	Christmas Islands
4	Cocos (Keeling) Islands
5	Coral Sea Islands
6	Heard and McDonald Islands
7	Jervis Bay
8	Norfolk Island

Appendix 2

Australian government financial reporting legislation

Reporting requirements

Details follow of the financial reporting and audit requirements under the authoritative legislation of the Australian Commonwealth and each State and Territory.

Jurisdiction	Legislation	Preparation	Audit	Contents	Conceptual basis	Treasurers' Instructions
Commonwealth	FMAA 1997; FMAA 1997	Ss49,55	S56			
Australian Capital Territory	FMA 1996	S22(1)	S24(1,2)			
New South Wales	PFAA 1983	S6(1)	S27B(3) (a)	S6(2)		S9(2)(g)
Northern Territory	FMA&A 1995	S9(1)	S9(2)	S9(1)	S9(1)	S9(1)
Queensland	FAAA 1977	S38B(1)	S38B(5)	S38B(3)	S12(2)	
South Australia	PFAA 1987	S22(a)(xiv)	S36(a)(i)	S41(4)		S41(1)(b)
Tasmania	FMAA 1990	S26(1)	S39			S42(2)
Victoria	FMA 1994	S24	S25(j)	S25(a)	S25(b)	
Western Australia	FAAA 1985	Ss62(1) (a),66	S93		S62(2)	Ss58,60(2)

1. Commonwealth

Financial Management and Accountability Act 1997 (FMAA 1997), Ss. 49, 55-6

Part 8 of the FMAA 1997 deals with the preparation (Ss.49, 55) and audit (S.56) of annual financial statements of the Commonwealth by the Finance Minister. The specific requirements are as follows:

49 Annual Financial Statements

- (1) A Chief Executive must give to the Auditor-General the annual financial statements required by the Finance Minister's Orders.

55 Preparation of annual statements by Finance Minister

- (1) As soon as practicable after the end of each financial year, the Finance Minister must prepare the annual financial statements required by the regulations.

56 Audit of Finance Minister's annual financial statements

- (1) As soon as practicable after receiving financial statements under section 55, the Auditor-General must examine the statements and prepare an audit report in accordance with the regulations.

Financial Management and Accountability Regulations 1997 (FMAA-Reg. 1997),

Ss.22A, B.

The FMAA-Reg. 1997 prescribe matters necessary or convenient for giving effect to the FMAA 1997. The particular regulations relating to financial reporting are contained in section 22A and to audit, in section 22B. The regulations are as follows:

22A Preparation of annual financial statements by Finance Minister (Act, S.55)

- (1) For subsection 55(1) of the Act, the Finance Minister must prepare annual financial statements in relation to the Commonwealth that include the following:
 - (a) an operating statement;
 - (b) a statement of financial position;

- (c) a statement of cash flows;
- (d) notes to the financial statements.
- (2) The annual financial statements mentioned in subregulation (1) must give a true and fair view of:
 - (a) the Commonwealth's financial position at the end of the financial year for which the statements are prepared; and
 - (b) the results of the Commonwealth's operations and cash flows for that financial year.
- (3) If the annual financial statements would not otherwise give a true and fair view of the matters mentioned in subregulation (2), the Finance Minister must add to the financial statements such information and explanations as will give a true and fair view of those matters.
- (4) The Finance Minister must state in the annual financial statements whether, in the Finance Minister's opinion, the financial statements give a true and fair view of the matters mentioned in subregulation 20.

22B Audit of Finance Minister's annual financial statements (Act, S.56)

- (1) For subsection 56(1) of the Act, the Auditor-General must state in each audit report whether, in the Auditor-General's opinion, the financial statements mentioned in subregulation 22A(1):
 - (a) have been prepared in accordance with regulation 22A; and
 - (b) give a true and fair view of the matters mentioned in subregulation 22A(2).
- (2) If the Auditor-General is not of that opinion, the Auditor-General must state the reasons.

2. Australian Capital Territory

Financial Management Act 1996 (FMA 1996), Ss.22-3

Part 3 of the FMA 1996 deals with the preparation (S.22) by the Treasurer and the audit (S.24) of the annual financial statements of the Territory. The specific requirements are as follows:

22 Annual financial statements of the Territory

- (1) The Treasurer shall, as soon as practicable after the end of a financial year, prepare annual financial statements for the territory for that year.
- (2) The statements must be prepared in accordance with generally accepted accounting practice* and include-
 - (a) the financial statements required under the financial management guidelines; and
 - (b) a statement of the accounting policies adopted by the Territory; and
 - (c) such other statements as are necessary to fairly reflect the financial operations of the Territory during the year and its financial position at the end of the year.

* *Generally accepted accounting practice means accounting practices and procedures recognised by the accounting profession as appropriate for reporting financial information relating to government, ...being practices and procedures that are consistent with this Act and any relevant Appropriation Act.*

24 Audit of annual financial statements

- (1) The Treasurer shall give a copy of the annual financial statements relating to the financial year to the auditor-general within 4 months after the end of the year.
- (2) The auditor-general shall, within 30 days after he or she receives a copy of the annual financial statements under subsection (1), provide the Treasurer with an audit opinion about the statements.

3. New South Wales

Public Finance and Audit Act 1983 (PFAA 1983), Ss. 6, 9, 27B

Part 2, Division 1 of the PFAA 1983 deals with the preparation (S.6) and the audit (S.27b) of annual financial statements of the Total New South Wales State Sector by the Treasurer. The specific requirements are as follows:

6 Preparation of the Total State Sector Accounts

- (1) As soon as practicable after the end of each financial year, the Treasurer is to prepare consolidated financial statements for the Total State Sector as at 30 June in that year.
- (2) The statements referred to in subsection (1) are to be prepared in accordance with Australian Accounting Standards.

Further, section 9, subsection (2)(g) allows the Treasurer discretion to issue directions relating to the preparation of the Total State Sector Accounts.

9 Treasurer's directions

- (2) ...the Treasurer may issue directions relating to:
 - (g) the preparation of the Total State Sector Accounts...

27B The Auditor-General

- (3) The Auditor-General's functions include the following:
 - (a) to audit the Total State Sector Accounts and any other accounts that the Auditor-General is required or authorised to audit by law.

The Public Finance and Audit Amendment (Budgeting and Financial Reporting) Act 2002 (*PFAA 2002*), was introduced subsequent to the period of interest in this study. Effectively the PFAA 2002 changed *inter alia* subsection 6(1) of PFAA 1983 to the following:

- (1) ...the Treasurer is to prepare consolidated financial statements for the Total State Sector...
- (2) The statements referred to in subsection (1) are to be prepared in accordance with Australian Accounting Standards.

4. Northern Territory

Financial Management Act 1995 and Amendments (FMA&A 1995), Ss.9-11

Part 2 of the FMA&A 1995 deals with the preparation and audit by the Treasurer of an annual financial statement of the Public Account (S.9), for the preparation of; a financial statement for Government Business Divisions (S.10); and, 'Other' financial statements (S.11). Preparation of a combined report for the Whole or Total Territory is not specifically required.

9. Treasurer's annual financial statement

- (1) The Treasurer shall, within the period of 3 months immediately following the end of each financial year or such other period as the Administrator determines in respect of a particular financial year, prepare, in such form as the Treasurer thinks fit, a statement of (*inter alia*) -
 - (a) receipts, expenditures and balances of the Public Account ...
 - (b) cash and investments representing the balances in the Public Account and the Accountable Officers' Trust Accounts...
 - (c) material Territory and Agency investments in corporations, trusts, joint ventures or similar entities;
 - (d) material liabilities of the Territory and Agencies...
 - (e) other material financial obligations of the Territory or an Agency;
 - (f) waivers, postponements, write-offs and gifts that the Treasurer has approved ...
 - (g) ex gratia payments that the Treasurer directs ...
- (2) The Treasurer shall table...a signed copy of the Auditor-General's report under the *Audit Act* ...

10. Annual financial statements of Government Business Divisions

- (1) The Accountable Officer of an Agency responsible for a Government Business Division shall, within the period of 3 months immediately following the end of the financial year or such other period as the Treasurer in a particular case determines, prepare a financial statement in respect of the Government Business Division.
- (2) A financial statement under subsection (1) shall be prepared ... on commercial accounting principles.
- (3) ... the Auditor-General ... shall audit the statement ...

11 Other financial statements

- (1) ... prepare a financial statement in respect of the operations of ... the Agency for a financial year ...
- (2) ... in the form the Treasurer directs ...

5. Queensland

Financial Administration and Audit Act 1977 (FAAA 1977), Ss.12(2), 38B

Part 2, Division 7 of the FAAA 1977 deals with the keeping (section 12(2), preparation (S.38B) and audit (S.38B(5)) of a consolidated whole-of-government financial statement by the Treasurer.

12 Departmental accounts

- (2) ... the accounts established and kept by the under-Treasurer for preparing the consolidated whole-of-government statement for a financial year are departmental accounts of the treasury department.

38B Consolidated whole-of-government financial statement

- (1) The Treasurer must prepare, under the prescribed requirements, a consolidated financial statement for the whole-of-government for each financial year (the “**consolidated whole-of-government financial statement**”).
- (2) The statement must be prepared within 6 months after the end of each financial year or a later date agreed between the Treasurer and auditor-general.
- (3) The Treasurer, the under-Treasurer and the most senior officer of the treasury department responsible for preparing the statement (the “**officers**”) must each sign the statement and certify on the statement whether, in the opinion of each of them, the statement has been properly drawn up, under the prescribed requirements, to present a true and fair view of-
 - (a) the financial operations and cash flows of the State for the financial year; and
 - (b) the financial position at the end of the financial year to which the statement relates.
- (5) The auditor-general must audit the statement and prepare a report about it.

In addition to the above financial reporting obligations, the Treasurer is required (under S.6C) to prepare a charter of responsibility, which must have regard to:

- 6C**
 - (a) ... transparency and accountability in developing, implementing and reporting on the Government’s social and fiscal objectives;
 - (b) ... efficient and effective allocation and use of resources in achieving objectives;
 - (c) ... equity relating to the raising of revenue, delivery of government-funded services and allocation of resources, and between present and future generations;
 - (d) prudent management of risk.

6. South Australia

Public Finance and Audit Act 1987 (PFAA 1987), Ss.22-3

The PFAA 1987 was introduced to (*inter alia*) examine the degree of efficiency and economy with which public resources are used. Part 2, Division 6 of the PFAA 1987 deals with the preparation (S.23) of the Treasurer's statements however, there is no specific mention of the need to prepare whole-of-government financial reports. Part 3, Division 5 deals with the Audit (S.36) of the Treasurer's statements.

22 Treasurer's statements

The Treasurer must, within 2 months after the expiration of each financial year deliver to the Auditor-General

- (a) the following statements in relation to that financial year:
 - (xiv) any other statements that the Treasurer thinks necessary; and;
- (b) such written explanation of the statements as may be necessary.

36 Auditor-General's annual report

- (1) The Auditor-General must prepare an annual report that
 - (a) states whether, in the Auditor-General's opinion
 - (i) the Treasurer's statements reflect the financial transactions of the Treasurer as shown in the accounts and records of the Treasurer for the preceding financial year;

Although these requirements are vague, the Treasurer has the power to issue instructions about the form and content of the financial statements, with due regard to relevant accounting practice contained within the accounting standards of the two professional accounting bodies in Australia.

41 Treasurer's instructions

- (1) The treasurer may issue instructions
 - (b) setting out the form and content of financial statements that must be prepared by the Treasurer ... pursuant to this Act;
- (4) When issuing, revoking or varying instructions under this section the Treasurer shall have regard to accounting practices and standards adopted by the Australian Society of Accountants and The Institute of Chartered Accountants in Australia.

7. Tasmania

Financial Management and Audit Act 1990 (FMAA 1990), Ss. 26, 39

Part 2, Division 7 of the FMAA 1990 deals with the preparation (S.26) of the Treasurer's annual financial statements while Part 3, Division 1 deals with the audit (S.39) of those statements.

26 Treasurer's annual financial statements and report by Auditor-General

- (1) The Treasurer shall ... prepare in accordance with the regulations and submit to the Auditor-General financial statements for the Public Account in respect of the last preceding financial year.

39 Auditor-General to audit accounts

The Auditor-General shall, ... be the auditor of the accounts of the Treasurer, of all Government departments and public bodies ...

The FMAA 1990 provides the Treasurer or the Auditor-General with the power to dictate the form that the financial statements shall take.

42 Duty to forward accounts to Auditor-General

- (2) The financial statements shall be in such form as may be required under any written law or under the Treasurer's instructions or, if no such form is so required, in such form as the Auditor-General may direct.

8. Victoria

Financial Management Act 1994 (FMA 1994), Ss.24-5

Part 5 of the FMA 1994 deals with the preparation (S.24), content and audit (S.25) of the Minister's annual financial statements.

24 Minister to prepare statement

The Minister must, in respect of each financial year, cause a financial statement to be prepared.

25. Form and contents of statement

A financial statement under section 24-

- (a) must be prepared in a manner and form approved by the Minister:
- (b) must present fairly the transactions on the Public Account and other financial transactions of the State in respect of the financial year and the financial position of the State as at the end of the financial year;
- (j) must be audited by an authorised person ...

9. Western Australia

Financial Administration and Audit Act 1985 (FAAA 1985), Ss.62-7

The FAAA 1985 deals separately with the preparation of: Treasurer's annual statements (S.60); the annual reports of government departments (S.62); and the annual reports of statutory authorities (S.66). The requirement to provide an audit opinion on the financial statements of the Treasurer, each department and each statutory authority reports is dealt with in section 93.

60 Treasurer's annual statements

- (2) The statements ... to be prepared by the Treasurer shall be prepared to the level and in the manner and form prescribed by regulations.

62 Accountable officers of departments to report to Minister

- (1) ... cause to be prepared and submitted to the Minister an annual report containing-
- (a) financial statements for the financial year.

Furthermore, the financial statements are required to be prepared on an accrual basis.

- 62** (2) ...the financial statements ... shall be prepared on an accrual basis...

66 Accountable authority (of a statutory authority) to report to Minister

- (1) ... cause to be prepared and submitted to the Minister ... an annual report ...

The Treasurer is provided with a broad mandate to prepare and issue instructions with respect to the principles and procedures to be observed in the preparation of those financial reports (S.58).

Appendix 3

Respondents to ED40 - Classified by primary and secondary constituency category

Public sector		Respondent name
Respondent no.	Constituency category	
1	3	Royal Australian Institute of Public Administration
2	3	Local Government Auditors' Association - NSW
3	1	The Treasury – NSW
4	2	Office of the Auditor-General – NT
5	2	Office of the Auditor-General – NT
6	2	Office of the Auditor-General – NT
7	2	Office of the Auditor-General – NT
8	2	Office of the Auditor-General – NT
9	3	Department of Local Government – NSW
10	2	Auditor-General's Office – NSW
11	3	Australian Society of Accountants – Government Accountants Group Committee – South Australian Division
12	1	The Treasury – SA
13	2	Office of the Auditor-General – WA
14	2	Commonwealth – Australian Audit Office – C'wlth
15	3	Department of Management & Budget – VIC
16	2	Auditor-General – VIC
17	1	Department of Finance–Commonwealth – C'wlth
18	3	Corporate Affairs Commission – NSW
19	3	Corporate Affairs Commission – NSW
20	2	Department of the Auditor-General – QLD
21	3	Australian Society of Accountants – Government Accountants Group Committee – Queensland Division
Private sector		Respondent name
1	4	The Adelaide Steamship Company Limited
2	5	Forrest Roberts Sneddon & Co
3	4	Peter John Leggett
4	5	Davidson and Mein
5	4	The Institute of Chartered Accountants – Contemporary Accounting Problems Discussion Group
6	5	A H Nash & Co. Pty
7	6	Swinburne Institute of Technology
8	4	Goliath Cement Holdings Limited
9	7	The Institute of Directors in Australia

10	5	Arthur Young
11	5	Mann Judd
12	4	ACI International Limited
13	6	Robert W. Gibson
14	6	Deakin University–School of Management
15	6	Warrnambool Institute of Advanced Education
16	4	BHP
17	5	KMG Hungerfords
18	5	Coopers & Lybrand
19	5	Price Waterhouse
20	5	Arthur Andersen & Co
21	4	Coles Myer Ltd
22	4	Amcor
23	4	CRA Limited
24	4	Comalco Limited
25	4	CSR Limited
26	4	Australian Society of Accountants – Public Accountants Group
27	4	The Institute of Chartered Accountants in Australia – Small Business, Small Practices Committee
28	4	John Fairfax Limited
29	4	M Henry ACA
30	5	Duesburys
31	4	Shell Australia Limited
32	4	National Roads & Motorists Association (NRMA)
33	7	National Companies & Securities Commission
34	6	RMIT – Geoff Waters
35	5	Peat Marwick Mitchell & Co
36	4	Australian Mutual Provident Society
37	4	Life Insurance Federation of Australia
38	4	National Australia Life
39	5	Deloitte Haskins & Sells
40	5	Nelson Wheeler
41	4	Australian Society of Accountants – Industry & Commerce Accountants Committee – Exposure Drafts sub-committee – VIC
42	4	Australian Bankers Association – Accounting Principles Committee
43	4	The Colonial Mutual Life Assurance
44	5	Price Waterhouse – Alan Talbot

Appendix 4

Comparison of whole-of-government consolidated financial reports

Jurisdiction	C'wlth	ACT	NT	NSW	QLD	SA	TAS	VIC	WA
Preparer	Department of Finance and Administration	Department of Treasury and Infrastructure	Treasurer	Treasurer	Treasurer	Department of Treasury and Finance	Department of Treasury and Finance	Department of Treasury and Finance	Treasurer
Compliance framework - Regulation	FMAA 1997 FMAA-Reg 1997	FMA 1996	FMA&A 1995	PFAA 1983	FAAA 1977	PFAA 1987	FMAA 1990	FMA 1994	FAAA 1985
Consolidated Operating Statement	Yes	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes
Consolidated Statement of Financial Position	Yes	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes
Equity – disclosed as:	Accumulated results, Reserves, OEI, Total equity	Capital; Accumulated funds	Not disclosed	Accumulated funds; Asset Revaln. Reserve	Accumulated surplus; Reserves	Not disclosed	Not disclosed	Not disclosed	Accumulated surplus; Reserves
Consolidated Cash Flow Statement	Yes	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes
Notes									
Commitments and contingent liabilities	Disclosed	Disclosed	>\$5m	Disclosed	Disclosed	Disclosed	Disclosed	Disclosed	Disclosed
Disaggregated information	ABS: GGS; PTE; PFE	ABS: GGS; PTE	Outlays to individual agencies	ABS: GGS; PTE; PFE	ABS: GGS; PTE; PFE	ABS: GGS; PTE; PFI	ABS: GGS; PTE; PFE	ABS: GGS; PTE; PF I	GG; PNon-Fin.Corpns. PFCorpns
Statement of Appropriations	No	Yes	No, but disclosure occurs	Compliance statement	No, but disclosure occurs	No	Compliance statement	No, but disclosure occurs	No
Basis of accounting	Accrual	Accrual	Mix of cash and accrual	Accrual	Accrual	Accrual	Accrual	Accrual	Accrual
Scope	All controlled entities	Controlled agencies; Departments;	UPF; GGS, P.Non Fin.Corpns;	Total State Sector including GGS; Non GGS;	Material entities; Departments; GG Agencies;	Controlled Public Sector entities	Statutory authorities; PTE; PFE; Controlled	GGs; PTE; PFI	Agencies

