USERS OF LOCAL GOVERNMENT ANNUAL REPORTS:
AN EXPLORATORY STUDY

WORKING PAPER SERIES
Working Paper No. 4

Janet Mack
School of Accountancy
Queensland University of Technology
Brisbane, Australia

Christine Ryan
School of Accountancy
Queensland University of Technology
Brisbane, Australia

Keitha Dunstan
School of Accounting and Commercial Law
Victoria University of Wellington
Wellington, New Zealand

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 Please do not quote without the permission of the author.

Please address all correspondence to:
Janet Mack
School of Accountancy
Queensland University of Technology
2 George Street
BRISBANE 4000, Australia

USERS OF LOCAL GOVERNMENT ANNUAL REPORTS: AN EXPLORATORY STUDY

ABSTRACT

The nature of financial reporting in the public sector in Australia has undergone substantial change in the last twenty years. One result has been the promulgation of public sector accounting standards based on the private sector conceptual framework for general purpose financial reports. A central key to this framework is the existence of users and their needs. This framework emphasises the provision of information for users for the purpose of decision making. Critics of the framework as it applies to the public sector claim that it lacks empirical substantiation and ignores the complexity and diversity of public sector institutions. This paper examines and analyses the annual report distribution lists for local government authorities within Queensland and provides empirical evidence on distribution patterns. The study finds that there are user groups which fall outside the categories identified by the conceptual framework. Further, there is a wide variety in the dissemination lists of local government authorities and cross sectional differences in the distribution patterns for urban and rural local government authorities. The results of this research raise important questions for public sector accounting regulators regarding the appropriateness of assuming that there exists a homogeneous set of users for all public sector entity types.

INTRODUCTION

The last twenty years has seen an immense change in the nature of the public sector in Australia. The reasons that these changes have occurred have been the subject of discussion by researchers (see for example, Ryan, 1995; Broadbent and Guthrie, 1992; Hood, 1991; Wanna et al, 1992; Emmy and Hughes, 1991). The result of the changes, however, is that the public sector has had to adapt to new expectations that it operate in a more commercial manner and that it be accountable not only for the money that it spends but also for the effectiveness with which it spends those funds (Pollitt, 1990). This increased emphasis on performance and accountability has lead to a greater awareness of the importance of the annual report in the accountability chain.

The presentation of annual reports is one stage in a cycle of accountability that begins with the budget process and ends with the tabling of reports to parliament (English & Guthrie, 2000). While it is acknowledged that the annual report does not report on the total accountabilities of public sector agencies, it is statutorily required as the primary medium of accountability (JCPA, 1989; QFMS, 1997; PAEC, 1999). In an effort to improve the quality of public sector annual reporting in the Commonwealth, States territories, and local government, regulations covering the content, quality and timeliness of annual reporting have been developed and refined since the late 1980s (Milazzo, 1992; PAC, 1996; PAEC, 1999).

A public sector annual report comprises two sections; the first part deals predominantly with descriptive information about the entity and its activities, while the second contains the audited financial statements. With regards to the audited financial statements public sector accounting standards have now been introduced and most public sector agencies prepare financial statements on an accrual basis in accordance with those standards (Micalleff, 1997). The accounting profession, through the Public Sector Accounting Standards Board (PSASB), has been a key promoter of these changes (Chua & Sinclair, 1994; Ryan, 1998).

One of the first tasks of the PSASB was to commission the development of a conceptual framework within which to develop public sector accounting standards (Sutcliffe, 1985). The 1985 monograph *Financial Reporting in the Public Sector – A Framework for Analysis and Identification of Issues* (Sutcliffe, 1985) published by the Australian Accounting Research Foundation (AARF) laid down the fundamental principles, which were to guide the production of accounting standards in the Australian public sector. This document effectively adopted the private sector financial reporting model for the public sector when it advocated the adoption of a common conceptual framework for both the private and public sectors that was derived from a user needs model of general purpose financial reporting (Walker, 1989; English and Guthrie, 2000). The PSASB embraced the recommendations of the monograph. The then Executive Director of the AARF, Warren McGregor asserted that the decision to adopt the same conceptual approach to the development of public sector accounting standards as private sector standards was perhaps the most important decision made by the PSASB (McGregor, 1999). However, the decision to make no distinction between private and public sector entities, despite differences in their operating structure, sources of financing, operating motives and accountability obligations has received strong criticism (see for example, English 1999; English and Guthrie 2000; Carnegie and Wolnizer 1995, 1998; Guthrie 1998; Walker 1989). Despite this controversy there exists little empirical evidence on the effects of this decision.

A key element of the conceptual framework in relation to general purpose financial reports, is the adoption of a user needs framework. Mignot and Dolly (1996) contend that a user needs framework requires that the information produced should be dependent on who requires the information and for what purpose. They state:

> *The decision usefulness approach to standard setting requires that the users are identified and that their decision tasks, together with their information needs, can be specified.* (Mignot and Dolly 1996, p2)

Statement of Accounting Standard 2 (SAC 2), *Objective of General Purpose Financial Reporting,* one of the platform documents within the conceptual framework identifies three broad categories of user; resource providers, recipients of goods and services and parties performing a review or oversight function. These categories of users for general purpose financial reports are assumed to be the same for both the private and public sector. Despite the importance of the identity of users to the veracity of the user needs framework, there is a paucity of empirical evidence regarding the users of annual reports and the financial statements contained within them (Rutherford, 1992; Ma and Matthews, 1993). Mayston (1992) argues that the accountability relationships in the public sector are more complex and less well defined than those in the private sector and this has contributed to difficulties in identifying users for public sector reports. Ma and Matthews (1993) advance this argument by contending that it is this lack of empirical data that has raised the possibility that the existing accounting standards are inappropriate for public sector agencies.

A further potential problem to the public sector arises from the fact that SAC1 *Definition of the Reporting Entity* and consequent public sector standards (*AAS 27 Financial Reporting by Local Governments, AAS 29 Financial Reporting by Government Departments, and AAS 31 Financial Reporting by Governments)* state that all governments, government departments, local governments and statutory bodies are regarded as a reporting entity. No concessions are made for the accountability relationships or individual characteristics of different public sector entity types. For example, all local government authorities in spite of their huge variations in terms of size, population and location are presumed to have the same external users for their general purpose financial reports. The possibility that some smaller local governments may, in fact, not have the same user profile and thus perhaps benefit from the differential reporting practices that exist in the private sector is not canvassed.

The objective of this paper is to provide investigate the effects of applying the conceptual framework in a local government situation. It aims to provide empirical evidence of the veracity of the categories of users as identified by SAC 2 in the context of local

governments within Queensland. Prior research addressing the identification of users has relied on the perceptions of report preparers. This paper will employ a more objective data source by examining the actual list of those to whom annual reports are sent. This data source will enable two specific research issues to be addressed. First, the data will be examined to initially identify recipients and then to investigate the applicability of the identified recipient to those users identified in SAC 2. Second because of the comprehensiveness of the database a cross sectional analysis of recipients will be made to determine if there is any variation in recipients amongst local authorities. Empirical data on who receives public sector financial reports will be useful in guiding policy makers on further policy prescriptions, and to agencies when considering report format and content. The paper proceeds as follows. The next section will review the previous literature in the area. The research method and the results are then reported. The paper concludes with its findings, areas for future research and limitations of the study.

INSIGHTS FROM PRIOR LITERATURE

Prior research concerned with identifying users of public sector general purpose financial reports can be reported from two perspectives – the research methodology employed and the results obtained. Both of these perspectives will be examined here, as they provide insights that are relevant for the current study.

There have been three primary methodologies employed to date each of which have differing reliability and validity problems. One research method that has been used to identify users is a theoretical (normative) approach. The seminal work in the area of users of public sector financial reports is that by Anthony (1978). Anthony's study theoretically identified 5 categories of user; governing bodies, investors and creditors,

resource providers, oversight bodies and constituents. The majority of subsequent work has either adopted a similar research method to identify users (Walker, 1995) or taken these categories of users as given and either reworked them or examined information needs issues (see for example, CICA, 1980; Burton, 1980; Drebin et al. 1981; Jones et al, 1985; Hay 1994). These studies have a validity problem in that the categories of users are not empirically based.

A second research methodology that has been used has been to solicit responses from users by means of placing cards in annual reports. In other an attempt is made to identify actual users. Volunteer respondents were then surveyed. A UK study Butterworth et al. (1989) used this approach. The researchers attempted to identify users of annual reports by leaving a questionnaire in copies of a local governments' annual report held in public libraries. A further study which adopted this approach was a New Zealand study by Dixon et al. (1994). This study examined the users of tertiary education institutions annual reports, by asking recipients to identify themselves. They requested that the users of the annual report return a card which had been inserted into the annual reports distributed by the institution. Those who returned a card were then surveyed by the researchers. Both of these studies have questions about validity to the extent that the method of data collection cannot be considered to have captured a comprehensive set of all users.