		Authorities; Corporations; Other controlled entities	P.Fin.Corps.	PTE; PFE	PTE; PFE; Controlled entities		entities		
Compliance framework	AASs; UIGs; SACs; FMAA & Regs. 1997	AASs; UIGs	FMA&A 1995; UPF	AASs; UIGs	AASs; UIGs; SACs	AASs; UIGs; SACs	AASs; UIGs; GAAP	AASs; FMA 1994	AASs; UIGs
Valuation basis	HC; Revaluation	HC; Revaluation	HC; Revaluation	HC; Current valuation	HC; Actuarial valuation; Mkt value; Deprivation value; FV	HC; Revaluation	HC; Revaluation; Actuarial; Historic Capital cost	HC; Revaluation 5 year basis; Deprivation value	HC; and some revaluations
Accounting Policies	Adjusted for consistency	Adjusted for consistency	Not relevant	Consistent; Changes disclosed	Not disclosed	Consistent	Not disclosed	Adjusted for consistency	Adjusted for consistency
Basis of consolidation	Control; Material inter-entity transactions eliminated	Control	Not relevant	Control	Control; Materiality NA>\$10m, Net Op results >\$1m	Control	Control	Control; Material inter-entity balances eliminated	Control
Control defined as:	Where the other entity is accountable to the C' with government and the C' with government has a residual interest in the net assets of that entity	Day-to-day management or broad policy objectives; Other entity is accountable to Legislative Assembly, Executive or a Minister; Government has residual financial interest in the net assets.	Not relevant	Capacity to dominate financial and operating policies so as to enable them to operate with their own objectives.	Not disclosed	Capacity to dominate financial and operating policies so as to enable that other entity to operate with it in pursuing its own objectives	Not disclosed	Capacity to dominate decision-making in relation to financial or operating policies of other entity to enable that other entity to operate with it in pursuing the objectives of the controlling entity	Not disclosed
Performance statistics	Yes, ABS	Yes, ABS	Yes, Government finance statistics; ABS	Yes, Government finance statistics	Not disclosed	Yes, ABS	Yes, ABS	Not disclosed	Yes, ABS
Reporting period - Financial year end	Most recent balance date information used	Management accounts used	Not relevant	No disclosure	Reliable extrapolated information for 4 entities	If not timely, unaudited reports used	Most recent financial year results	Most recent audited financial year results; Schools & TAFE are 31 December	Management accounts used
Comparatives	Subject to available info. Incomplete, not all comparable	Adjusted prior year; Unadjusted budget	Not provided with UPF data	Adjusted prior year	Adjusted prior year	Provided but not audited	No, 1 st year AAS31 applied	Adjusted prior year	Adjusted prior year

Investment valuations	Contract price; Face value	Mkt; Gains and losses to profit	HC; Mkt value	Cost or Mkt value	Not disclosed	Mark to Mkt; Net Mkt value; Gains and losses to profit	Face value; Net Mkt value	Net Mkt value; Fair value	HC; Net Mkt value
Non Current Assets	Mkt value; Av. cost; Replacement value; Deprival value; DCF; Some Collections recognised; National parks	>\$5m revalued each 5 year to Replacement cost; F V at acquisition date for No Cost assets; Heritage assets at cost or reliable measure, or nominal value of \$1,000	Replacement value; WDHC; Deprival value	Some library collections; Forest stocks at Mkt value; >\$5k capitalised; Nominal value assets at FV; Value in use; CMkt buying price; NPV; CMkt selling price; Land under roads not recognised; Depreciated cost; Recoverable amount; BOOT at cost	HC; FV; Deprival value; NPV; NMkt selling price; Depreciated Replacement value; NRV; Peppercom; Not included are - Quarry resources, Native forests, Land under roads, Rail corridor land, some Heritage assets, Library collections, some Intangibles	DNCF; Cvalue; Deprival value; Land under roads and Unallocated Crown land not included; <\$10k cost written off; NMkt value; FV; WDHC; Works of Art not depreciated	Deprival value; CMkt buying price; CRReplacement cost; CRReproduction cost; NPV; NMkt selling price; WDReplacement cost; Replacement cost; Depreciated optimised replacement cost; Library collections not included	>\$1000 capitalised; Deprival value; WDReplacement cost; NPV; CMkt buying price; NRV; HC; Replacement cost; Land under roads not recognised; Net recoverable amount; Discounted current Mkt buying price	Cost; CMkt buying price, CMkt selling price; Nominal unimproved value; Deprival value; WDReplacement cost; Replacement cost; Vested Land no value
Non consolidated entities - policy	C'wlth Universities (net assets recognised as an investment)	Canberra Mothercraft Society & Calvary Hospital (no mgmt input); Constr. Industry LSL Board, Rental Bonds Board, Registrar of Financial Institutions (Trustees, so not Govt controlled); University of Canberra (no capacity to dominate financial and operating policies)	Territory Insurance Office	Where control is regulatory or trust in nature; Local Govt. bodies; Universities; Trusts under Crown Lands Act; Certain hospitals; State Super. Funds; Public Trustee & Rental Bond Board funds; WorkCover Scheme Statutory Funds; NSW Aboriginal Land Council; Professional Regulation & Marketing	Entities administering in a Trust or Fidelity capacity; State-owned Universities; Professional and Marketing Boards; Local Govts; Non-material entities	Local Govt bodies; Universities; Most Marketing and Regulatory authorities; the Legislature; WorkCover & Non presc. Health services (acctg policies not consistent; information not timely; Non-corporate entities controlled by DETE (except TAFE))	Entities acting or holding funds in Trust or Fiduciary way; University of Tasmania; Some professional, Occupational, Marketing Boards and Local Govt authorities (not controlled); Non material entities	Local Govt entities; Universities; De-nominal hospitals	Money held in trustee capacity; Entities administering funds in Trust or Fidelity funds; Public Universities as Govt control is ambiguous (States provide enabling legislation and guarantee some borrowings, C'wlth exercises discretion in distribution of operating grants

							authorities; Undeveloped Crown land; Collection assets of Australian Museum; Herbarium collection in Royal Botanic Gardens; Cash & Investments held in Govt School bank a/cs; FANMAC Trusts; Sydney Water Corp. treatment plants								
Joint ventures	Not disclosed		Includes share of JV assets and liabilities	Not disclosed	Not disclosed	Not disclosed	Not disclosed	Disclosed; BOO and BOOT not recognised	Not disclosed	Not disclosed	Not disclosed	Not disclosed	Not disclosed	Not disclosed	Not disclosed
Economic dependency	Not disclosed		C'with Govt for grants	Not disclosed	Not disclosed	Not disclosed	Not disclosed	Not disclosed	Not disclosed	Not disclosed	Not disclosed	Not disclosed	Not disclosed	Not disclosed	Not disclosed
Financial instruments	As per AAS31		As per AAS33, AASB1033	Disclosed	Disclosed	Disclosed	Disclosed	Disclosed	Disclosed	Disclosed	Disclosed	Disclosed	Disclosed	Disclosed	Disclosed
Superannuation liabilities	Unfunded liability disclosed		No unfunded liability; C'with responsible for pre self-Govt liabilities	Unfunded schemes disclosed	Unfunded liability disclosed; University super. excluded	Unfunded liability disclosed	Unfunded liability disclosed	Unfunded liability disclosed	Unfunded liability disclosed	Unfunded liability disclosed	Unfunded liability disclosed	Unfunded liability disclosed	Unfunded liability disclosed	Unfunded liability disclosed	Unfunded liability disclosed
After reporting date	Disclosed		No disclosure	Not relevant	Disclosed	Disclosed	Disclosed	Disclosed	Disclosed	No disclosure	Disclosed	Disclosed	Disclosed	No disclosure	No disclosure

Appendix 5

Detailed analysis of compliance with AAS31 in whole-of-government consolidated financial reports

The AAS31 recommended format (the *model*) is reproduced in Table A5.1 and each line item is regarded as separate. A *count* of the disclosure of each line item is conducted. Finally, an overall average (*application rate*) is calculated based on the maximum possible count and the actual count. Departures from the model are regarded as exceptions and not counted.

Overall, the application rate for the model in respect to the three primary financial reports (Consolidated Operating Statement 70.1%; Consolidated Statement of Financial Position 73.1%; Statement of Cash Flows 68.8%) is remarkably consistent. A number of concerns have been raised in the commentaries that follow the presentation of results. These focus, in the main, on: (1) inconsistent use of language and terminology; (2) combination of items, and (3) disaggregation of information. The inconsistent presentation noted created substantial comparability problems in this analysis. A substantially higher degree of consistency in presentation and terminology in the consolidated financial reports would enhance comparability, reduce confusion, and generally reduce the user-cost of public sector consolidated financial information.

The model is now presented and each component is commented upon.

5.1 Consolidated Operating Statement

Table A5.1
Consolidated Operating Statement

AAS31 Consolidated Operating Statement	Applied AAS31	
	Yes	%
REVENUES	8	100
Taxation	6	75
Fines & regulatory fees	5	63
Investment income	6	75
Grants	7	87
Sale of goods & services	6	75
Net revenues from disposal of physical assets	5	63
Fair value of assets received free of charge or for nominal consideration	2	25
Other	8	100
Total revenues	8	100
EXPENSES	8	100
Employee entitlements	8	100
Superannuation	4	50
Depreciation	2	25
Amortisation	1	13
Interest & other finance costs	6	75
Grants & transfer payments	8	100
Supplies & consumables	6	75
Other	8	100
Total Expenses	8	100
OPERATING SURPLUS / (DEFICIT)	7	87
Operating surplus attributable to Outside Equity Interests	1	13
OPERATING SURPLUS / (DEFICIT) ATTRIBUTABLE TO GOVERNMENT.	1	13
Score		
Maximum possible count	184	
Actual count	129	
Compliance rate	70.1%	

The descriptive statistics in Table A5.1 show the average compliance rate is 70% (129/184).

- The C’wlth report disclosed revenue according to *source* (for example, *Taxation* and *Non-taxation*) rather than by *type*. However, the report contains a separate schedule in which revenue is disclosed by type and disaggregated on the basis of sector.
- A number of exceptions arose because preparers used language other than that recommended in the model.

5.1.1 Revenues

- *Taxation* has been combined with *Fines & regulatory fees*.
- In only two reports were the *Fair values of assets received free of charge or for nominal consideration* disclosed. In the absence of information about this item in the reports, it is assumed that the item did not occur in the year under review.

5.1.2 Expenses

- The terminology applied when describing *Employee entitlements* is inconsistent and only two preparer-commanders applied the model terminology.
- *Superannuation* expense appears in only four reports yet as all jurisdictions make extensive supplementary Note disclosure in respect to superannuation there seems little justification for obscuring this expense in the primary financial report.
- Most preparers have combined *Depreciation* and *Amortisation*. This treatment is regarded as an *exception* as in the model these items are separated.
- *Interest and other finance* costs have been described as *Borrowing* costs in two reports.
- In the C'wlth report *Grant* expense has been disclosed under a separate sub-heading with *Subsidies and Benefits*. These are substantial items (62% of total C'wlth expenses in the year), and the model may be improved if adjusted to accommodate this operational reality.

5.1.3 *Operating surplus/ (deficit); Outside Equity Interest*

- The C'wlth report contains the term *Operating Result* instead of *Operating Surplus*.
- Some preparer-commanders have extended the model to provide for the disclosure of *Abnormal* and *Extraordinary* items.
- The C'wlth report was the only one in which an *Outside Equity Interest* was disclosed.

5.2 Consolidated Statement of Financial Position

The model does not require the presentation of accumulated surpluses or deficits in the Statement of Financial Position, however a Note reconciling changes in equity is recommended. Further, the model allows capital, retained surplus or accumulated deficit, and reserves comprising the *Outside equity interest*, to be disclosed in a Note on the basis that this type of information may distract the user from the other information presented in the Statement of Financial Position.

Table A5.2
Consolidated Statement of Financial Position

AAS31 Consolidated Statement of Financial Position	Applied AAS31	
	Yes	%
ASSETS	5	63
Current Assets	7	87
Cash	8	100
Investments	8	100
Receivables	8	100
Prepayments	2	25
Total Current Assets	7	87
Non-Current Assets	7	87
Investments	7	87
Receivables	7	87
Land & buildings	5	63
Plant & equipment	5	87
Roads	0	0
Other	8	100
Total Non-Current Assets	7	87
TOTAL ASSETS	8	100
LIABILITIES	5	63
Current Liabilities	7	87
Payables	6	75
Borrowings	7	87
Employee entitlements	7	87
Superannuation	4	50
Total Current Liabilities	7	87
Non-Current Liabilities	7	87
Payables	3	37
Borrowings	7	87
Employee entitlements	6	75
Superannuation	4	50
Total Non-Current Liabilities	7	87
TOTAL LIABILITIES	8	100
TOTAL NET ASSETS	1	13
OUTSIDE EQUITY INTERESTS	1	13
NET ASSETS	7	100
Score		
Maximum possible count	264	
Actual count	193	
Compliance rate	73.1%	

The descriptive statistics in Table A5.2 show a compliance rate of 73% (193/264). The C'wlth government preparer-commander chose to categorise items according to nature as *Financial/Non-financial*, with the model presentation being provided in supplementary schedules. This alternative disclosure pattern allowable under the model diminishes the comparability of the reports.

5.2.1 *Assets*

- *Prepayments* are disclosed in only two reports. The relatively low financial magnitude of this item suggests that it may have been combined with another current asset.
- *Inventories* have been separately disclosed in seven reports although there is no provision for this item in the model. Inventories is similar in size to amounts reported as *Other* current assets and preparers may have perceived a need for this information that was not anticipated when the model was drafted.
- Use of the terms *Property* and *Infrastructure* made it difficult to determine where specific items had been disclosed.
- *Roads* did not appear as a separate category in any report although the model recommends separate disclosure and AAS31 requires independent valuation of them.

5.2.2 *Liabilities*

- Preparer-commanders in two jurisdictions favoured the term *Creditors* over *Payables*.

- *Superannuation* obligations are disclosed separately in only four reports although extensive Note disclosure occurs in all reports.
- *Finance leases* are disclosed separately in one report, although in the model this liability is combined with other *Payables*.
- Only in the C'wlth report is an *Outside Equity Interest (OEI)* identified on the Statement of Financial Position. The existence of any OEI in the Total Net Assets of the remaining jurisdictions is disclosed in the Notes.

5.3 Consolidated Statement of Cash Flows

This information is deemed to be useful as it may assist in the assessment of future cash requirements, the ability of government to generate cash inflows and to fund changes in the scope and nature of operations. It may also provide a means by which government can discharge its accountability for cash flows.

Table A5.3
Consolidated Statement of Cash Flows

AAS31 Consolidated Statement of Cash Flows	Applied AAS31	
	Yes	%
CASH FLOWS FROM OPERATING ACTIVITIES	8	100
Receipts	8	100
Taxation (by type)	6	75
Fines & regulatory fees	5	63
Grants from other governments	7	87
Sales of goods & services	8	100
Interest received	7	87
Dividends received	4	50
Other receipts	7	87
Payments	7	87
Grants & transfer payments	8	100
Employee entitlements	7	87
Superannuation	5	63
Suppliers	6	75
Interest paid	5	63
Other payments	8	100
Net cash used in operating activities	8	100
CASH FLOWS FROM INVESTING ACTIVITIES	8	100
Purchase of plant & equipment	2	25
Proceeds from sale of plant & equipment	1	13
Purchase of shares	0	0
Proceeds from sale of shares	0	0
Purchase of foreign currency term deposits	1	13
Purchase of Australian dollar term deposits	1	13
Net cash used in investing activities	8	100
CASH FLOWS FROM FINANCING ACTIVITIES	8	100
Proceeds from issue of shares	0	0
Proceeds from borrowings	6	75
Repayment of borrowings	8	100
Distributions paid	1	13
Net cash from financing activities	8	100
NET CASH FLOWS FROM FINANCIAL INSTITUTIONS	6	75
NET INCREASE/(DECREASE) IN CASH HELD	8	100
Cash at the beginning of the reporting period	8	100
Effect of exchange rate changes on balances held in foreign currencies at beginning of the reporting period	2	25
CASH HELD AT 30 JUNE 20X1	8	100
Score		
Maximum possible count	288	
Actual count	198	
Compliance rate	68.8%	

Based on the descriptive statistics in Table A5.3 the compliance rate is 68.8% (198/288).

5.3.1 *Operating activities*

- In the SA report, *Payments* were presented before *Receipts*. The confusion caused by this unique ordering pattern during the conduct of this review indicates the comparability burden that diversity of presentation creates for financial statement users.
- The terminology used in the reports to describe *Employee entitlements* is inconsistent: this issue caused a similar concern in the review of the Consolidated Operating Statements.
- One report contains a significant cash outflow described as *Personal benefits*: the exact nature of this item is unclear, although as *Superannuation* does not otherwise appear in the statement, *Personal Benefits* is likely to contain that item.
- Some preparer-commanders in preference to the model terminology of *Interest paid*, have used the term *Finance and Borrowing costs*.

5.3.2 *Investing activities*

- The model terminology appears to be too narrow: for instance, the term *Property, Plant and Equipment* which is widely used and understood in the private sector, has been adopted in six of the eight government reports in preference to the terminology recommended in the model (*Plant and Equipment*).

- A similar situation was detected in respect to the purchases of or proceeds from *Shares* where a zero application rate was noted for the terminology. Instead preparers have used the term *Investments*. This pragmatic response of the preparer-commanders provides a compelling reason for amending the model.
- In two reports *Investments* are disclosed on a *Net* basis. The same two reports customer loans have been disclosed on a *Net* basis within *Investing* activities. A third report describes some investing activities as *Loans repaid*. This is a misleading use of terminology as *Loans* may be interpreted by some users as *Borrowings*, which for cash flow reporting purposes are regarded as Financing, not Investing, activities.

5.3.3 *Financing activities*

- No disclosure of proceeds from share issues was noted. A cross-check of the relevant Note reconciling *Changes in Equity* confirmed this to be true. Therefore, the non-compliance in this instance is reflecting an inherent weakness in the model as not all of its components are generalisable across all governments.
- Similarly, *Distributions paid*, is disclosed in one report only.
- *Net proceeds* from and *Net repayments* of *Borrowings* have been disclosed in two reports. As both proceeds and repayments of *Borrowings* are required to be disclosed on a gross basis, it is difficult to determine whether the term *Net* means *Net of costs* or the *Net of proceeds and repayments*. This creates confusion and causes unnecessary difficulty in interpretation.

5.3.4 *Other*

- Only two entities reported effects from exchange rate changes and it has been assumed that this is an accurate representation of reality. If so, this result signals a weakness in the model as this element of operations is not generalisable across the public sector.

5.4 Notes to the Financial Reports

The function of Notes to the financial reports is to assist the report users to comprehend the information in the three primary financial reports.

5.4.1 Significant accounting policies

Accounting policies are required to be selected and applied in a manner that ensures that the resultant information satisfies the concepts of relevance and reliability and is comparable and understandable (AASB 1999, AASB1001:Accounting Policies). The compliance rate with the qualitative disclosures in this sub-section of the Supplementary Notes was very strong (91.1%). In only one instance was the compliance rate weak (25%).

Table A5.4.1
Presentation of accounting policies

Policy	Applied AAS31	Percentage
Accounting standards	8	100
Identification of accounting policy where alternatives allowed	2	25
The Government reporting entity	8	100
Basis of accounting		
Conformity with applicable AASs acknowledged	8	100
Relevant legislative/regulatory framework identified	8	100
Use of accrual accounting acknowledged	8	100
Basis of measurement	8	100
Depreciation & amortisation of non-current assets	8	100
Employee entitlements	8	100
Leases	7	88
Revenue recognition	8	100
Foreign currency transactions	7	88
Foreign currency hedges	6	75
Rounding	8	100
Score		
Maximum possible count	112	
Actual count	102	
Compliance rate	91.1%	

- An attractive explanation for the weak result is that preparer-commanders, rather than disclosing *Alternative accounting policies* within this particular sub-section, have instead chosen to disclose selected

policies at appropriate locations within the Supplementary Notes. This non-compliance indicates unwillingness rather than inability, to comply.