A third research approach was adopted by Atamian and Ganguli (1991). They adopted a different approach to identifying users than that used by Dixon et al (1994) and Butterworth et al (1989). They sought the views of account preparers. The researchers were concerned with identifying the primary recipients of municipal financial reports in America. They developed a questionnaire that requested descriptive information about the city and the potential report recipients from the five groups that been identified in previous literature – individuals, private businesses, private nonbusiness organisations, state and local government institutions and federal government agencies. The questionnaire was mailed to all municipalities with a population of over 50,000. The administrators in the city bureaucracy were asked to indicate whether they sent their

financial reports to the potential recipients identified on the questionnaire and to add any other recipients not appearing on the questionnaire. The primary problem with this methodology has is that it is reliant on third party judgements.

An alternative method will be developed for use in this research and will be outlined in the next section.

The findings of the studies in relation to user categories have also been interesting. The theoretical studies have identified potential user groups ranging in number from three to seven Taylor and Rosair (2000). Further, additional user categories from those identified in SAC 2 have emerged. The New Zealand study by Dixon et al (1994) revealed 60% of users were employees of the institutions, 10% were involved in other educational institutions management, 25% were managers of businesses or employee organisations and the remainder were journalists, librarians, Members of Parliament and other members of the general public. Thus the study revealed a large group of internal users.

These New Zealand results are confirmed in the US study by Atamian and Ganguli (1991). They identified city employees (internal users) as a significant category of recipients as well as 'other municipalities'. In addition, this research raised the possibility that not all public sector entities even within the same entity type will necessarily have the same categories of users for their financial reports.

In summary, there is scant empirical research which has attempted to identify users of public sector annual reports. However, studies both in the US and New Zealand have identified that internal users as a group use the annual reports of public sector agencies as do other authorities in the same level of government. Further, internal users are not considered as a category of users of general purpose financial reports by the regulators. Second, there is some US evidence to support the finding that even within local government, the distribution patterns of all councils differs.

RESEARCH METHOD

As discussed in the prior section, previous studies addressing the identification of users have adopted different methodologies being, development of theoretical models, surveys of account preparers, and self identification by user volunteers. All three of these methods suffer from reliability and validity problems to varying degrees. This study will rely on researcher inspection of the lists of recipients. This method is the most objective/reliable source of information regarding recipients. This method is stronger than other methods because it is complete for each authority in that it is not dependent on recipients responding and identifying themselves and thus there is no chance of missing information. A further strength is that it provides data on actual recipients, rather than third party judgements. In addition, as the recipient lists are created through a combination of account preparers perceptions of users (based on normative model and their own experience) and actual users who have requested to be added to the list the recipient lists are likely to be largely consistent with the types of users that would be identified using the other three methodologies, although more comprehensive. However there are two validity problems with relying on recipient lists; first, they represent only a sub-set of potential users (because not all recipients will actually use the annual reports) and second, there may exist users who gain access to annual reports from sources other than directly from the agency, for example, borrowing from a library. Despite these limitations, and because of its superiority to other methodological approaches, this research relies on recipient lists to to identify the recipients of local government general purpose financial reports.

The site of the study is Queensland. Queensland is one of the 9 jurisdictions in the federation of Australia. This jurisdiction was chosen as the focus of this study initially because of accessibility of data to the researcher. However as Greenall et al (1988) argues there is no reason to suspect any cross-jurisdictional differences for local government

authorities a view shared by Micallef et al (1994) in relation to departments.   There are 125 local government authorities in Queensland. They vary markedly in terms of physical size, population and revenue base. The Australian Classification of Local Governments Classifications apply to all Councils receiving grants under the 1986 and 1985 *Local Government (Financial Assistance) Acts*. The system classifies all local governments Australia wide into 22 categories with each category having a three character code (Institute of Municipal Management, 1999). Local governments are initially categorised as being either urban (U) or rural (R). These broad categories are then further subdivided. Urban local authorities are Capital City (CC), Fringe (F), Metropolitan (M) or Regional (R). Rural authorities are classified as Agricultural (A), Remote (T) or Significant (S). These categories are then further subdivided based on population size, with the classifications being Extra small (X), Small (S), Medium (M), Large (L) Very large (V) and Growth (G).[1] Thus there are 13 possible categories of urban councils and nine possible categories of rural councils.

All local government authorities in Queensland were approached with a request to participate in this study.[2] A list of who had received the annual report for the 1998/1999 financial year was obtained from the officer responsible for the distribution of the annual report in each local authority.[3] Depending on the size of the distribution list and the resources available within the authority the list was either received orally or in writing.

  These lists included recipients whom the authority had determined should be in receipt of the annual reports and as well any individual or organisation which had requested a copy of the annual report. As such, the lists are deemed to be complete, containing the names of anyone who asks for a report plus the names of anyone whom the local council thinks would be interested in the report as well as those who are legislatively required to receive a report.

---

[1] It should be noted that the population size classification varies depending on the previous two classifications. For example a small urban fringe authority does not have the same population as a small rural remote authority.