- In seven reports, in addition to an acknowledgment that financial reports had been prepared in accordance with Australian accounting standards, there was also an acknowledgment that other authoritative pronouncements of the Australian Accounting Standards Board (*AASB*) and the Urgent Issues Group (*UIG*) had been applied. In three reports and acknowledgment of the application of Statements of Accounting Concepts (*SACs*) was made. This appears to indicate a readiness of preparer-commanders to embrace further elements of the external financial reporting framework generally accepted by the private sector.

5.4.2 Disaggregated information

Broad sectors of government activities determined according to Australian Bureau of Statistics *Government Financial Statistics Standards (GFSS)* provide the basis for the segmentation of activities that has been adopted in the model. Assets, liabilities, revenue and expense reliably attributable to these sectors are recommended for disclosure. The sectors are described in the model as: General Government (*GG*), Public Trading Enterprises (*PTE*), and Financial Institutions (*FI*).

Table A5.4.2
Presentation of disaggregated information

Sector	Applied AAS31	Percentage
General government	8	100%
Public trading enterprises	7	87.5%
Financial institutions	2	25%
Score		
Maximum possible count	24	
Actual count	17	
Compliance rate	70.8%	

- In four reports, the term *Public Financial Enterprises*, was used in place of *Financial Institutions*. This suggests that the GFSS or the AAS31 model could be modified to improve consistency.
- One report had no disclosure relating to *Financial Institutions*.
- One report contained different terminology choosing the terms *Public Non-financial Corporation* and *Public Financial Corporation*. There was no attempt in the report to justify this departure from the GFSS and AAS31 model terminology.

5.4.3 Sectors

The model provides for a brief description of each broad sector of a government’s activities and the basis for their determination.

Table A5.4.3
Sectors

Sector description provided	Applied AAS31	Percentage
General government	8	100
Public trading enterprises	7	88
Financial institutions	2	25
Score		
Maximum possible count	24	
Actual count	17	
Compliance rate	70.8%	

- Generally, entities have been linked to the sector classification provided by the ABS for the purposes of the Government Finance Statistics (*GFS*). As previously noted in section 5.4.2, in one report (WA) the terms *Public Non-Financial Corporations* and *Public Financial Corporations* were adopted.

5.4.4 Revenues from taxation

A note disclosing the three sources of *Taxation revenue* shown in Table A5.4.4 is the recommended model disclosure. The sources and number of complying governments are identified in Table A5.4.4.

Table A5.4.4
Revenues from taxation

Revenues from taxation	Applied AAS31	Percentage
Income tax	2	25
Payroll tax	6	75
Land tax	5	63
Score		
Maximum possible count	24	
Actual count	13	
Compliance rate	54.2%	

- The C’wlth government is the only government to receive *Income tax revenue*, although the NSW government reported distributions of *Income Tax Equivalents* from agencies. In this respect the model is not generalisable, and so, weakly specified.
- For some governments, other taxes, for example *Stamp duties*, *Gambling tax*, *Financial transaction taxes*, and *Motor registration fees* are at least as significant as *Land tax* and have been separately identified in the reports. These additional voluntary disclosures indicate a weakness in the specification of the model.
- In one report (QLD) *Tax revenue* was not identified by type.

5.4.5 Investment income

The model recommendation is that two sources of *Investment income* as identified in Table A5.4.5 be disclosed.

Table A5.4.5
Investment income

Investment income	Applied AAS31	Percentage
Dividends	7	88
Interest	5	63
Score		
Maximum possible count	16	
Actual count	12	
Compliance rate	75%	

- A further category for *Other* forms of income was used in some reports. An adjustment to the model to include this item would improve the completeness of the reconciliation that this Note disclosure provides, to the total of all forms of investment income.

5.4.6 Grants revenue

A note disclosing three types (2 specific, 1 general) of *Grants revenue* is included in the model. The three types and the compliance statistics are presented in Table A5.4.6.

Table A5.4.6
Grants revenue

Grants revenue	Applied AAS31	Percentage
Acquisition of assets	0	0
Education	0	0
Other	6	85.7
Score		
Maximum ;possible count	21	
Actual count	6	
Compliance rate	28.6%	

- The C’wlth government does not receive *Grants revenue* and so has been excluded from these statistics.
- In most reports *Grants revenue* has been described as *General*, *Specific*, or received from the *Commonwealth* government rather than linked to a particular purpose as recommended in the model.

5.4.7 Net revenues from disposal of physical assets

The model recommendation is that the reports provide details of both *Gross* and *Net proceeds* of revenues from the disposal of physical assets.

Table A5.4.7
Net revenues from disposal of physical assets

Net revenues from disposal of physical assets	Applied AAS31	Percentage
Proceeds from disposal	6	75
Less Written down value of assets sold	6	75
Net revenues	8	100
Score		
Maximum possible count	24	
Actual count	20	
Compliance rate	83.3	

- In one report (ACT) full details were provided but the *Gains and Losses* from disposal were separately disclosed as components of revenue and expenses. Instead, the model provides for the disclosure of *Gross proceeds* in revenue.
- In two reports (WA; QLD) only *Net profit* was disclosed. The mix of Gross and Net disclosure approaches and the inconsistent use of terminology, increases the complexity of comparing the reports.

The mixed response noted is similar to the response observed in a private sector study of disclosure practice relating to this item (Ernst and Young 2002, p.10). In the private sector, an accounting standard AASB1018: Statement of Financial Performance (*AASB1018*) (AASB 1999), prohibits the off-setting of revenues and expenses unless required or allowed by other accounting standards (AASB1018, Para.5.1). Effectively this means that total revenues must include the gross proceeds on the sale of physical non-current assets.

5.4.8 *Assets received free of charge or for nominal consideration*

Assets received free of charge or for nominal consideration should be disclosed to achieve compliance with the model. Details of the observed compliance are presented in Table A5.4.8.

Table A5.4.8
Assets received free of charge or for nominal consideration

Assets received free of charge or for nominal consideration	Applied AAS31	Percentage
Plant and equipment	2	25
Other	5	63
Score		
Maximum possible count	16	
Actual count	7	
Compliance rate	43.8%	

- In two government reports (ACT; WA) these items were described as *Donations*. Although comparability is not improved by the use of alternate (albeit similar) language, a simplification of the language used to describe this item may provide a reasonable means of improving the compliance rate.

5.4.9 Depreciation expense

The model recommendation is that depreciation expense be categorised according to asset type. Details of compliance are presented in Table A5.4.9.

Table A5.4.9
Depreciation expense

Depreciation expense	Applied AAS31	Percentage
Plant and equipment	8	100
Buildings	8	100
Roads; non-land components	1	13
Other	8	100
Score		
Maximum possible count	32	
Actual count	25	
Compliance rate	78.1%	

The strength of the statistics disguises the variability that occurred in the disclosures relating to this item. In addition to the model categories shown in Table A5.4.9, the use of additional categories was observed in the reports.

- For instance the NSW report added a depreciation expense category for *Infrastructure*.
- *Non-land road components* generally appear to have been included within *Infrastructure*. This suggests a mis-specification in the model at least in respect to the absence of a broad category for *Infrastructure*.
- No attempt was made in any report to link the additional categories to the four model categories and so comparison between the reports was not possible.

5.4.10 Amortisation expense

Amortisation charged for *Plant and equipment under finance lease* is recommended for disclosure under the model. Details of reports that complied with this requirement are presented in Table A5.4.10.

Table A5.4.10
Amortisation expense

Amortisation expense	Applied AAS31	Percentage
Amortisation of Plant and equipment	5	63
Score		
Maximum possible count	8	
Actual count	5	
Compliance rate	63%	

- A high degree of variation occurred in the reports in respect to the disclosure of amortisation expense. While five preparer-commanders used the model terminology, in the C’wlth and SA reports it was described as *Assets held under finance lease*.
- In the ACT report, *Depreciation of intangibles* was disclosed, but no description of the intangible items was provided.
- In the WA report Depreciation of intangibles was combined with the *Depreciation expense*.
- In most reports additional details of intangibles amortised were disclosed.

5.4.11 Interest and other finance costs

It is recommended in the model that *Finance charges* should be categorised according to type and liquidity. Details of compliance with this recommendation are provided in Table A5.4.11.

Table A5.4.11
Interest and other finance costs

Interest and other finance costs	Applied AAS31	Percentage
On finance leases	5	63
On short term borrowings	1	13
On long term borrowings	1	13
Score		
Maximum possible count	24	
Actual count	7	
Compliance rate	29.1%	

- While disclosure of *Total* borrowing costs was more frequent than not, in most reports there was not distinction made between *Short and Long term borrowings*. It is possible that the accounting systems were not robust enough to provide this form of detail.

5.4.12 Grants and transfer payments

The model recommendation is that government *Grants and transfer payments* be identified by purpose. Details of compliance with this requirement are presented in Table A5.4.12.

Table A5.4.12
Grants and transfer payments

Grants and transfer payments	Applied AAS31	Percentage
Research and development	0	0
Investment incentives	0	0
Transfer payments	0	0
Other	2	25
Score		
Maximum possible count	32	
Actual count	2	
Compliance rate	6.3%	

The preparer-commanders appear extremely unwilling to comply with the model specification for this item. Consequently the compliance rate for this item was extremely low.

- In the C'wlth report the *destination* of these items not the *function* was disclosed.
- Some governments included this item amongst *Loans and advances*.

5.4.13 Other expenses

A number of *Other* expenses are recommended in the model for separate disclosure. Details are presented in Table A5.4.13.

Table A5.4.13
Other expenses

Other expenses	Applied AAS31	Percentage
Maintenance	3	38
Operating leases	3	38
Audit expenses	4	50
Bad and doubtful debts	5	63
Net exchange losses	3	38
Other	7	88
Score		
Maximum possible count	48	
Actual count	25	
Compliance rate	52.1%	

These expenses tended not to be disclosed in any particular sequence (or at all) and consequently locating each was a labourious and inefficient process that added considerably to the comparability burden.

5.4.14 Investments

The model recommendation is that *Investments* be categorised by type and presented according to liquidity. Details of compliance are provided in Table A5.4.14.

Table A5.4.14
Details of investments

Investment type	Applied AAS31	Percentage
Current	6	75
Shares at net market value	7	88
Foreign currency term deposits	2	25
A\$ deposits (term & at call)	6	75
Non-current	6	75
Shares at net market value	5	63
Foreign currency term deposits	2	25
A\$ term deposits (term at call)	1	13
Score		
Maximum possible count	64	
Actual count	35	
Compliance rate	54.7%	

- Two reports (C’wlth; TAS) did not categorise Investments by maturity.
- In some reports the generic term *Securities* was used in preference to Shares.
- Additional disclosure of *Other* types of investments was also noted.

5.4.15 Receivables

The model recommendation is that *Receivables* be disclosed according to nature and liquidity with a secondary reclassification splitting the items according to *Domestic currency* and *Foreign currency* denomination. Compliance details are presented in Table A5.4.15.

Table A5.4.15
Receivables

Receivables	Applied AAS31	Percentage
Current	5	63
Taxes receivable	3	38
Fines and regulatory fees	1	13
Accrued investment income	5	63
Loans and other receivables	8	100
Less: Provision for doubtful debts	8	100
Total current receivables	5	63
Amounts receivable in foreign currency	1	13
US Dollars	0	0
British Pounds	0	0
Total foreign currency receivables	0	0
Total Australian dollar current receivables	0	0
Total current receivables	0	0
Non-current	6	75
Taxes receivable	1	13
Fines and regulatory fees	1	13
Accrued investment income	1	13
Loans and other receivables	6	75
Less: Provision for doubtful debts	5	63
Total Non-current receivables	5	63
Amounts receivable in foreign currency	0	0
US Dollars	0	0
British Pounds	0	0
Total foreign currency non-current Receivables	0	0
Total Australian dollar non-current receivables	0	0
Total non-current receivables	0	0
Score		
Maximum possible count	208	
Actual count	61	
Compliance rate	29.3	

A considerable amount of detail is required in this Note. It is quite likely that not all categories are relevant to all governments.

- For instance, only one report disclosed a receivable denominated in a foreign currency, and the actual currency was not identified.

- The model recommends categorisation on the basis of maturity, but two reports (C'wlth; TAS) did not provide this split.
- Some variation in terminology was also noted with three preparer-commanders (ACT; TAS; WA) preferring the use of *Trade* and *Other Debtors and Accounts Receivable*, to *Receivables*.

5.4.16 Land and buildings

Land, under the model, is classed as *Site Land* and *National Parks and other “Land Only” Holdings*. Further, AAS31 requirements are, that both *Land and Buildings* are to be valued at independent valuation of current cost. Additionally, details of valuer, policy of regular revaluation, and the period between valuations are recommended in the model for disclosure.

Table A5.4.16
Land and Buildings

Land and Buildings	Applied AAS31	Percentage
Buildings (at independent valuation of current cost)	7	88
Less: Accumulated depreciation	7	88
Buildings - Written down cost	6	75
Site land (at independent valuation of current cost)	7	88
National parks & other "land only" holdings (at independent valuation of current cost)	4	50
Total Land & Buildings	5	63
Score		
Maximum possible count	48	
Actual count	36	
Compliance rate	75%	

Some variation in presentation was noted.

- For instance, the one preparer-commander (ACT) described *Parks* as *Infrastructure* and applied a nominal value.
- In the NSW report *Land and Buildings* were combined.

5.4.17 Plant and equipment

The model specifications are that *Plant and Equipment* be categorised as either *Leased* or *At Cost*, and *Military Equipment* is to be identified separately.

Table A5.4.17
Plant and Equipment

Plant and Equipment	Applied AAS31	Percentage
Plant, equipment & vehicles under lease at cost	5	63
Less: Accumulated depreciation	5	63
Plant, equipment & vehicles at cost	7	88
Less: Accumulated depreciation	8	100
Military equipment (at independent valuation of cost)	1	13
Less: Accumulated depreciation	1	13
Military equipment - Written down current cost	1	13
Total Plant & equipment	5	63
Score		
Maximum possible count	64	
Actual count	33	
Compliance rate	51.6%	

- There is no provision for *Other* items and this restriction created disclosure problems. Preparer-commanders have responded by providing additional disclosure categories.
- The ACT preparer-commander included *Leasehold improvements*.
- In preference to *Plant and Equipment*, in the C'wlth report the term *Infrastructure* is used.
- Australia has only one central Department of Defence and all military operations are under the control of that Department. Thus the model recommendation for disclosure of *Military Equipment* is not generalisable across the remainder of the States and so compliance is adversely affected.

5.4.18 Roads

The model recommendation is that *Roads* be regarded as a separate class of asset, divided into *Land* and *Non-land Components*, and valued at independent valuation of current cost.

Table A5.4.18
Roads

Roads	Applied AAS31	Percentage
Roads - Land (at independent valuation of current cost)	2	25
Roads: non-land components (at independent valuation of current cost)	1	13
Less: Accumulated depreciation	2	25
Roads: non-land component - Written down current cost	2	25
Total roads	0	0
Score		
Maximum possible count	40	
Actual count	7	
Compliance rate	17.5%	

Very low levels of compliance were noted for this sub-section of the Supplementary Notes.

- In two reports (ACT; TAS) *Roads* were disclosed as an indistinguishable component of *Infrastructure* assets.
- In a third report (WA), *Land under Roads* was included within the category *Land Holdings*.
- In one report *Road Networks* were included within a separate asset class, *Infrastructure*.

The item, *Roads*, was subject to transitional provisions that allowed for the deferral of full recognition of this item until 30 June 2002. It is likely that the low compliance level is at least partly attributable to this factor.

5.4.19 Other assets

This category includes assets such as works of art, museum collections, and rare book collections, valued at independent valuation of current cost. Additionally, details of valuer, policy of regular revaluation and the period between valuations (in accordance with AAS10) are recommended, under the model, for disclosure.

Table A5.4.19
Details of other assets

Details of other assets	Applied AAS31	Percentage
Other assets - including works of art, museum collections, rare book collections (at independent valuation of current cost)	4	50
Less: Accumulated depreciation	2	25
Total Other assets	3	38
Score		
Maximum possible count	24	
Actual count	9	
Compliance rate	37.5%	

Much variation was noted in respect to disclosures of this class of asset.

- In the ACT report these items were included within *Heritage and Community* assets and disclosed as *Property, Plant and Equipment*.
- In the NSW report they were combined with *Plant and Equipment*.
- In some reports *Inventories* and *Forest Estate*, assets which are not components of the model, appeared in this Note as additional disclosures.
- This type of asset is discussed in the Accounting Policy Note of the WA report however, no further disclosure was located elsewhere in that report.
- The QLD government preparer-commander disclosed that such assets are either expensed as acquired, or not included on the basis that their value could not be determined reliably.

5.4.20 Payables

The model provides for disclosure of *Payables* by type and liquidity. Details of *Finance lease commitments* showing information about *Future finance charges* and a *Schedule of repayments* is also recommended. The model format and details of compliance are presented in Table A5.4.20.

Table A5.4.20
Payables

Payables	Applied AAS31	Percentage
Current	4	50
Creditors	5	63
Lease liability	3	38
Total current payables	3	38
Non-current	3	38
Creditors	3	38
Lease liability	1	13
Total non-current payables	3	38
Total payables	2	25
Finance lease liabilities	6	75
Commitments under finance leases at reporting date	5	63
Not longer than one year	7	88
Longer than one but not longer than five years	7	88
Longer than five years	7	88
Minimum lease payments	7	88
Deduct: future finance charges	7	88
Total finance lease liabilities	7	88
Classified as:	3	38
Current	6	75
Non-current	5	63
Score		
Maximum possible count	160	
Actual count	93	
Compliance rate	58.1%	

- Three reports (C’wlth; ACT; TAS) did not contain a maturity category. The same omission was observed in section 5.4.14.
- The C’wlth preparer-commander located *Operating Lease Rentals* in a separate note.
- In the ACT report *Finance Lease Liabilities* were located in another note.
- Some additional disclosure was observed as the model did not provide for the disclosure of *Other* payables.

5.4.21 Borrowings

A very detailed repayment schedule with *Borrowings* classified by currency denomination is recommended under the model. The model format for the schedule and the compliance responses of governments are presented in Table A5.4.21.

Table A5.4.21
Borrowings

Borrowings	Repayments within				Applied AAS31	Percent-age
	1 yr	2 yrs	3-5 yrs	>5 yrs		
Term deposits	3				3	
Australian Dollar borrowings	2				2	25
Foreign currency borrowings	3				3	38
U.S. Dollars	2				2	25
Japanese Yen	2				2	25
Swiss Francs	1				1	13
European Currency Units	2				2	25
British Pounds	1				1	13
German Marks	0				0	0
Total foreign currency borrowings	1				1	13
Total borrowings	4				4	50
Score						
Maximum possible count					88	
Actual count					21	
Compliance rate					23.9%	

Great variability in disclosure occurred.

- The very low compliance rate was a result of the specific maturity horizon, recommended in the model, not being adopted by any of the preparer-commanders.
- The C’wlth report included details of *Deposit Liabilities* and *Australian Currency on Issue*, but no details of *Foreign Currency Borrowings*.
- The ACT report disclosed *Borrowings* broadly by *Source* and *Type*
- The TAS report disclosed *Borrowings* only by *Source* (*Commonwealth; Non-Commonwealth*).
- The WA report disclosed *Borrowings* as *Current* and *Non-current*.
- The NSW report acknowledged both *Australian* and *Foreign Borrowings* but combined them.

- The VIC report provided full details of *Foreign Currency Borrowings* classifying them as *Current* and *Non-current*.

Preparer-commanders have chosen to use the simpler maturity horizons of *Current* and *Non-current* to explain the pattern of repayment. It is possible that the records necessary to prepare the more detailed schedule, recommended in the model, are inadequate. It is also possible that preparer-commanders disagreed with the regulators' view about the need for this type of detail in the consolidated financial reports and were unwilling, rather than unable, to comply.

5.4.22 *Employee entitlements*

The model recommendation is that details of *Employee entitlements* be disclosed by type and liquidity. *Accrued wages and salaries*, and *Annual leave* are to be measured using remuneration rates current at reporting date; and *Long service leave* is to be measured using present value of expected future payments. The assumed *weighted average discount rate*, *term to settlement*, and *rate of salary increases*, are also to be disclosed. Details of compliance with these requirements are presented in Table A5.4.22.

Table A5.4.22
Employee entitlements

Employee entitlements	Applied AAS31	Percentage
Current	6	75
Accrued wages and salaries	6	75
Annual leave	7	88
Long service leave	6	75
Total current employee entitlements	4	50
Non-current	6	75
Annual leave	1	13
Long service leave	5	63
Total non-current employee entitlements	3	38
Total employee entitlements	3	38
Score		
Maximum possible count	80	
Actual count	47	
Compliance rate	58.8%	

- The compliance rate was affected by the disclosure of many differing combinations of leave entitlements.
- In two reports (C’wlth; NSW), the *Current* and *Non-current* components of *Employee Entitlements* were not identified.

5.4.23 Superannuation

The model disclosure is that details be provided of the funding status of actuarially determined defined benefit plans to which the government contributes in respect to employees. *Accrued benefits* are to be measured using the present value of estimated future payments to employees and the C'wlth government bond rate. The *weighted average discount rate* used and the *weighted average rate of salary increases* assumed, are also model disclosures. The model recommends that a statement be made to the effect that the *deficit of accrued benefits over the net market value of plan assets* has been recognised as a liability in the accounts.

Table A5.4.23
Superannuation

Superannuation - Plan A.....	Applied AAS31	Percentage
Vested benefits	4	50
Accrued benefits	6	75
Market value of plan assets	4	50
Score		
Maximum possible count	24	
Actual count	14	
Compliance rate	58.3%	

- The ACT preparer-commander chose not to disclose *Vested Benefits*. Instead, the Note on Accounting Policies contains a reconciliation of the emerging superannuation liability that describes the liability as *Accrued*.
- In two reports (TAS; WA) the *Unfunded liability* is classified as *Current* and *Non-current*.
- In the NSW report only the *Total Unfunded Liabilities* of the various schemes were disclosed.

5.4.24 *Reconciliation of changes in equity*

The model disclosure is a detailed reconciliation of *Changes in equity* showing both opening balances and the status at reporting date. The model format and the compliance responses are presented in Table A5.4.24.

Table A5.4.24
Reconciliation of changes in equity

	Total	Accum- ulated surplus	Asset Revl'n Res	Other reserves	Sh cap in Govt controlled Corps Held by OEI	Applied AAS31	Percen- tage
Balance at beginning of reporting period	4	7	7	5	0	23	58
Operating surplus/ (deficit)	4	7	0	0	0	11	28
Transfers to reserves	4	5	7	5	0	21	53
Transfers from reserves	4	5	7	5	0	21	53
Transitional adjustments	4	7	3	3	0	17	43
Shares issued	0	0	0	0	0	0	0
Balance at end of reporting period	4	7	7	5	0	23	58
Outside equity interest	1	1	0	0	0	2	5
Government ABC's interest	1	1	0	0	0	2	5
Score							
Maximum possible count						360	
Actual count						120	
Compliance rate						33.3%	

- As equity issues are a relatively new and infrequent phenomenon in the public sector many of these disclosures are not relevant. This highlights the low generalisability of this aspect of the model and explains the low compliance rate.
- In the ACT report the term *Capital* was used instead of *Equity*.
- In three reports (SA; QLD; VIC) the term *Net assets*, was used.
- The Tasmanian report did not contain equity related information despite disclosing a substantial number of *Public Trading Enterprises* (incorporated organisations) as *Controlled Entities*.

5.4.25 Cash flows

The model recommends the disclosure of supplementary cash flow information including details of: (a) Reconciliation of cash; (b) Non-cash financing & investing activities; (c) Reconciliation of net cash used in operating activities to operating result; (d) Net cash flows from financial institutions; and (e) Cash flows presented on a net basis.

(a) Reconciliation of cash

Cash on Hand, in Banks and Investments and in Money Market Instruments, are recommended disclosures. The details in Table A5.4.25(a) indicate the compliance responses to this recommendation.

Table A5.4.25(a)
Supplementary cash flow information

(a) Reconciliation of cash	Applied AAS31	Percentage
Cash on hand	3	38
Cash	5	63
- Financial institutions	2	25
- Other sectors	2	25
Deposits at call	5	63
- Financial institutions	4	50
- Other sectors	3	38
Total cash on hand	7	88
Score		
Maximum possible count	64	
Actual count	31	
Compliance rate	48.4%	

- Two preparer-commanders (C'wlth; ACT) chose to reconcile the cash shown in the Statement of Financial Position with cash shown in the Cash Flows Statement, as required under AASB1026:Statement of Cash Flows (AASB1026 1991) This information was presented in Part (b) instead of in Part (a).

(b) *Non-cash financing and investing activities*

Details of non-cash financing and investing activities are included in the model as disclosures. Details of compliance are presented in Table A5.4.25(b)

**Table A5.4.25(b)
Supplementary cash flow information**

(b) Non-cash financing & investing activities	Applied AAS31	Percentage
Details provided	1	13
Score		
Maximum possible count	8	
Actual count	1	
Compliance rate	13%	

The low compliance rate is likely to be a result of very few governments experiencing this type of event, and accordingly having nothing to disclose.

(c) *Reconciliation of net cash used in operating activities to operating result*

The model recommends the use of the reconciliation required in AASB1026:Cash Flows. Where low compliance levels are noted, this is likely to be a reflection of the non-occurrence of particular events in the reporting period.

Table A5.4.25(c)
Supplementary cash flow information

(c) Reconciliation of net cash used in operating activities to operating result	Applied AAS31	Percentage
Operating Surplus/(Deficit)	7	88
Non-Cash Movements	5	63
Depreciation	7	88
Amortisation	6	75
Provision for doubtful debts	5	63
Increase in payables	6	75
Increase in borrowings	1	13
Increase in employee entitlements	6	75
Net revenues from sale of plant & equipment	7	88
Net revenues from sale of investments	2	25
Increase in other current assets	7	88
Increase in investments	1	13
Increase in receivables	5	63
Net cash used in operating activities	6	75
Score		
Maximum possible count	112	
Actual count	71	
Compliance rate	63.4%	

Some variation in presentation occurred.

- In the C’wlth report, *Plant and Equipment* was combined with *Investments*.
- The C’wlth report adopted the *Liquidity* form of presentation rather than the *Current/Non-current* presentation. The availability of disclosure alternatives allowable under the model makes comparison difficult.
- In one report (ACT) *Depreciation* and *Amortisation* were combined.

(d) Net cash flows from financial institutions

The model requires details of the cash flows from controlled financial institutions.

Table A5.4.25(d)
Supplementary cash flow information

(d) Net cash flows from financial institutions	Applied AAS31	Percentage
Cash flows from operating activities	7	88
Interest and bill discounts received	6	75
Interest and other costs of finance paid	7	88
Dividends received	3	38
Fees and commissions received	1	13
Net payments for & proceeds from sale of dealing securities	1	13
Fees & commissions paid	3	38
Cash paid to suppliers and employees	6	75
Net cash from operating activities	7	88
Cash flows from investing activities	7	88
Proceeds from sale of investment securities	6	75
Payments for investment securities	6	75
Customer loans granted	3	38
Customer loans repaid	1	13
Payments for property, plant & equipment	6	75
Net cash used in investing activities	7	88
Cash flows from financing activities	7	88
Net increase in savings, money market & other deposit accounts	3	38
Net proceeds from sales of & payments for maturing certificates of deposit	2	25
Proceeds from issuance of long-term borrowings	3	38
Net increase in other borrowings	5	63
Dividends paid	0	0
Net cash from financing activities	6	75
NET CASH FLOWS FROM FINANCIAL INSTITUTIONS	7	88
Score		
Maximum possible count	192	
Actual count	110	
Compliance rate	57.3%	

- A category for *Other* has not been included in the model. This appears to be a drafting oversight.
- On the other hand, *Dividends Paid* has been included in the model, yet this item was not relevant to any of the reporting governments.
- The compliance rate is affected by one government (ACT), which does not have any *Controlled Financial Institutions*. After adjusting for this impact the compliance rate is 65.5% (110/168).

(e) Cash flows presented on a net basis

The model recommendation is that cash flows arising from specific activities of controlled financial institutions be presented on a net basis.

Table A5.25(e)
Supplementary cash flow information

(e) Cash flows presented on a net basis	Applied AAS31	Percentage
(a) customer deposits & withdrawals from savings, money market & other deposit accounts	2	25
(b) sales & purchases of dealing securities	1	13
(c) sales & purchases of maturing certificates of deposit	0	0
(d) short-term borrowings	0	0
Score		
Maximum possible count	32	
Actual count	3	
Compliance rate	9%	

When compared to the information provided in Table A5.4.25(d), the low compliance rate appears to be reflecting the non-occurrence of such items in the reporting period.

5.4.26 Commitments for capital expenditure

To the extent that they have not been recognised as liabilities, the model recommendation is that details of *Commitments for capital expenditure* that have been entered into at reporting date be disclosed. Information about the compliance response is presented in Table A5.4.26.

Table A5.4.26
Disclosure of capital expenditure commitments

Disclosure of capital expenditure commitments	Applied AAS31	Percentage
Plant & equipment	1	13
These expenditures are due for payment:	2	25
Not longer than one year	8	100
Longer than one but not later than five years	1	13
Longer than five years	7	88
Total	7	88
Score		
Maximum possible count	48	
Actual count	26	
Compliance rate	54.2%	

- In two reports (C'wlth; ACT) details were provided but not identified specifically as *Plant and Equipment*.

5.4.27 *Operating lease commitments*

The model recommends disclosure of *Non-cancellable lease commitments* that have not been recognised as liabilities. The compliance rate details are presented in Table A5.4.27.

Table A5.34.27Disclosure of operating lease commitments

Disclosure of operating lease commitments	Applied AAS31	Percentage
Not longer than one year	7	88
Longer than one but not later than two years	1	13
Longer than five years	7	88
Total	6	75
Score		
Maximum possible count	32	
Actual count	21	
Compliance rate	65.6%	

- The model did not contain a two-five year horizon. The compliance rate has been affected by this omission.

5.4.28 *Contingent liabilities*

Contingent liabilities are items in the nature of liabilities that at reporting date are not recognised in the accounts because they are not likely to result in the Government having to make payments in respect of them. The model recommends disclosure of details of *Non-quantifiable contingent liabilities*. Table A5.4.28 contains details of compliance with this recommendation.

Table A5.4.28
Disclosure of contingent liabilities

Disclosure of contingent liabilities	Applied AAS31	Percentage
Deposit guarantees provided in respect of government controlled financial institutions	6	75
Other (specify)	8	100
Total quantifiable contingent obligations	8	100
Non-quantifiable (specify details)	8	100
Score		
Maximum possible count	32	
Actual count	30	
Compliance rate	93.8%	

- All reports contained details of *Contingent liabilities*.
- After adjusting for the single government (ACT) that does not disclose any *Controlled Financial Institutions*, the compliance rate is 96.9% (31/32).

5.4.29 *Compliance with appropriations*

AAS31 contains a simple recommendation to specify where the details of information about *Compliance with Parliamentary appropriations* can be obtained.

Details of compliance are presented in Table A5.4.29.

Table A5.4.29
Compliance with appropriations

Compliance with appropriations	Applied AAS31	Percentage
Source of information supplied	6	
Score		
Maximum possible count	7	
Actual count	6	
Compliance rate	85.7%	

- The C'wlth government is the entity that makes the Appropriations, accordingly it has not been included in the statistics.

5.4.30 Disclosure of controlled entities

The model recommendation is the identification of *Controlled entities* together with changes to control and the other disclosures as required by AAS24:*Consolidated Financial Reports*. Compliance details are presented in Table A5.4.30.

Table A5.4.30
Disclosure of controlled entities

Disclosure of controlled entities	Applied AAS31	Percentage
Entities identified	8	100
AAS24 additional disclosures	7	88
Score		
Maximum possible count	16	
Actual count	15	
Compliance rate	93.8%	

- There was very strong compliance with this requirement, with all preparer-commanders providing details of entities regarded as *Controlled*.
- Most reports provided the additional details required under AAS4 (Identification of the parent entity; Country of incorporation; and such like).
- All reports described Universities as *Non-controlled entities* on the basis that there is *No capacity to dominate the financial and operating policies* of these entities. The Australian Bureau of Statistics has reclassified the activities of public universities to a multi-jurisdictional sector on the basis of ambiguity of government control since the States generally provide the enabling legislation and guarantee some borrowings, while the Commonwealth exercises discretion in the distribution of operating grants.

Appendix 6

Questionnaire mailing list

Relevant Finance and Treasury Officers

		Office	Officer	Contact address
1.1	C'wlth	Secretary to the Treasury	Ken Henry	Postal & Street: Department of the Treasury Langton Crescent Parkes ACT 2600
1.2		Gen Mgr: Corp Svs Divn	Ian Robinson	As above
1.3		Gen Mgr: Corp Govnce & Acctg Policy Divn	Rob Heferen	As above
2.1	ACT	Treasurer	Ted Quinlan	Postal: Department of Treasury GPO Box 158 Canberra ACT 2601 Street: Canberra Nava Centre, Cnr Constitution Ave & London Circuit Canberra City ACT
2.2		Mgr - Executive Unit	Christine Roberts	As above
2.3		Dir - Accting	Phil Hextell	As above
3.1	NSW	Secretary of Treasury	J Pierce	Postal & Street: New South Wales Treasury Level 33, Governor Macquarie Tower 1 Farrer Place Sydney NSW 2000
3.2		Exec Dir Financial Management	I Neal	As above
4.1	NT	Treasurer	Clare Martin	Postal: GPO Box 1974 Darwin NT 0801 Street: Level 3, 38 Cavenagh Street Darwin NT 0800
4.2		A/Under Treasurer/ Chairman	Jennifer Prince	As above
4.3		General Manager	John Montague	As above
5.1	QLD	Under Treasurer	Gerard Bradley	Postal: GPO Box 611 Brisbane QLD 4001 Street: 100 George Street Brisbane QLD 4001
5.2		Assistant U/Treasurer - Corp & Exec Svs	Geoff Waite	As above

6.1	SA	Treasurer	Kevin Foley	Postal: Department of Treasury & Finance GPO Box 1045 Adelaide South, SA 5001 Street: State Administration Centre 200 Victoria Square Adelaide South, SA 5000
6.2		Under Treasurer	Jim Wright	As above
6.3		Director - Corporate Svs	Unspecified	As above
7.1	TAS	Secretary to the Treasurer	Don Challen	Postal: Department of Treasury & Finance GPO Box 147 Hobart TAS 7001 Street: The Treasury Building, 21 Murray Street Hobart TAS 7000
7.2		Dir - Govt Finance & Acctg Branch	Peter Williams	As above
7.3		Dir - Corp Support Divn	Robert Cockerell	As above
8.1	VIC	Secretary to the Dept T & F	Ian Little	Postal & Street: Department of Treasury & Finance Level 4, 1 TreasuryPlace Melbourne VIC 3002
8.2		Dir - Financial Reporting & Control	Murray Jones	
9.1	WA	Treasurer	E S Ripper	Postal & Street: 197 St George's Terrace Perth WA 6000
9.2		U/Treasurer	John Langoulant	As above
9.3		Acting Dir - Financial Policy	Graeme Doyle	As above

Auditor's General and relevant Senior Advisors

		Office	Officer	Contact address
1.1	CWLTH	Auditor-General	Pat Barrett	Postal: GPO Box 707 Canberra ACT 2601 Street: Centenary House, 19 National Circuit Barton ACT 2600
1.2		Deputy A-G	Ian McPhee	As above
1.3		CorpMgmtBch - Exec Dir & CFO	Russell Coleman	As above
2.1	ACT	Auditor-General	John Parkinson	Postal: P O Box 275 Civic Square ACT 2608 Street: Scala House, 11 Torrens Street Braddon ACT 2612
2.2		Assistant A-G	Peter Hade	As above
2.3		Audit Manager responsible for Fin Reporting	Unspecified	As above
3.1	NSW	Auditor-General	Bob Sendt	Postal: GPO Box 12 Sydney NSW 2001 Street: Level 11, 234 Sussex Street Sydney NSW 2000
3.2		Deputy A-G	Tony Whitfield	As above
3.3		Asst As-G Financial Audit	Eric Lumley Lee White Phil Thomas	As above
4.1	NT	Auditor-General	Iain Summers	Postal: G P O Box 4594 Darwin NT 0801 Street: Level 12, NT House, 22 Mitchell Street Darwin NT 0800
4.2		Principal Auditors	Bob Woolgar; Rob Richards	As above
5.1	QLD	Auditor-General	Les Scanlan	Postal & Street: Level 11, Central Plaza One, 345 Queen St Brisbane QLD 4000
5.2		Deputy A-G	Val Manera (Mr)	As above
5.3		Dir Audit Policy & Reptg	John Findlay	As above
6.1	SA	Auditor-General	Ken MacPherson	Postal & Street: C/- Ian McGlen, 9 th Floor, State Administration Centre, 200 Victoria Square Adelaide SA 5000
6.2		Dir of Audits - Policy, Planning & Research	Ian McGlen	As above
6.3		Dir - Audit of W of G	Unspecified	As above As above

		Financial Statements		
7.1	TAS	Auditor-General	Dr Arthur McHugh	Postal: GPO Box 851 Hobart TAS 7001 Street: 5 th Floor, TGIO Building, 144 Macquarie St Hobart TAS 7000
7.2		Deputy A-G	David Baulch	As above
7.3		Dir Corp Svs	David J Strong	As above
8.1	VIC	Auditor-General	Wayne Cameron	Postal & Street: Level 34, 140 William Street Melbourne VIC 3000
8.2		Deputy A-G	Edward hay	As above
8.3		AAG, Acctg & Audtng Policy	Greg Pound	As above
8.4		Dir Acctg Policies	Erik Hopp	As above
9.1	WA	Auditor-General	Des Pearson	Postal & Street: 4 th Floor, 2 Havelock Street West Perth WA 6005
9.2		Acting DepAG	Kerry O'Neil	As above
9.3		Dir Policy	Dr Peter Wilkins	As above
9.4		Assoc Dir Stds	Barry Rowe	As above

Appendix 7

Questionnaire sent to selected public sector participants

QUESTIONNAIRE

Preparation of Public Sector Consolidated Financial Statements

For the purposes of completing this questionnaire the following two terms have been defined.

Efficiency refers to cost efficiency

Effectiveness refers to achieving objectives

1. What group do you represent? (please tick)

<input type="checkbox"/>
<input type="checkbox"/>
<input type="checkbox"/>

Finance and Treasury
Auditor-General
Other Public Sector entity

The following statements are designed to understand your views in respect to *Whole of Government* consolidated financial statements, and/or situations you envisage, or have encountered in their preparation.

Consolidated Whole of Government financial information is <i>useful</i> because it is:		Strongly Disagree	Disagree	Not encountered	Agree	Strongly Agree
2	of a <i>general</i> nature appropriate to satisfy all stakeholder information needs.					
3	of a <i>specific</i> nature appropriate to meet the needs of specific stakeholders groups.					
4	both of a general and a <i>specific</i> nature to ensure the particular needs of different stakeholders are met.					
5	enables more <i>cost-efficient</i> decision-making than from using unconsolidated information.					
6	enables more <i>effective</i> decision-making than from using unconsolidated financial information.					
7	<i>comparable</i> to financial data of other Whole of Government entities.					
8	<i>comparable</i> to financial data of other entities.					
9	<i>understandable</i> .					
10	able to be used for <i>benchmarking</i> purposes.					

50	In your view the following stakeholders clearly <i>understand</i> consolidated financial information:	Strongly Disagree	Disagree	Not encountered	Agree	Strongly Agree
	(a) Policymakers.					
	(b) Regulators.					
	(c) Managers of controlling entities.					
	(d) Managers of controlled entities.					
	(e) Users other than management.					
51	In your view the following stakeholders find consolidated financial information <i>relevant</i> for decision-making:					
	(a) Policymakers.					
	(b) Regulators.					
	(c) Managers of controlling entities.					
	(d) Managers of controlled entities.					
	(e) Users other than management.					
Following are some reasons that may explain the successful application of Whole of Government consolidated financial reporting.		Rank responses by entering numbers in the spaces below. Rank 1 = Most important Rank 11 = Least important				
52	Consolidated financial reporting has been successfully implemented at the Whole of Government level because:					
	(a) it is a professional requirement of AAS 31.					
	(b) it is required under Government regulations.					
	(c) managers are convinced of its merits.					
	(d) the benefits of preparation outweigh the costs.					
	(e) it provides a more cost-efficient information source for decision-making than unconsolidated financial information.					
	(f) it enables more effective decision-making than unconsolidated financial information.					
	(g) it provides a more effective basis for resource allocation decisions than unconsolidated financial information.					
	(h) it is not difficult to understand.					
	(i) preparers understand it and are familiar with implementation requirements.					
	(j) adequate technical resources exist to support its implementation.					
	(k) other reasons (please specify).					

<p>Following are some reasons why Whole of Government consolidated financial reporting may not have been fully implemented.</p>		<p>Rank responses by entering numbers in the spaces below.</p> <p>Rank 1 = Most important Rank 11 = Least important</p>
53	<p>Consolidated financial reporting has <i>not</i> been fully implemented at the Whole of Government level because:</p> <p>(a) it is not mandatory.</p> <p>(b) managers are not convinced of its merits.</p> <p>(c) the costs of preparation outweigh the benefits.</p> <p>(d) accrual-based accounting has not yet been fully implemented.</p> <p>(e) unconsolidated financial information provides a more cost-efficient source for decision-making.</p> <p>(f) unconsolidated financial information enables more effective decision-making.</p> <p>(g) unconsolidated financial information provides a more effective basis for resource allocation decisions.</p> <p>(h) it is too difficult to understand.</p> <p>(i) preparers do not understand it and can not easily resolve implementation problems.</p> <p>(j) technical resources are inadequate.</p> <p>(k) other reasons (please specify).</p>	
54	<p>If Whole of Government consolidated financial reporting has been implemented in your organization / jurisdiction, indicate who was involved in the preparation process.</p> <p>(a) Internal (Government) advisors.</p> <p>(b) External consultants.</p> <p>(c) Managers who are professionally qualified as accountants.</p> <p>(d) Other staff who are not professionally qualified as accountants.</p> <p>(e) Other (please specify).</p>	<p>Please indicate by ticking (✓) one or more of the spaces below</p>

55	Training has been given to relevant staff in aspects of consolidated financial reporting.	Please indicate by ticking (✓) one or more of the spaces below	
	(a) Yes.		
	(b) No.		
	(c) Not yet, but it is intended to provide training.		
56	If your answer to Question 55 was 'Yes', which of the following best describes the approach to training that was used?	Please indicate by ticking (✓) one or more of the spaces below	
	(a) Intensive training with time release.		
	(b) Periodic instruction on the job as needed.		
	(c) A brief introduction to consolidated financial reporting.		
	(d) Provision of written internal instructions.		
	(e) Other (please specify).		
57	If your answer to Question 55 was 'Yes', who received the training?	Please indicate by ticking (✓) one or more of the spaces below	
	(a) Managers, professionally qualified as accountants.		
	(b) Other staff, not professionally qualified as accountants.		
	(c) Other (please specify).		
58	In your view and in reference to the requirements of AAS31, the extent to which consolidated financial reporting has been properly implemented is:	Please indicate by ticking (✓) only one of the spaces below	
	(a) Fully (100%).		
	(b) 75% - 99%.		
	(c) 50% - 74%.		
	(d) 25% - 49%.		
	(e) 1% - 24%.		
	(f) Not at all (0%).		
59	As a result of the introduction of AAS31, has the financial recording and reporting system in your jurisdiction been modified so as to facilitate the preparation of consolidated financial information?	Please indicate by ticking (✓) only one of the spaces below	
	(a) Yes.		
	(b) No.		
	(c) Not yet, but it is intended to make modifications.		
60	If your answer to Question 59 was (a) or (c), please describe the modifications.		

THANK YOU FOR COMPLETING THIS QUESTIONNAIRE

Appendix 8

Accompanying letters to public sector participants in questionnaire

Letter
30th April, 2002

Dear Sir,

I am working towards a Doctor of Philosophy degree through the School of Accounting and Finance at Victoria University, Melbourne. The research project being undertaken seeks to examine the relevance of consolidated financial reporting at the Whole of Government level and to identify and assess impediments to the implementation of this reporting method in the public sector.

Your cooperation in distributing my questionnaire to relevant officers within your organisation is sought.

My questionnaire contains sixty questions and should take approximately thirty minutes to complete. The results will only be used in aggregate form and therefore anonymity and confidentiality of responses is assured. The results will be contained in my thesis which will be available at the Victoria University library.

I have identified those whom I believe may be relevant officers within your organisation for participation in this project. Document sets are enclosed in this package for those officers. Further document sets are available at your suggestion for other relevant officers.

Your cooperation in this regard would be very much appreciated. Should you have any queries regarding the project or questionnaire, please feel free to contact me on (03) 9688 4885 or e-mail: victoria.wise@vu.edu.au or my senior supervisor, Professor Robert Clift on e-mail: bob.clift@vu.edu.au.

I thank you in anticipation of your cooperation.

Yours faithfully

Victoria Wise

Dear Participants,

I am working towards a Doctor of Philosophy degree through the School of Accounting and Finance at Victoria University, Melbourne. The research project being undertaken seeks to examine the relevance of consolidated financial reporting at the Whole of Government level and to identify and assess impediments to the implementation of this reporting method in the public sector. The theoretical models of Accountability, Regulation, Commandership, and the Conceptual Framework for general purpose financial reporting, will be used in the conduct of this research. To ensure the validity of results a reply to the attached questionnaire would be greatly appreciated.

You are invited to participate in this project. While your cooperation in completing the questionnaire is valued, your participation is voluntary. The results will be used only in an aggregated form and therefore your anonymity and the confidentiality of your responses are assured. The completed questionnaires will be securely stored and available only to my project supervisors and myself. The only people to have access to any coding of information in the questionnaires will also be restricted to my project supervisors and myself.

The results will be contained in the thesis that will be available at the Victoria University, Melbourne library. It is also hoped that aspects of the results will be published in aggregate in various professional and academic journals.

Your participation would be appreciated and I look forward to receiving your completed questionnaire by the end of May, 2002. Should you have any queries regarding the project or questionnaire, please feel free to contact me on (03) 9688-4885 or e-mail: victoria.wise@vu.edu.au or my senior supervisor, Professor Robert Clift on e-mail: bob.clift@vu.edu.au . Your reply can be returned to my collection base at P O Box 425, Rosanna, VIC 3084 in the prepaid envelope supplied.

Thank you in anticipation of your cooperation.

Yours faithfully,

Victoria Wise

Victoria University

Consent Form for Subjects Involved in Research

INFORMATION TO PARTICIPANTS:

I would like to invite you to be a part of a study into the relevance of consolidated financial reporting at the Whole of Government level and the assessment of perceived and real impediments encountered in the implementation and continuing use of this reporting method in the public sector. This assessment will occur through the theoretical models of Accountability, Regulation and Commandership, and the Conceptual Framework for general purpose financial reporting, which may serve to explain the expected and actual significance of the impediments.

In the background research I have conducted to date, I have classified the impediments identified by respondents in the consultative process surrounding the release of Exposure Draft 40 'Consolidated Financial Statements', and examined the consolidated Whole of Government annual reports of the Commonwealth, States and Territories of Australia for the financial year ended 30th June 2000.

It is my intention to use a questionnaire process to collect further information pertaining to the actual impediments encountered in the process of implementing consolidated financial reporting in the public sector. The questionnaire contains sixty questions and should take approximately thirty minutes to complete. Each interview will last approximately one hour. The nature of the data to be collected in this manner and the subsequent analysis is predominantly concerned with theory development. No opinions will be expressed in the thesis about the appropriateness or otherwise of consolidated financial reporting achieved in relation to any individual annual report or reporting entity.

CERTIFICATION BY PARTICIPANT

I,

of

certify that I am at least 18 years old and that I am voluntarily giving my consent to participate in the collection of data for the PhD research project entitled "Consolidated Financial Reporting in the Australian Public Sector", being conducted by Victoria Wise from the School of Accounting and Finance at Victoria University, Melbourne as part of her PhD studies.

I certify that the objectives of the research together with any risks to me and the organisation I represent associated with the procedures listed hereunder to be carried out in the research have been fully explained to me by:

Victoria Wise
School of Accounting and Finance
Victoria University, Melbourne.

and that I freely consent to participation involving the use on me and the organisation I represent of these procedures.

Procedures:

Completion of one questionnaire survey

I certify that I have had the opportunity to have any questions answered and that I understand that I can withdraw from this research at any time and that this withdrawal will not jeopardise me or the organisation I represent in any way.

I have been informed that the information I provide will be kept confidential. The name of any questionnaire respondents or individuals interviewed will not be disclosed.

Signed:

Witness other than the researcher: } Date:

.....}

Any queries about your participation in this project may be directed to the researcher (Victoria Wise: ph. (03) 9688-4885). If you have any queries or complaints about the way you have been treated, you may contact the Secretary, University Human Research Ethics Committee, Victoria University, PO Box 14428 MC, Melbourne, 8001 (telephone no: (03) 9688 4710).

Appendix 9

Questionnaire response data

Destination	Audit offices			Departments of Finance and Treasury		
	Number sent	Number returned	Response rate (%)	Number sent	Number returned	Response rate (%)
Commonwealth	3	1	33	3	0	0
Australian Capital Territory	3	1	33	3	0	0
New South Wales	3	1	33	2	2	100
Northern Territory	2	0	0	3	0	0
Queensland	3	1	33	2	1	50
South Australia	3	1	33	3	1	33
Tasmania	3	0	0	3	0	0
Victoria	4	3	75	2	2	100
Western Australia	4	2	50	3	1	33
Totals	28	10	36%	24	7	29%

Bibliography

This bibliography is in two parts.

- Part 1 Books; Journal articles; Monographs; Reports
- Part 2 Government publications (including Legislation, Regulations, Orders, Directions and Instructions pursuant to legislation).

Part 1

Books; Journal articles; Monographs; Reports

AAA (American Accounting Association) 1966, *A Statement of Basic Accounting Theory*, by The Committee to Prepare a Statement of Basic Accounting Theory, Florida, USA.

AARF (Australian Accounting Research Foundation) 1986, *ED38:Accounting for Defined Benefit Superannuation Plans*, Melbourne.

AARF (Australian Accounting Research Foundation) 1986, *ED39:Accounting for Defined Contribution Superannuation Plans*, Melbourne.

AARF (Australian Accounting Research Foundation) 1987, *ED40:Consolidated Financial Statements*, Melbourne.

AARF (Australian Accounting Research Foundation) 1987, *Exposure Draft 42A:Objectives of Financial Reporting*, Melbourne.

AARF (Australian Accounting Research Foundation) 1990, *AAS24:Consolidated Financial Statements*, Melbourne.

AARF (Australian Accounting Research Foundation) 1990, *AAS25:Financial Reporting by Superannuation Plans*, Melbourne.

AARF (Australian Accounting Research Foundation) 1990, *SAC1:Definition of the Reporting Entity*, Melbourne.

AARF (Australian Accounting Research Foundation) 1990, *SAC2:Objectives of General Purpose Financial Reporting*, Melbourne.

AARF (Australian Accounting Research Foundation) 1990, *SAC3:Qualitative Characteristics of Financial Information*, Melbourne.

AARF (Australian Accounting Research Foundation) 1991, *AAS24:Consolidated Financial Reports*, Melbourne.

AARF (Australian Accounting Research Foundation) 1991 *ED50:Financial Reporting by Local Governments*, Melbourne.

AARF (Australian Accounting Research Foundation) 1992 *ED55:Financial Reporting by Government Departments*, Melbourne.

AARF (Australian Accounting Research Foundation) 1995, *ED62:Financial Reporting by Governments*, Melbourne.

- AARF (Australian Accounting Research Foundation) 1995, *SAC4:Definition and Recognition of the Elements of Financial Statements*, rev. Melbourne.
- AARF (Australian Accounting Research Foundation) 1996, *AAS27:Financial Reporting by Local Governments*, Melbourne.
- AARF (Australian Accounting Research Foundation) 1998, *AAS31:Financial Reporting by Governments*, Melbourne.
- AARF (Australian Accounting Research Foundation) 1999, *AAS27A:Amendments to the Transitional Provisions in AAS27*, Melbourne.
- AARF (Australian Accounting Research Foundation) 1999, *AAS31A:Amendments to the Transitional Provisions in AAS31*, Melbourne.
- AARF (Australian Accounting Research Foundation) 1999, *Consolidation:Special Purpose Entities*, Urgent Issues Group Abstract 28, Jul., Melbourne.
- AASB (Australian Accounting Standards Board) 1990, *Accounting Standard AASB1024:Consolidated Accounts*, Melbourne.
- AASB (Australian Accounting Standards Board) 1991, *Accounting Standard AASB1026:Statement of Cash Flows*, Melbourne.
- AASB (Australian Accounting Standards Board) 1993, *Policy Statement 1:The Development of Statements of Accounting Concepts and Accounting Standards*, Melbourne.
- AASB (Australian Accounting Standards Board) 1994, *Accounting Standard AASB1028:Employee Benefits*, Melbourne.
- AASB (Australian Accounting Standards Board) 1994, *Accounting Standard AASB1030: Application of Accounting Standards to Financial Year Accounts and Consolidated Accounts of Disclosing Entities Other Than Companies*, Melbourne.
- AASB (Australian Accounting Standards Board) 1999, *Accounting Standard 1001:Accounting Policies*, Melbourne.
- AASB (Australian Accounting Standards Board) 1999, *Accounting Standard AASB1018:Statement of Financial Performance*, rev. Melbourne.
- AASB (Australian Accounting Standards Board) 2000, *Policy Statement 4:International Convergence and Harmonisation Policy*, rev. Melbourne.
- ABS (Australian Bureau of Statistics) 2000, *Government Financial Estimates*, ABS Cat. No. 5501.0, Apr.

- AG (Attorney General's Department) 2002, *Australia's Legal System*, <http://152.91.15.12/www/agdHome.nsf/AllDocs/RWPA5C949DB88E95857CA256BB30...> 27 Oct., 2002.
- AICPA (American Institute of Certified Practising Accountants) 1953, *Accounting Research Bulletin No.43:Restatement and Revision of Accounting Research Bulletins*, Connecticut.
- AICPA (American Institute of Certified Practising Accountants) 1959, *Accounting Research Bulletin ARB51:Consolidated Financial Statements*, Connecticut.
- Aiken, M. 1994, 'Parliamentary Sovereignty and Valuation Accruals: Uncongenial Conventions', *Financial Accountability and Management*, Feb., pp. 17-32.
- Aiken, M. & Capitanio, C. 1995, 'Accrual Accounting Valuations and Accountability in Government: A Potentially Pernicious Union', *Australian Journal of Public Administration*, vol. 54, no. 4, pp. 564-76.
- Aiken, M. & Daynes, A. 1990, 'A.C.Littleton's Very Long-Term Perspective of Public Accounting Practice: Historical, International and Ethical Foundations', *The International Journal of Accounting*, vol. 25, pp. 1-18.
- Aiken, M. & McCrae, M. 1992, 'Full Cost Pricing and Public Sector Reporting: Alleviating Undisclosed Short-run Measurement Biases of "User to Pay" Policies', *Financial Accountability and Management*, vol. 8, no. 1, Spring, pp. 13-34.
- Aldons, M. 2001, 'Responsible, Representative and Accountable Government', *Australian Journal of Public Administration*, vol. 60, no. 1, Mar., pp. 34-43.
- Allen, L. 2001, 'NSW finances a mess: A-G', *Australian Financial Review*, 14 Dec., p. 11.
- Allen, L. 2002, 'Auditor multiplies authorities loss by 10', *Australian Financial Review*, 15 Mar., p. 9.
- Allison, G.T. 1984, 'Public and private administrative leadership: are they fundamentally alike in all unimportant respects?', in *Leadership and Organisational Culture*, eds T.J. Sergiovanni & J.E. Corbally, University of Illinois Press, pp. 214-39.
- Alwin, D. & Krosnick, J. 1985, 'The Measurement of Values in Surveys: A Comparison of Ratings and Rankings', *Public Opinion Quarterly*, vol. 49, pp. 535-52.
- Anderson, J.C. & Frankle, A.D. 1980, 'Voluntary Social Reporting: An Iso-beta Portfolio Analysis', *Accounting Review*, vol. 33, no. 3, pp. 467-79.
- ASRB (Accounting Standards Review Board) 1986, *Release 411:Foreign Currency Translation – Key Issues Questionnaire*, Melbourne.

- ASRB (Accounting Standards Review Board) 1990, *ASRB1024:Consolidated Financial Statements*, Melbourne.
- Australian Pocket Oxford Dictionary* 1993, 3rd edn, Oxford University Press, Melbourne.
- Awty, A. 2002, 'Time for Debate', *Australian CPA*, May, pp. 40-2.
- Baber, W. & Sen, P. 1984, 'The Role of Generally Accepted Reporting Methods in the Public Sector: An Empirical Test', *Journal of Accounting and Public Policy*, vol. 3, pp. 91-106.
- Bachdach, E. & Kagan, R. 1982, *Going by the Book: The Problem of Regulatory Unreasonableness*, Temple University Press, Philadelphia.
- Baiman, S. 1982, 'Agency Research in Managerial Accounting: A Survey', *Journal of Accounting Literature*, vol. 1, pp. 154-213.
- Baker, H.K. & Haslem, J.A. 1973, 'Information needs of individual investors', *The Journal of Accountancy*, vol. 136, Nov., pp. 64-69.
- Ball, R.J. & Foster, G. 1982, 'Corporate Financial Reporting: A Methodological Review of Empirical Research', *Journal of Accounting Research*, vol. 20 (Supplement), pp. 161-234.
- Barrett, M.E. 1976, 'Financial Reporting Practices: Disclosure and Comprehensiveness in an International Setting', *Journal of Accounting Research*, vol. 14, pp. 10-26.
- Barrett, P. 2001, 'Wealth of the Nation', *Australian CPA*, Jun., pp. 52-3.
- Barton, A. 1999a, 'Land Under Roads – A Financial Bonanza or Fool's Gold', *Australian Accounting Review*, vol. 9, no. 1, pp. 9-15.
- Barton, A. 1999b, 'A Trusteeship Theory of Accounting for Natural Capital Assets', *Abacus*, vol. 35, no. 2, pp. 207-222.
- Barton, A. 1999c, 'Barton calls public accounting system to account', *Campus Review*, 3-9 Nov., p. 3.
- Bartos, S. 2000a, 'The "whole" truth: the DoFA view', *Australian CPA*, Apr., p. 43.
- Bartos, S. 2000b, 'The "whole" truth, the DoFA view', *Public Sector Bulletin*, Jun., p. 8.
- Baskerville, R.F. & Pont Newby, S. 2002, 'Due process failure in sector-neutral accounting standard-setting', *Financial Accountability and Management*, vol. 18, no. 1, pp. 1-23.

- Bazley, M., Hancock P., Berry A. & Jarvis R. 1999, *Contemporary Accounting: A Conceptual Approach*, Nelson ITP., Australia.
- Beams, F.A. 1988, *Advanced Accounting*, 3rd edn, Prentice-Hall, Sydney.
- Bedford, N.M. 1952, 'Need for Supplementary Data in Interpretations of Income Reports', *The Accounting Review*, Apr. vol. 27, no. 2, pp. 195-201.
- Bedford, N.M. 1953, 'Using Supplementary Data to Interpret Reported Income', *The Accounting Review*, vol. 28, no. 4, pp. 517-21.
- Benjamin, J.J. & Stanga, K.G. 1977, 'Differences in disclosure needs of major users of financial statements', *Accounting and Business Research*, vol. 8, pp. 187-92.
- Benston, G.J. 1982, 'Accounting and Corporate Accountability', *Accounting, Organisations and Society*, vol. 7, no. 2, pp. 87-105.
- Berelson, B. 1952, *Content Analysis in Communication Research*, Glencoe, Ill., The Free Press.
- Birch, A.H. 1996 *Representative and Responsible Government: An Essay on the British Constitution*, Allen & Unwin, London.
- Black, F. 1980, 'The Magic in Earnings: Economic Earnings vs. Accounting Earnings', *Financial Analysts Journal*, Nov-Dec, pp. 3-8.
- Blunt, D. 1996, 'Current Developments in Financial Reporting in the NSW Public Sector', *Research Paper no. 2/96*, Victoria University of Technology, Melbourne.
- Braithwaite, J. 1999, 'Accountability and Governance under the New Regulatory State', *Australian Journal of Public Administration*, vol. 58, no. 1, pp. 90-7.
- Broadbent, J. & Guthrie, J. 1992, 'Changes in the Public Sector: A Review of Recent "Alternative" Accounting Research', *Accounting, Auditing and Accountability Journal*, vol. 5, no. 2, pp. 3-31.
- Broadbent, J. & Laughlin, R. 2003, 'Control and legitimation in government accountability processes: The private finance initiative in the UK', *Critical Perspectives on Accounting*, vol. 14, no. 1-2, Jan., pp. 23-48.
- Bryer, R.A. 1993, 'The Late Nineteenth Century Revolution in Financial Reporting: Accounting for the Rise of Investor or Managerial Capitalism', *Accounting, Organisations and Society*, vol. 18, no. 7-8, pp. 649-90.
- Burritt, R.L., McCrae, M. & Benjamin, C. 1996, 'What is a Public-Sector Asset?' *Australian Accounting Review*, vol. 6, no. 1, pp. 23-8.

- Buzby, S.L. 1974, 'Selected Items of Information and their Disclosure in Annual Reports', *The Accounting Review*, vol. 49, pp. 423-35.
- Cameron, J. & Guthrie, J. 1993, 'External Annual Reporting by an Australian University: Changing Patterns', *Financial Accountability and Management*, vol. 9, no. 1, Feb. pp. 21-25.
- Campbell, P. 1989, 'Accounting Standards for the Public Sector in Australia', *Financial Accountability and Management*, Spring, pp. 39-51.
- Campbell, S.J. & Halligan, J. 1992, *Political Leadership in an Age of Constraint: Bureaucratic Politics under Hawke and Keating*, Allen & Unwin, Sydney.
- Carlson, P. 1994, 'The History of Standard Setting in Australia: A Framework for Australia', *Working Paper no. 23*, Department of Accountancy, RMIT, Melbourne.
- Carnegie, G. & Napier, C.J. 1996, 'Accounting History into the Twenty-First Century', *Research Paper 5/96*, Accounting, Finance and Law Research Unit, Department of Accountancy and Law, Victoria University, Melbourne.
- Carnegie, G. & West, B. 1997, 'Observing the PSASB: ED50 and the Recognition of Infrastructure Assets', *Australian Accounting Review*, vol. 7, no. 2, pp. 30-9.
- Carnegie, G. & Wolnizer, P. 1995, 'The Financial Value of Cultural, Heritage and Scientific Collections: An Accounting Fiction', *Australian Accounting Review*, vol. 5, no. 1, pp. 31-47.
- Carnegie, G. & Wolnizer, P.W. 1997, 'The Financial Reporting of Publicly-Owned Collections: Whither Financial (Market) Values and Contingent Valuation Estimates?', *Australian Accounting Review*, vol. 7, no. 1, pp. 44-50.
- Carpenter, V.L. & Feroz, E.H. 2001, 'Institutional Theory and Accounting Rule Choice: An Analysis of Four US State Governments' Decisions to Adopt Generally Accepted Accounting Principles', *Accounting, Organizations and Society*, vol. 26, no. 7-8, Oct-Nov., pp. 565-96.
- Cerf, A.R. 1961, *Corporate Reporting and Investment Decisions*, Berkeley, University of California Press.
- Challen, D. 2003, 'Public Divide', *Australian CPA*, Nov., p. 67.
- Challen, D. & Jeffery, C. 2003, 'Harmonisation of Government Finance Statistics and Generally Accepted Accounting Principles', *Australian Accounting Review*, vol. 13, no. 2, pp. 48-53.
- Chambers, R.J. 1966, *Accounting, Evaluation and Economic Behaviour*, Prentice-Hall, Englewood Cliffs, New Jersey.

- Chambers, R.J. 1969, 'Towards a Theory of Accounting: Consolidated Statements Are Not Really Necessary', in *Accounting Finance and Management*, Arthur Andersen & Company, pp. 631-5.
- Chambers, R.J. & Clarke, F.L. 1986, 'Varieties and Uses of Financial Information', *Monograph no. 6*, Accounting Research Centre, University of Sydney, Sydney.
- Chandra, G. 1974, 'A study of the consensus on disclosure among public accountants and security analysts', *The Accounting Review*, vol. 49, pp. 733-42.
- Chapman, R. 2000, 'Accountability: Is Westminster the Problem?' *Australian Journal of Public Administration*, vol. 59, no. 4, Dec., pp. 116-121.
- Cheng, R. 1992, 'An Empirical Analysis of Theories on Factors Influencing State Government Accounting Disclosure', *Journal of Accounting and Public Policy*, vol. 11, pp. 1-42.
- Chenhall, R.H. & Juchau, R. 1977, 'Investor information needs – an Australian study', *Accounting and Business Research*, vol. 7, pp. 111-19.
- Choi, F.D.S. 1973, 'Financial Disclosure and Entry to the European Capital Market', *Journal of Accounting Research*, vol. 11, pp. 159-75.
- Choi, F.D.S. 1974, 'European Disclosure: The competitive disclosure hypothesis', *Journal of International Business Studies*, vol. 5, pp. 15-23.
- Chow, C.W. & Wong-Boren, A. 1987, 'Voluntary Financial Disclosure by Mexican Corporations', *The Accounting Review*, vol. 62, no. 3, pp. 533-41.
- Clark, C.J. 2001, 'The Usefulness of Performance Indicators in the Annual Reports of Government Departments', PhD thesis, Monash University, Melbourne.
- Clark, J.M. 1923, *Studies in the Economics of Overhead Costs*, Chicago, University of Chicago Press.
- Clark, L. 1999, 'The Politics of Regulation: A Comparative-Historical Study of Occupational Health and Safety Regulation in Australia and the United States', *Australian Journal of Public Administration*, vol. 58, no. 2, pp. 94-104.
- Clark-Lewis, M. 1996, 'Government Accrual Reports: Are They Better Than Cash?', *Australian Journal of Public Administration*, vol. 55, no. 1, Mar., pp. 86-7.
- Clarke, F., Dean, G. & Houghton, E. 2002, 'Revitalising Group Accounting: Improving Accountability', *Australian Accounting Review*, vol. 12, no. 3, pp. 58-72.
- Clift, R.C. & Sims, M.A. 1993, *Corporate Accounting*, Prentice Hall, Sydney.

- Colebatch, T. 2002, 'Auditor hits at account ploy omitting \$18.4b GST take', *The Age*, 11 Jan., p. 6.
- Collett, P., Godfrey, J. & Hrasky, S. 1998, 'Standard-setting in Australia: Implications of Recent Radical Reform Proposals', *Australian Accounting Review*, vol. 8, no. 2, pp. 9-17.
- Conn, N. 1996, 'Reservations About Governments Producing Balance Sheets', *Australian Journal of Public Administration*, vol. 55, no. 1, Mar., pp. 82-5.
- Cooke, T.E. 1989, 'Voluntary Corporate Disclosure by Swedish Companies', *Journal of International Financial Management and Accounting*, vol. 1, pp. 171-95.
- Cooke, T.E. 1991, 'An Assessment of Voluntary Disclosure in Annual Reports of Japanese Corporations', *International Journal of Accounting*, vol. 26, no. 3, pp. 174-89.
- Cooke, T.E. 1992, 'The Impact of Size, Stock Market Listing and Industry type on Disclosure in the Annual Reports of Japanese Listed Corporations', *Accounting and Business Research*, vol. 22, no. 87, pp. 229-37.
- Cooke, T.E. & Wallace, R.S.O. 1989, 'Global Surveys of Corporate Disclosure Practices and Audit Firms: A Review Essay', *Accounting and Business Research*, vol. 20, no. 77, pp. 46-57.
- Cooke, T.E. & Wallace, R.S.O. 1990, 'Financial Disclosure Regulation and its Environment: A Further Review and Analysis', *Journal of Accounting and Public Policy*, vol. 9, pp. 79-110.
- Corbett, D. 1992, *Australian Public Sector Management*, Allen & Unwin, Sydney.
- Coy, D., Dixon, K., Buchanan, J. & Tower G. 1997, 'Recipients of Public Sector Annual Reports: Theory and Empirical Study Compared', *British Accounting Review*, vol. 29, pp. 103-27.
- Craig, R. 2002, 'A Case of Account Reporting Overkill', *The Canberra Times*, 28 Jan., p. 9.
- Cushing, B. & Loebbecke J.K. 1986, *Comparison of Audit Methodologies of Large Accounting Firms*, American Accounting Association, Research Project.
- Day, P. & Klein, R. 1987, *Accountabilities: Five Public Services*, Tavistock, London.
- Deegan, C. 2000, *Financial Accounting Theory*, McGraw-Hill, Australia.
- DeFond, M.L. & Jiambalvo, J. 1991, 'Incidence and Circumstances of Accounting Errors', *The Accounting Review*, vol. 66, no. 3, Jul., pp. 643-55.
- De Vaus, D. 1995, *Surveys in Social Research*, 4th edn, Allen & Unwin, Sydney.

- Dixon, K., Coy, D. & Tower, G. 1991, 'External Reporting by New Zealand Universities 1985-1989: Improving Accountability', *Financial Accountability and Management*, vol. 7, no. 3, Autumn, pp. 159-78.
- Dunstan, B. 1990, 'Super fund standard a target for more flak', *The Australian Financial Review*, 5 Oct., p. 27.
- Dyckman, T.R., Gibbins, M. & Swieringa, R.J. 1978, 'Experimental and Survey Research in Financial Accounting: A Review and Evaluation', in *The Impact of Accounting Research on Practice and Disclosure*, eds, A.R. Abdel-khalik, & T.F. Keller, Durham, North Carolina, Duke University Press.
- Earley, N. 2000, 'Accrual Output Management', *Public Sector Bulletin*, vol. 2, Jun., p. 1.
- EEC (European Economic Community) 1983, *Seventh Council Directive*, 83/349/EEC.
- Eddey, P. 1992, *Accounting for Corporate Combinations and Associations*, 3rd edn, Prentice Hall.
- Edwards, E.O. & Bell, P.W. 1961, *The Theory and Measurement of Business Income*, University of California Press, Berkley.
- Emanuel, C. 1988, 'An Agency Theory Study of Submissions made to ASRB Release 411', Honours Thesis, Macquarie University, Sydney.
- Emy, H. 1995, 'Stokes on Australian Political Thought: a Critical Appreciation', *Australian Journal of Political Science*, vol. 30, pp. 335-41.
- Emy, H. & Hughes, O. 1993, *Australian Politics: Realities in Conflict*, Macmillan, Melbourne.
- English, L. 2003, 'Emasculating public accountability in the name of competition: Transformation of state audit in Victoria', *Critical Perspectives in Accounting*, vol. 14, pp. 51-76.
- Ernst & Young. 2002, *Lifting the Veil in Financial Reporting Disclosures*, National Accounting & Auditing Services Study, Ernst & Young Australia, January.
- Fabro, A. 2003, 'Pressure on board to change standards', *The Australian Financial Review*, 13 Feb., p. 9.
- Fama, E.F. 1980, 'Agency Problems and the Theory of the Firm', *Journal of Political Economy*, Apr., pp. 288-307.
- FASB (Financial Accounting Standards Board) 1976, *FASB Discussion Memorandum: An Analysis of Issues Related to Accounting for Business Combinations and Purchased Intangibles*, USA.

- FASB (Financial Accounting Standards Board) 1978, *Statement of Financial Accounting Concepts SFAC No.1: Objectives of Financial Reporting by Business Enterprises*, Nov., USA.
- FASB (Financial Accounting Standards Board) 1984, *Statement of Financial Accounting Concepts No. 5: Recognition and Measurement in Financial Statements of Business Enterprises*, Dec., USA.
- FASB (Financial Accounting Standards Board) 1987, *Statement of Financial Accounting Standards No. 94: Consolidation of all Majority-Owned Subsidiaries*, USA.
- FASB (Financial Accounting Standards Board) 1990, *Statement of Financial Accounting Standards No. 105: Disclosure of Information about Financial Instruments with Off-Balance-Sheet Risk and Financial Instruments with Concentrations of Credit Risk*, USA.
- Feltham, G.A. & Xie, J.Z. 1992, 'Voluntary financial disclosure in an entry game with continua of types', *Contemporary Accounting Research*, vol. 9, no. 1, Fall, pp. 46-80.
- Finn, P. 1993, 'Public Trust and Public Accountability', *Australian Quarterly*, vol. 65, Winter, pp. 50-9.
- Firth, M. 1978, 'A study of the consensus of the perceived importance of disclosure of individual items in corporate annual reports', *The International Journal of Accounting Education and Research*, vol. 13, pp. 57-70.
- Fry, E. 1990, 'Support for new standard for superfunds', *The Australian Financial Review*, 24 Oct.
- Gaffikin, M.J.R. 1988, 'Legacy of the Golden Age: Recent Developments in the Methodology of Accounting' *Abacus*, vol. 24, no. 1, pp. 16-36.
- Gallery, N. 2003, 'Are Superannuation Disclosures in Company Financial Reports Useful?', *Australian Accounting Review*, vol. 13, no. 2, pp. 60-72.
- Galligan, B. 1993, 'Parliamentary Responsible Government and the Protection of Rights', *Public Law Review*, vol. 4, no. 2, pp. 100-12.
- Gallup, G.H. 1947, 'The Quintamensional Plan of Question Design', *Public Opinion Quarterly*, vol. 11, pp. 385-93, in de Vaus D.A., *Surveys in Social Research*, 4th edn, Allen & Unwin, Melbourne.
- GASB (Governmental Accounting Standards Board) 1987, *Concepts Statement No.1: Objectives of Financial Reporting*, Stamford, Connecticut.
- Giroux, G. 1989, 'Political Interests and Governmental Accounting Disclosure', *Journal of Accounting and Public Policy*, vol. 8, pp. 199-217.

- Gleeson, R. 1991, 'The Super Giant', *Australian Accountant*, Apr., pp. 38-40.
- Goldberg, L. 1965, *An Inquiry Into The Nature of Accounting*, American Accounting Association, Monograph no. 7, State University of Iowa.
- Gonedes, N. & Dopuch, N. 1974, 'Capital Market Equilibrium, Information-Production, and Selecting Accounting Techniques: Theoretical Framework and Review of Empirical Work', in *Studies on Financial Accounting Objectives*, *Journal of Accounting Research*, Supplement, vol. 12, pp. 48-129.
- Grainger, C. 1994, *Consolidation Accounting Procedures*, Nelson, Melbourne.
- Gray, S.J. 1988, 'Towards a Theory of Cultural Influence on the Development of Accounting Systems Internationally', *Abacus*, vol. 24, no. 1, pp. 1-15.
- Gray, S.J. & Haslam, J. 1990, 'External Reporting by UK Universities: An Exploratory Study of Accounting Change', *Financial Accountability and Management*, vol. 6, No. 1, Spring, pp. 51-72.
- Gray, S.J. & Roberts, C.B. 1989, 'Voluntary information disclosure and the British multinationals: corporate perceptions of costs and benefits', in *International Pressures for Accounting Change*, ed A.G.Hopwood, Hertfordshire, Prentice-Hall, pp. 116-39.
- Guthrie, J. 1990, 'The adoption of corporate forms for government undertakings: Critical issues and implications', in *The Public Sector: Contemporary Readings in Accounting and Auditing*, J. Guthrie, L. Parker, & D. Shand, Harcourt Brace Jovanovich, Sydney, pp. 209-21.
- Guthrie, J. 1994, 'Understanding Australian Federal Public Sector Accounting Developments in Their Context', PhD thesis, University of New South Wales, Sydney.
- Guthrie, J., Parker, L. & English, M. 2003, 'A Review of New Public Financial Management Change in Australia', *Australian Accounting Review*, vol. 13, no. 2, pp. 3-9.
- Haddon, T. 1992, 'The Regulation of Corporate Groups on Australia', *UNSW Law Journal*, vol. 15, pp. 61-85.
- Haggarty, L. 1995, 'The Use of Content Analysis to Explore Conversations Between School Teacher Mentors and Student Teachers', *British Educational Research Journal*, vol. 21, no. 2, pp. 183-97.
- Haggarty, L. 1996, 'What is ... Content Analysis?' *Medical Teacher*, vol. 18, no. 2, Jun., pp. 99 - 101.

- Hakansson, N.H. 1981, 'On the Politics of Accounting Disclosure and Measurement: An Analysis of Economic Incentives', *Journal of Accounting Research*, Supplement, pp. 1-35.
- Hancock, P., Tower, G. & Holloway, D. 1994, 'Application of the Reporting Entity Concept to Universities', *Australian Accounting Review*, vol. 4, no. 1, pp. 60-71.
- Hardman, D. 1996, 'Ethical implications of the public sector auditing function', *Faculty of Business Working Paper Series*, School of Accounting, University of Technology, Sydney.
- Haried, A.A. 1973, 'Measurement of Meaning in Financial Reports', *Journal of Accounting Research*, vol. 11, no. 1, pp. 117-45.
- Haring, J.R. Jr. 1979, 'Accounting Rules and the Accounting Establishment', *Journal of Business*, vol. 52, no. 4, Oct., pp. 507-19.
- Hatfield, H.R. 1909, *Modern Accounting*, D.Appleton & Co., New York.
- Hatfield, H.R. 1927, *Accounting, Its Principles and Problems*, Scholars Book Co., Houston.
- Heian, J.B. & Thiess, J.B. 1989, 'Consolidation of Finance Subsidiaries: \$230 Billion in Off-Balance Sheet Financing Comes Home to Roost', *Accounting Horizons*, Mar., pp. 1-9.
- Henderson, S., Peirson, G. & Brown, R. 1992, *Financial Accounting Theory: Its Nature and Development*, 2nd edn, Longman Cheshire, Melbourne.
- Henderson, S. & Scherer, B. 1986, 'Towards Decision Useful Government Accounts', *Accounting Forum*, vol. 10, no. 2, pp. 5-13.
- Hepworth, A. 2003, 'Auditor wants the whole story', *Australian Financial Review*, 13 Nov., p. 11.
- Higson, A. 2002, 'An Exploration of the Financial Reporting Expectations Gap', *Working Paper no. 46/02*, Charles Sturt University, Bathurst, Australia.
- Holmes, M. 1989, 'Corporate Management: A view from the centre', in *Corporate Management in Australian Government*, G. Davis, P. Weller, P. & C. Lewis, Macmillan, Melbourne, pp. 29-47.
- Holsti, O.R. 1968, Content Analysis, in *The Handbook of Social Psychology*, eds G. Lindzey & E. Aronson, vol. 2, Reading, MA., Addison-Wesley.
- Holsti, O.R. 1969, *Content Analysis for the Social Sciences and Humanities*, Addison-Wesley Publishing.

- Holthausen, R.W. 1990, 'Accounting Method Choice: Opportunistic Behaviour, Efficient Contracting, and Information Perspectives', *Journal of Accounting and Economics*, vol. 12, nos. 1-3, pp. 207-18.
- Holthausen, R.W. & Leftwich, R. 1983, 'The Economic Consequences of Accounting Choice: Implications of Costly Contracting and Monitoring', *Journal of Accounting and Economics*, vol. 5, pp. 77-117.
- Homeshaw, J. 1995, 'Policy Community, Policy Networks and Science Policy in Australia', *Australian Journal of Public Administration*, vol. 54, no. 4, Dec., pp. 520-32.
- Hone, P. 1997, 'The Financial Value of Cultural, Heritage and Scientific Collections: A Public Management Necessity', *Australian Accounting Review*, vol. 7, no. 1, pp. 38-43.
- Hope, D. 1999, 'Valuing national assets: The deprival value framework', *Australian CPA*, Aug., pp. 58-9.
- Hopwood, A.G. 1984, 'Accounting and the Pursuit of Efficiency', in *Issues in Public Sector Accounting*, eds A. Hopwood & C. Tompkins, Philip Allan Publishers, Oxford.
- Hossain, M., Perera, M.H.B. & Rahman, A.R. 1993, 'Voluntary Disclosure in the Annual Reports of New Zealand Companies', *Discussion Paper no. 138*, Department of Accountancy, Massey University, New Zealand.
- ICAA/ASA (Institute of Chartered Accountants in Australia and the Australian Society of Accountants) 1985, *Introductory Statement on Applicability of Statements of Accounting Standards to Public Sector Business Undertakings*, Melbourne.
- ICAA (Institute of Chartered Accountants in Australia) 2001, *Survey of Victorian Local Government Budgets*, Apr.
- IC (Industry Commission) 1996, *Competitive Tendering and Contracting Out by Public Sector Agencies*, Australian Government Publications Service, Melbourne.
- Ijiri, Y. 1967, *The Foundations of Accounting Measurement*, Prentice-Hall Inc.
- Ingham, I.W. & Frazier, K.B. 1983, 'Narrative Disclosures in Annual Reports', *Journal of Business Research*, vol. 11, pp. 49-60.
- Israel, A. 1991, 'The Changing Role of the State in Development', *Finance and Development*, Jun., pp. 41-3.
- Jackson, B. 1993, 'Measuring the Understandability of Corporate Communication: A New Zealand Perspective', *Discussion Paper Series*, Accountancy Department, Massey University, New Zealand.

- JCPA (Joint Committee of Public Accounts) 1995, *Accrual Accounting – A Cultural Change*, Report 338, Canberra.
- Jensen, M.C. & Meckling, W.H. 1976, 'Theory of the Firm: Managerial Behaviour, Agency Costs and Ownership Structure', *Journal of Financial Economics*, vol. 3, no. 4, Oct., pp. 305-60.
- Johnson, T. 1992, 'Research on Disclosure', *Accounting Horizons*, Mar., pp. 101-4.
- Johnstone, D.J. & Gaffikin, M.J.R. 1996, 'Review of the Asset Valuation Guidelines of the Steering Committee on National Performance Monitoring of GTEs', *Australian Accounting Review*, vol. 6, no. 1, pp. 50-65.
- Jonas, G.J & Young, S.J. 1998, 'Bridging the Gap: Who Can Bring a User Focus to Business Reporting?', *Accounting Horizons*, Jun., vol. 12, no. 2, pp. 154-9.
- Jones, J.J. 1991, 'Earnings Management During Import Relief Investigations', *Journal of Accounting Research*, vol. 29, no. 2, Autumn, pp. 193-228.
- Jones, M.J. 1988, 'A Longitudinal Study of the Readability of the Chairman's Narratives in the Corporate Reports of a UK Company', *Accounting and Business Research*, vol. 18, no. 72, pp. 297-305.
- Jones, R. 1992, 'The Development of Conceptual Frameworks of Accounting for the Public Sector', *Financial Accountability and Management*, vol. 8, no. 4, pp. 249-64.
- Jones, R & Pendlebury, M. 1996, *Public Sector Accounting*, 4th edn, Pitman Publishing, London.
- Jones, S. Sharma, R. & Mock, K. 1998, 'Managerial evaluations of the relevance of cash vs accrual-based financial reports in the Australian food industry', *Australian Accounting Review*, vol. 8, no. 2, pp. 51-8.
- Kahl, A. & Belkaoui, A. 1981, 'Bank annual report disclosure adequacy internationally', *Accounting and Business Research*, vol. 11, pp. 189-96.
- Kaufmann, B. 2002, 'Harmonisation for government reporting', *Australian CPA*, Sep., p. 75.
- Keating, M. & Holmes, M. 1990, Australia's Budgetary and Financial Management Reforms, *Governance*, vol. 3, pp. 168-85.
- Khandwalla, P.N. 1972, 'The Effect of Different Types of Competition on the Use of Management Controls', *Journal of Accounting Research*, pp. 275-85.
- Kim, J. 1987, Segmental Disclosures and Information Content of Earnings Announcements: Theoretical and Empirical Analysis, PhD dissertation, University of Iowa, USA.

- Kindgon, J.W. 1984, *Agendas, Alternatives, and Public Policies*, The University of Michigan, MI.
- Kinney, W.R. & McDaniel, L.S. 1989, 'Characteristics of Firms Correcting Previously Reported Quarterly Earnings', *Journal of Accounting and Economics*, vol. 11, Feb., pp. 71-93.
- Klein, L.A. 1978, *The Influence of Outside Parties on the Financial Accounting Standards Board: An Analysis of Responses to the Exposure Draft on Segment Reporting*, Ann Arbor, UMI.
- Knapp, J. & Kemp, S. 2003, eds *Accounting Handbook*, vol. 1, Prentice Hall, Australia.
- Knox, D.M. 1991, *Tax, super and the age pension: The issues of cost, equity and incentives*, Australian Tax Foundation, Australia.
- Koutsoukis, J. 2002, 'Accounting error helps court fill public information post', *The Australian Financial Review*, 24 May, p. 55.
- Lambert, C. 1994, An Examination of the Impact of AASB1024: Consolidated Accounts, Unpublished Paper, University of Queensland.
- Lapsley, I. 1988, 'Research in Public Sector Accounting: An Appraisal', *Accounting, Auditing and Accountability Journal*, vol. 1, no. 1, pp. 21-33.
- Leftwich, R.W., Watts, R.L. & Zimmerman, J.L. 1981, 'Voluntary corporate disclosure: the case of interim reporting, in Studies on Standardisation of Accounting Practices: An Assessment of Alternative Institutional Arrangements', *Journal of Accounting Research*, vol. 19 Supplement, pp. 50-77.
- Leo, K.J. 1984, *Accounting for Business Combinations*, Discussion Paper no. 8, Australian Accounting Research Foundation, Melbourne.
- Leo, K.J. 1987, *Consolidated Financial Statements*, Discussion Paper no. 10, Australian Accounting Research Foundation, Victorian Printing Pty. Ltd., Australia.
- Leo, K.J. and Leftwich, R.W. 1974, 'Presentation of Minority Interest in Consolidated Balance Sheets', *Accounting Education*, May, pp. 57-72.
- Li, E. 2003, 'Accrual World', *Australian CPA*, Feb., pp. 30-3.
- Libby, R. 1975, 'The Use of Simulated Decision Makers in Information Evaluation', *The Accounting Review*, vol. 50, no. 3, pp. 475-89.

- Lijphart, A. 1984, *Democracies: Patterns of Majoritarian and Consensus Government in Twenty-one Countries*, Yale University Press, New Haven CT.
- Lim, S. & McKinnon, J. 1993, 'Voluntary Disclosure by NSW Statutory Authorities: The Influence of Political Visibility', *Journal of Accounting and Public Policy*, vol. 12, pp. 189-216.
- Littleton, A.C. 1933, *Accounting Evolution to 1900*, Russell and Russell, New York.
- Littleton, A.C. 1953, *Structure of Accounting Theory*, Illinois, American Accounting Association.
- Lucy, R. 1993, *The Australian Form of Government, Models in Dispute*, 2nd edn, MacMillan, Melbourne.
- Lys, J. 1998, The Evolution of Crown Financial Statements in New Zealand, paper presented to the Public Sector Transformation Workshop, Macquarie Graduate School of Management, Sydney.
- MAB/MIAC (Management Advisory Board/Management Improvement Advisory Committee) 1991, *Accountability in the Commonwealth Public Sector: An Exposure Draft*, Australian Government Printing Service, Canberra.
- MAB/MIAC (Management Advisory Board/Management Improvement Advisory Committee) 1993, *Accountability in the Australian Public Sector*, Australian Government Printing Service, Canberra.
- The Macquarie Dictionary* 1985, rev. Macquarie Library. Sydney.
- Martens, S. & Murphy, E. 2000, 'Critical commentary: Government accounting and the politics of fear. A note on federal government accounting and the politics of fear', *Critical Perspectives on Accounting*, vol. 11, no. 3, Jun., pp. 361-8.
- Maschmeyer, R.A. & Daniker, R.P.V. 1979, 'Financial Information Needs of State and Local Officials', *Governmental Finance*, Nov.
- Mathews, M.R. & Perera, M.H.B. 1991, *Accounting Theory and Development*, Thomas Nelson, Australia.
- Mattessich, R. 1984, *Modern Accounting Research: History, Survey & Guide* (co-authored and edited), The Canadian Certified General Accountants' Research Foundation.
- McKinnon, J.L. 1984, 'Application of Anglo-American principles of consolidation to corporate financial disclosure in Japan', *Abacus*, vol. 20, no. 1, pp. 16-33.
- McKinnon, J.L. 1986, *The Historical Development and Operational Form of Corporate reporting in Japan*, New York, Garland.

- McNally, G.M., Eng, L.H. & Hasseldine, C.R. 1982, 'Corporate financial reporting in New Zealand: an analysis of user preferences, corporate characteristics and disclosure practices for discretionary information', *Accounting and Business Research*, vol. 13, pp. 11-20.
- McSweeney, P. 1999, 'Reporting on Recreation Assets: A Victorian Perspective', *Australian CPA*, Jul., pp. 28-9.
- Meek, G.K. Roberts, C.B. & Gray S.J. 1995, 'Factors Influencing Voluntary Annual Report Disclosures by U.S., U.K. and Continental European Multinational Corporations', *Journal of International Business Studies*, vol. 26, no. 3, 3rd qtr, pp. 555-72.
- Meek, G.K. & Saudagaran S.M. 1990, 'A Survey of Research on Financial Reporting in a Transnational Context', *Journal of Accounting Literature*, vol. 9, pp. 145-82.
- Mellett, H. 2002, 'The consequences and causes of resource accounting', *Critical Perspectives on Accounting*, vol. 13, no. 2, Apr., pp. 231-54.
- Mellor, T. 1996, 'Why Governments Should Produce Balance Sheets', *Australian Journal of Public Administration*, vol. 55, no. 1, Mar., pp. 78-81.
- Miah, N.Z. 1991, 'Attempts at developing a conceptual framework for public sector accounting in New Zealand', *Financial Accountability and Management*, vol. 7, no. 2, pp. 83-97.
- Mian, S.L. & Smith, C.W. 1990a, 'Incentives for Unconsolidated Financial Reporting', *Journal of Accounting & Economics*, vol. 12, no. 1-3, pp. 141-71.
- Mian, S.L. & Smith, C.W. 1990b, 'Incentives Associated with Changes in Consolidated Reporting Requirements', *Journal of Accounting and Economics*, vol. 13, no. 3, pp. 249-66.
- Micallef, F. 1996, 'Financial Reporting by Governments: the "Big Picture"', *The Standard*, no. 3, Dec., pp. 13-5.
- Micallef, F. 1997, 'Financial Reporting by Governments: The Big Picture', *Charter*, vol. 68, no. 1, Feb., pp. 50-1.
- Micallef, F. & Peirson, G. 1997, 'Financial Reporting of Cultural, Heritage, Scientific and Community Collections', *Australian Accounting Review*, vol. 7, no. 1, pp. 31-7.
- Miley, F. 1999, *An Examination of Whole of Government Financial Reporting*, Report, Australian Society of CPAs.
- Miley, F. & Read, A. 2000, 'Comparing Government Reporting: Looking for Accountability', *Australian CPA*, Feb., pp. 26-7.

- Miller, M.C. 1996, Accounting Regulation and the Roles Assumed by the Government and the Accounting Profession: The Case of Australia, paper presented to The 19th Annual Congress of the European Accounting Association NHH, Bergen, Norway, 2-4 May.
- Mohr, R. 1983, 'The Segmental Reporting Issue: A Review of Empirical Research', *Journal of Accounting Literature*, Spring, pp. 39-71.
- Moone, J. 1999, 'The Australian Public Sector and New Governance', *Australian Journal of Public Administration*, vol. 58, no. 2, Jun., pp. 112-20.
- Moonitz, M. 1961, *The Basic Postulates of Accounting*, Accounting Research Study no. 1, American Institute of Certified Public Accountants.
- Mosher, F.C. 1979, *The GAO: The Quest for Accountability in American Government*, Westview Press, Boulder, Colorado.
- Mulgan, R. 1997a, 'The Processes of Public Accountability', *Australian Journal of Public Administration*, vol. 56, no. 1, pp. 25-36.
- Mulgan, R. 1997b, 'Contracting Out and Accountability' *Australian Journal of Public Administration*, vol. 56, no. 4, pp. 106-16.
- Mulgan, R. 2000, 'Comparing Accountability in the Public and Private Sectors', *Australian Journal of Public Administration*, vol. 59, no. 1, Mar., pp. 87-98.
- NSW A-G (New South Wales Auditor-General) 1994, *NSW Auditor-General's Report for 1994: Volume Two*, NSW Government.
- Nair, R.D. & Frank, W.G. 1980, 'The impact of disclosure and measurement practices on international accounting classifications', *The Accounting Review*, vol. 55, pp. 426-50.
- Neilson, J. 1993, 'AAS27: Expensive and Unnecessary', *Charter*, Mar., pp. 53-5.
- Ness, K.E. & Mirza, A.M. 1991, 'Corporate Social Disclosure: A Note on a Test of Agency Theory', *British Accounting Review*, vol. 23, pp. 211-7.
- Newberry, S. 2003, 'Sector Neutrality and NPM Incentives: Their Use in Eroding the Public Sector', *Australian Accounting Review*, vol. 13, no. 2, pp. 28-34.
- Nobes, C. & Parker, R. 1988, *Issues in Multinational Accounting*, Philip Allan, St Martin's Press, Oxford.
- Nosal, E. 1992, 'Discussion of Voluntary financial disclosure in an entry game with continua of types', *Contemporary Accounting Research*, vol. 9, no. 1, Fall, pp. 81-5.
- O'Faircheallaigh, C., Wanna, J. & Weller, P. 1999, *Public Sector Management in Australia*, 2nd edn, MacMillan, Melbourne.

- Oliver, B.L. 1972, 'A Study of Confidence Interval Financial Statements', *Journal of Accounting Research*, vol. 10, Spring, pp. 154-66.
- O'Loughlin, M.G. 1990, 'What is Bureaucratic Accountability and How Can We Measure It?', *Administration and Society*, vol. 22, pp. 275-302.
- Orkopoulos, M. 1999, 'Government Agencies Under Scrutiny', *Australian CPA*, Sep., pp. 48-9.
- Pacecca, T. 1995, 'An Analysis of Submissions to the ASRB on Release 411 "Foreign Currency Translation – Questionnaire" ', *Accounting and Finance*, Nov., pp. 97-118.
- Paice, R. 2000, 'New CPA Research Shows Government Reporting not up to Scratch', http://www.cpaonline.com.au/au/html/mr/pg_mr991118.htm 10 Mar.
- Pallot, J. 1996, 'Innovations in national government accounting and budgeting in New Zealand', *Research in Governmental and Non-Profit Accounting*, vol. 9, pp. 303-22.
- Pankoff, L.D. & Virgil R.L. 1970, 'On the Usefulness of Financial Statement Information: A Suggested Research Approach', *The Accounting Review*, vol. 45, no. 2, pp. 269-79.
- Parker, L.D. 1996, 'Broad Scope Accountability: The Reporting Priority', *Australian Accounting Review*, vol. 6, no. 1, pp. 3-15.
- Parker, L. & Gould, G. 1999, 'Changing Public Sector Accountability: Critiquing New Directions', *Accounting Forum*, vol. 23, no. 2, pp. 109-36.
- Parker, L. & Guthrie, J. 1990, 'Public Sector Accounting and the Challenge of Managerialism', in *Budgetary Management and Control: The Public Sector in Australia*, eds J. Forster, & J. Wana, Macmillan, Melbourne, pp. 114-27.
- Paton, W.A. 1922, *Accounting Theory*, Ronald Press Co., New York.
- Paton, W.A. & Littleton, A.C. 1940, *An Introduction to Corporate Accounting Standards*, American Accounting Association Monograph no.3.
- PEO (Parliamentary Education Office) 2002, 'Parliament An Overview.' <http://www.aph.gov.au/parl.htm>, 28 Oct.
- Perera, H. 1989, 'Towards a Framework to Analyse the Impact of Culture on Accounting', *The International Journal of Accounting*, vol. 24, no. 1, pp. 42-56.

- Price, R. & Wallace, W.A. 2003, 'An international comparison of materiality guidance for governments, public services and charities', *Financial Accountability and Management*, vol. 18, no. 3, Aug., pp. 291-308
- Priebjrivat, A. 1992, Corporate disclosure: a case of Securities Exchange of Thailand, unpublished PhD dissertation, New York University, School of Business Administration, UMI, Order No.9220538.
- Pross, A.P. 1986, *Group Politics and Public Policy*, Oxford University Press, Canada.
- Public Sector Bulletin*, 2000, 'AAS29 – Friend or Foe', vol. 3, p. 7.
- Puro, M. 1984, 'Audit Firm Lobbying Before the Financial Accounting Standards Board: An Empirical Study', *Journal of Accounting Research*, vol. 22, no. 2, Autumn, pp. 624-46.
- Puxty, A.G. & Laughlin, R.C. 1983, 'A Rational Reconstruction of the Usefulness Criterion', *Journal of Business Finance and Accounting*, vol. 10, no. 4, pp. 543-60.
- Raelin, J.A. 1991, *The Clash of Cultures: Managers Managing Professionals*, Harvard Business School Press.
- Raffournier, B. 1994, 'The Determinants of Voluntary Financial Disclosure by Swiss Companies', paper presented to the 17th Annual Congress of the European Accounting Association, Venice.
- Rahman, A. 1989, 'Theory Closure in Accounting Revisited', *Discussion Paper Series*, Accountancy Department, Massey University, New Zealand.
- Rahman, A. 1991, 'Due Process and User Participation in Standard Setting', *Australian Accountant*, Jun.
- Reck, J. 2001, 'The usefulness of financial and nonfinancial performance information in resource allocation decisions', *Journal of Accounting and Public Policy*, vol. 20, no. 1, Spring, pp. 45-71.
- Reid, G.S. 1984, 'The Westminster Model and Ministerial Responsibility', *Current Affairs Bulletin*, no. 61, pp. 4-16.
- Rhodes, R. 1997, *Understanding Governance: Policy Networks, Governance, Reflexivity and Accountability*, Open University Press, Buckingham.
- Roberts, R.W. & Kurtenbach, L. 1992, 'An Analysis of Lobbying Activities Before the Governmental Accounting Standards Board', in *Research in Governmental and Nonprofit Accounting*, eds J.L.Chan & J.M.Patton, vol. 7, JAI Press, London.

- Robles, M.T. & Tower, G. 1993, 'An Analysis of the Due Process Procedures for Australian Accounting Standard Setting: Focus on AAS25 (Superannuation Plans)', seminar presented to Murdoch University, Perth, Jun.
- Roorda, J.A. 1998, 'Capitalisation and Reporting of Road Assets in Tasmania', *Consultants Report*, Tasmanian Audit Office.
- Rosenfield, P. 1974, 'Stewardship', *Objectives of Financial Statements*, American Institute of Certified Public Accountants, New York, vol. 2, pp. 123-40.
- Rowles, T.B., Hutton, B. & Bellamy, S. 1997, Accounting for Land Under Roads: Views of Local Government Financial Managers, Department of Accountancy, RMIT, December.
- Runes, D.A. 1962, *Dictionary of Philosophy*, Littlefield Adams & Co., New Jersey.
- Rutherford, B. 1992, 'Developing a Conceptual Framework for Central Government Financial Reporting: Intermediate Users and Indirect Control', *Financial Accountability and Management*, vol. 8, no. 4, pp. 265-80.
- Ryan, C.M. 1997, 'Australian Public Sector Financial Reporting: A Case of Cooperative Policy Formulation', paper presented to Public Sector Transformation, Accounting, Management and Accountability Workshop, Macquarie University, Sydney.
- Ryan, C.M. 1999, 'Australian Public Sector Financial Reporting: A Case of Cooperative Policy Formulation', *Accounting Auditing & Accountability*, vol. 12, no. 5, pp. 561-82.
- Ryan, C., Dunstan, K. & Stanley, T. 1999, 'Constituent Participation in the Australian Public Sector Accounting Standard-Setting Process: The Case of ED55', *Financial Accountability and Management*, vol. 15, no. 2, May, pp. 173-200.
- Ryan, J. Andrew, B.H. Gaffikin, M.J. & Heazlewood, T. 1991, *Australian Company Financial Reporting*, Accounting Research Study no. 11, Australian Accounting Research Foundation.
- Sandilands Committee. 1975, *Inflation Accounting Committee*, Report, HMSO, London.
- Schadewitz, H.J. 1996, 'Information Content of Interim Earnings Components – Evidence from Finland', *Journal of Business Finance and Accounting*, vol. 23, no. 9-10, pp. 1397-414.
- Schadewitz, H.J. & Blevins, D.R. 2001, 'From Disclosure Indices to Business Communication: A Review of the Transformation', <http://www.westga.edu/~bquest/1997/disclosu.html> 30 Oct.

- Schipper, K. 1990, 'Commentary on Information Transfers', *Accounting Horizons*, vol. 4, no. 4, Dec., pp. 97-107.
- Schoenfeld, H.M.W. 1981, 'International Accounting: Development, Issues and Future Directions', *Journal of International Business Studies*, Fall, pp. 89-98.
- Schroeder, N. & Gibson, C. 1990, 'Readability of Management's Discussion and Analysis', *Accounting Horizons*, Dec., pp. 78-87.
- Schroeder, R.G., McCullers, L.D. & Clark, M. 1987, *Accounting Theory: Text and Readings*, John Wiley and Sons, Brisbane.
- Scott, D.R. 1925, *Theory of Accounts*, Henry Holt & Co., New York.
- Scott, D.R. 1931, *The Cultural Significance of Accounts*, Columbia: Lucas Brothers.
- Self, P. 1985, *Political Theories of Modern Government*, Allen & Unwin, Sydney.
- Self, P. 1993, *Government by the Market? The Politics of Public Choice*, Macmillan, London.
- Self, P. 1995, 'The Consequences of Reorganising Government on Market Lines', *Australian Journal of Public Administration*, Sep., vol. 54, no. 3, pp. 339-45.
- Sims, M.A. & Clift, R.J. 2001, *Corporate Accounting*, McGraw-Hill Book Company Australia Pty.Ltd.
- Simms, M. 1999, 'Accountability in Australian Government: Towards the Year 2000', *Australian Journal of Public Administration*, vol. 58, no. 1, Mar., p. 33.
- Simms, M. & Keating, M. 1999, 'Accountability in Australian Government – Symposium', *Australian Journal of Public Administration*, vol. 58, no. 1, pp. 33-101.
- Singhvi, S.S. & Desai, H.B. 1971, 'An Empirical Analysis of the Quality of Corporate Financial Disclosure', *The Accounting Review*, vol. 46, pp. 129-38.
- Smith, T.W. 1989, 'The Hidden 25 Percent: An Analysis of Nonresponse in the 1980 General Social Survey', in *Survey Research Methods: A Reader*, eds E.Singer & S.Presser, University of Chicago Press.
- Soo, B. 1999, 'Accrual response to mandated accounting principles: the case of SFAS Nos. 2 and 34', *Journal of Accounting and Public Policy*, vol. 18, no. 1, Spring, pp. 59-84.
- Soper, F.J. & Dolphin, R. 1964, 'Readability and Corporate Annual Reports', *The Accounting Review*, vol. 39, no. 2, pp. 358-62.

- Sorter, G.H. 1969, 'An "Events" Approach to Basic Accounting Theory', *The Accounting Review*, Jan., pp. 257-64.
- Spero, L.L. 1979, The extent and causes of voluntary disclosure of financial information in three European markets: an exploratory study, unpublished PhD dissertation, Harvard University, Graduate School of Business Administration, UMI, Order No.7920983.
- Sprague, C.E. 1907, *The Philosophy of Accounts*, New York.
- Stamp, E.K., Peasnell, K., Renshall, M. & Hopkins, L. 1975, *The Corporate Report*, Accounting Standards Steering Committee of the Institute of Chartered Accountants in England and Wales, London.
- Staubus, G. 1995, 'Issues in the Accounting Standards Setting Process', in *Accounting Theory: A Contemporary Review*, eds S. Jones, C. Romano & J. Ratnatunga, pp. 189-215.
- Sterling, R.R. 1970, *Toward a Science of Accounting*, Scholars Book Co., Houston.
- Street, D.L. & Gray S.J. 2001, *Observance of International Accounting Standards: Factors Explaining Non-Compliance*, ACCA Research Report No.74.
- Sumner, L. 1987, *The Moral Foundation of Rights*, Clarendon Press, Oxford.
- Susanto, D. 1992, An empirical investigation of the extent of corporate disclosure in annual reports of companies listed on the Jakarta Stock Exchange, unpublished PhD dissertation, University of Arkansas, UMI, Order No.9237316.
- Sutton, T.G. 1984, 'Lobbying of Accounting Standard-Setting Bodies in the U.K. and the U.S.A.: A Downsian Analysis', *Accounting, Organisations and Society*, vol. 9, no. 1, pp. 81-95.
- Tayib, M., Coombs, H.M. & Ameen, J.R.M. 1999, 'Financial Reporting by Malaysian local authorities: A study of the needs and requirements of the users of local authority financial accounts', *The International Journal of Public Sector Management*, vol. 12, no. 2, pp. 1-14.
- Thynne, I. & Goldring, J. 1981, 'Government "Responsibility" and Responsible Government', *Politics*, vol. 16, no. 2, pp. 197-207.
- Thynne, I. & Goldring, J. 1987, *Accountability and Control: Government Officials and the Exercise of Power*, Law Book Co., Sydney.
- Tilley, I. 1975, 'A Critique of Historical Record Accounting', *Accounting and Business Research*, Summer, pp. 185-97.
- Tower, G.D. 1991, Accounting regulation as an instrument of public accountability: A case study of New Zealand, PhD thesis, Massey University, New Zealand.

- Trueblood Report (Trueblood Committee.) 1973, *The Study Group on Objectives of Financial Statements*, Report, American Institute of Certified Public Accountants, New York.
- Tuominen, P. 1991, 'Corporate disclosure policy and its development – a study of the annual reports of Finnish public companies from the viewpoint of financial public relations', published PhD dissertation, Turku School of Economics and Business Administration, Series A-1, Turku.
- Uhr, J. 1993, 'Redesigning Accountability', *Australian Quarterly*, vol. 65, Winter, pp. 1-16.
- Uhr, J. 1998, *Deliberative Democracy in Australia, The Changing Place of Parliament*, Cambridge University Press, Melbourne.
- Ullmann, A.A. 1985, 'Data in search of a Theory: A Critical Examination of the Relationships Among Social Performance, Social Disclosure and Economic Performance of U.S. Firms', *Academy of Management Review*, vol. 10, no. 3, pp. 540-57.
- Velayutham, S. 1990, 'The Influence of Constituency Input on the Standard Setting Process in Australia', *Discussion Paper no. 110*, Accountancy Department, Massey University, New Zealand.
- Verrecchia, R.E. 1983, 'Discretionary Disclosure', *Journal of Accounting and Economics*, vol. 5, pp. 179-94.
- Virtanen, T. 2000, 'Changing Competences of Public Managers: Tensions in Commitment', *The International Journal of Public Sector Management*, vol. 13, no. 4, pp. 333-41.
- Walker, R.G. 1976, 'An Evaluation of the Information Conveyed by Consolidated Statements', *Abacus*, Dec., pp. 77-115.
- Walker, R.G. 1978a, *Consolidated Statements*, Arno Press.
- Walker, R.G. 1978b, 'International Accounting Compromise: The Case of Consolidation Accounting', *Abacus*, pp. 97-111.
- Walker, R.G. 1987, 'Australia's ASRB; A Case Study of Political Activity and Regulatory Capture', *Accounting and Business Research*, pp. 269-86.
- Walker, R.G. 1994, in Proceedings of a Seminar entitled *Accrual Accounting – The Scorecard to Date*, NSW Parliamentary Public Accounts Committee.
- Walker, R.G. 2002, 'Are Annual Reports of Government Agencies Really 'General Purpose' if they do not include Performance Indicators?', *Australian Accounting Review*, vol. 12, no. 1, pp. 43-54.

- Walker, R.G., Clarke, F.L. & Dean, G.W. 1999, 'Reporting on the State of Infrastructure by Local Government', *Accounting, Auditing and Accountability Journal*, vol. 12, no. 4.
- Walker, R.G., Clarke, F.L. & Dean, G.W. 2000, 'Infrastructure Reporting Options', *Abacus*, Jun.
- Walker, R.G. & Mack, J. 1998, 'The Influence of Regulation on the Publication of Consolidated Statements', *Abacus*, vol. 34, no. 1, pp. 48-74.
- Wallace, R.S.O. 1988, 'Intranational and international consensus on the importance of disclosure items in financial reports: a Nigerian case study', *The British Accounting Review*, vol. 20, pp. 223-65.
- Wallace, R.S.O. & Gernon, H. 1991, 'Frameworks for International Comparative Financial Accounting', *Journal of Accounting Literature*, vol. 10, pp. 209-64.
- Watts, R.L. 1977, 'Corporate Financial Statements: A Product of the Market and Political Processes', *Australian Journal of Management*, Apr., pp. 52-75.
- Watts, R.L. & Zimmerman, J.L. 1978, 'Towards a Positive Theory of the Determination of Accounting Standards', *The Accounting Review*, vol. 53, no. 1, Jan., pp. 112-34.
- Watts, R.L. & Zimmerman, J.L. 1979, 'The Demand For and Supply of Accounting Theories: The Market for Excuses', *The Accounting Review*, vol. 54, Apr., pp. 273-305.
- Watts, R.L. & Zimmerman, J.L. 1986, *Positive Accounting Theory*, Prentice-Hall Inc., Englewood Cliffs, New Jersey.
- Watts, R.L. & Zimmerman J.L. 1990, 'Positive Accounting Theory: a Ten Year Perspective', *The Accounting Review*, Jan., pp. 53-78.
- Welker, M.A. 1993, Disclosure policy, information asymmetry, liquidity and the cost of equity capital: a theoretical and empirical investigation, unpublished PhD dissertation, University of Iowa, UMI, Order No.9404553.
- Weller, P. & Lewis, C. 1989, 'Corporate Management: Background and Dilemmas', in *Corporate Management in Australian Government: Reconciling Accountability and Efficiency*, G.P. Davis, P. Weller & C. Lewis, Macmillan, Melbourne, pp. 1-16.
- Wheeler, J. 1970, 'Accounting Theory and Research in Perspective', *The Accounting Review*, vol. 65, no. 1, Jan., pp. 1-10.
- Whittred, G. 1986, 'The Evolution of Consolidated Financial Reporting in Australia', *Abacus*, vol. 22, no. 2, Sep., pp. 103-120.

- Whittred, G. 1987, 'The Derived Demand for Consolidated Financial Reporting', *Journal of Accounting and Economics*, Dec., pp. 259-85.
- Whittred, G. 1988, *The Evolution of Consolidated Financial Reporting in Australia*, Garland, New York.
- Whittred, G., Zimmer, I. & Taylor, S. 2000, *Financial Accounting: Incentive Effects and Economic Consequences*, 5th edn, Harcourt, Australia.
- Whorton, J.W. & Worthley, J.A. 1981, 'A Perspective on the Challenge of Public Management: Environmental Paradox and Organisational Culture', *Academy of Management Review*, vol. 6, no. 3, pp. 357-61.
- Williams, J.R.S. 1992, The impact of company-specific versus country-specific characteristics on financial accounting disclosure: an empirical study of thirteen countries, unpublished PhD dissertation, University of Mississippi, UMI, Order No.9312820.
- Wolk, H.I., Francis, J.R. & Tearney, M.G. 1992, *Accounting Theory: A Conceptual and Institutional Approach*, 3rd edn, College Division, South-Western Publishing Co., Ohio.
- Wright, J. 2000, 'On the Miley Report', *Australian CPA*, May, p. 8.
- Wright, M. 1988, 'Policy community, policy network and comparative industrial policies', *Political Studies*, Vol.36, No.4, pp.593-612.
- Zarzeski, M.T. 1996, 'Spontaneous Harmonisation Effects of Culture and Market Forces on Accounting Disclosure Practices', *Accounting Horizons*, vol. 10, no.1, pp. 18-37.
- Zeff, S.A. 1972, *Forging Accounting Principles in Five Countries*, Stipes Publishing, Illinois, USA.
- Zeff, S.A. 1978, 'The Rise of Economic Consequences', *Journal of Accountancy*, vol. 146, no. 6, Dec., pp. 56-63.
- Zeff, S.A. 1980, paper presented to the European Accounting Association meeting, 25 Mar., Barcelona, in J.M. Samuels & A.G.Piper.
- Zeff, S.A. 1998, 'The Coming Confrontation on International Accounting Standards', *The Irish Accounting Review*, vol. 5, no. 21, Autumn, pp. 89-117.
- Zmijewski, M. & Hagerman, R. 1981, 'An income strategy approach to the positive theory of accounting standard setting/choice', *Journal of Accounting and Economics*, vol. 3, Aug., pp. 129-50.

Part 2

Government publications

(including Legislation, Regulations, Orders, Directions and Instructions pursuant to legislation).

Australian Capital Territory Government 2000, *Consolidated Financial Statements 1999-2000 Financial Year*, Treasurer of the Department of Treasury and Infrastructure.

Australian Constitution 1901

Australian Corporations Law 1989 (and amendments)

Commonwealth Government of Australia (2000), *Consolidated Financial Statements for the Year Ended 30 June 2000*, Minister for Finance and Administration.

Commonwealth Department of the Treasury 2000, *Accrual Uniform Presentation Framework*, <http://www.treasury.gov.au/contentitem.asp?pageId=&ContentID=186>, 28 Apr., 2000.

Commonwealth Department of Finance and Administration 2002, 'Requirements and Guidance for the Preparation of Financial Statements of Commonwealth Agencies and Authorities', *Finance Ministers' Orders 2001-2002*.

FAAA 1977 (Financial Administration and Audit Act 1977) (Qld.)

FAAA 1985 (Financial Administration and Audit Act 1985) (WA)

FMA 1994 (Financial Management Act 1994) (Vic.)

FMA&A 1995 (Financial Management Act 1995 and Amendments 1995) (NT)

FMA 1996 (Financial Management Act 1996) (ACT)

FMAA 1997 (Financial Management and Accountability Act 1997) (Cwlth)

FMAA-Reg. 1997 (Financial Management and Accountability Regulations 1997) (Cwlth)

FMAA 1990 (Financial Management and Audit Act 1990) (Tas.)

Government of South Australia 1999, *Consolidated Financial Statements for the year ended 30 June 1999*, Treasurer, Department of Treasury and Finance.

Government of Western Australia 2000, *Consolidated Financial Statements year ended 30 June 2000*, Treasurer, Treasury Department.

New South Wales State Government 2000, *Consolidated Financial Statement of the NSW Total State Sector (incorporating the NSW Public Accounts) 1999-2000*, Treasurer, NSW Treasury.

New South Wales Department of the Prime Minister and Cabinet 1994, *Requirements for Departmental Annual Reports*, Mar.

Northern Territory Government 2000, *Treasurer's Annual Financial Report for the year ended 30 June 2000*, Treasurer, Northern Territory Treasury.

PFAA 1983 (Public Finance and Audit Act 1983) (NSW)

PFAA 1987 (Public Finance and Audit Act 1987) (SA)

PFAA-Amendment 2002 (Public Finance and Audit Amendment (Budgeting and Financial Reporting) Act 2002) (NSW)

Queensland Government 1999, *Consolidated Financial Report of the Government of Queensland*, Treasurer, Queensland Treasury.

Securities Act of 1933, The Securities and Exchange Commission, USA.

The Securities and Exchange Act of 1934, The Securities and Exchange Commission, USA.

State Government of Victoria 2000, *1999-2000 Financial Report for the State of Victoria*, Treasurer, Department of Treasury and Finance.

State of Tasmania 1999, *Consolidated Financial Statement for the State of Tasmania 1998-99*, Treasurer, Department of Treasury and Finance.