[2] The authorities were promised that t no specific individuals or entities would be identified in the research.

[3] In the case of rural authorities the officer was either the chief executive officer, the deputy chief executive officer or the chief executive officers secretary. For urban authorities the responsible officer was often a member of the public relations or communications department.

Of the 125 local government authorities in Queensland, information was obtained from 97 local authorities representing 77.6% of the population. Of the 28 authorities that did not supply the requested information, only one authority refused to supply information, three were omitted from the research because of anomalies in the manner in which they distributed their annual reports[4], a further council was omitted because it had not produced an annual report for two years and the remainder whilst agreeing to provide the information failed to do so[5]. Table 1 illustrates the response rate by local government type.

Table 1

Response rate by Local Authority Type

Local Authority Classification	Number of Authorities	Number that supplied information	Percent Response Rate
Urban Capital City	1	0	0.0
Urban Metropolitan Small	0		
Urban Metropolitan Medium	1	1	100.0
Urban Metropolitan Large	0		
Urban Metropolitan Very Large	1	1	100.0
Urban Regional Small	4	4	100.0
Urban Regional Medium	5	4	80.0
Urban Regional Large	4	2	50.0
Urban Regional Very Large	1	1	100.0
Urban Fringe Small	1	1	100.0
Urban Fringe Medium	3	2	66.7
Urban Fringe Large	3	2	66.7
Urban Fringe Very Large	1	1	100.0
Rural Agricultural Very Large	14	12	86.0

---

[4] For example one local authority placed an advertisement in the local paper to say that the annual reports were available and only distributed annual reports by request (other than the legislatively required distribution) and did not maintain records of any requests. The authority indicated that very few requests were received.
[5] Two follow up calls were made to each of these authorities but the information was still not forthcoming.

Rural Agricultural Large	10	7	70.0
Rural Agricultural Medium	5	4	80.0
Rural Agricultural Small	6	6	100.0
Rural Remote Large	24	17	71.0
Rural Remote Medium	24	18	75.0
Rural Remote Small	6	5	83.0
Rural Remote Extra Small	2	1	50.0
Rural Significant Growth	9	8	89.0
Total	**125**	**97**	**78.0**

The first research issue of this study is concerned with the identification of users and their applicability to the user groups identified by SAC 2. The identification of user groups was made by examining prior literature. Two documents – SAC 2[6] and the AARF discussion paper *"Financial Reporting by Local Governments"* [7] which preceded the issue of *AAS 27 "Financial Reporting by Local Governments"* were used as a basis for the determination of user groups. SAC 2 identifies three classifications of user groups for all public sector bodies – providers of resources, recipients of goods and services and parties performing a review service. The Discussion Paper gives further detail by identifying constituents of these groups in a local government authority context. The problem with this approach is that the same type of user commonly appears in one or more if not all of the three overall categories suggested by SAC 2. For example councillors appear as an example of "providers of resources or their representatives", as "recipients of services or their representatives" and as "parties performing a review service". As well as identifying categories of users SAC 2 and the Decision Paper define for each classification of user the types of decisions that those users might make. The result of this is that in order to allocate annual report recipients into one of the three major categories identified by SAC 2 and the Discussion Paper, information about the decisions made by those recipients would be required. The category into which an individual councillor would belong would in fact be defined by the decisions which that

---

[6] SAC 2 "*Objectives of General Purpose Financial Reporting*" was issued in 1990 to replace SAC 1 "*Objectives of Financial Reporting by Public Sector Entities*"
[7] "Financial Reporting by Local Governments" (Greenall, Paul & Sutcliffe,1988), was the discussion paper released by AARF prior to the issuing of AAS 27- Financial Reporting by Local Governments in 1990.

councillor makes. It was not possible therefore to allocate recipients to categories with the information provided from the distribution lists alone.

As a result the original categories used by SAC 2 were re-organized so that the lists could be analysed. In doing this consideration was given to not only the prior normative assessments but also Anthony's (1978) assertion that to be useful there needed to be only a small number of categories of users. After considering the Discussion Paper, five categories of users were established by expanding the categories established in SAC 2 after considering the Discussion Paper. The categories thus became :

- ratepayers, taxpayers and residents,
- lenders and suppliers of funds,
- councillors,
- other consumers of services including local businesses and
- oversight bodies including media, ratepayer and resident associations and Departments of Local Governments.

These categories can be aligned to those in SAC 2.[8] In essence though, to avoid overlap ratepayers have been given their own category as have councillors.

The motivation underlying the analysis of user groups in this study is driven by empirical evidence. Consequently, further refinement of the categories was made based on the results of previous empirical research. Research by Dixon et al (1994) and Atamian and Ganguli (1991) both identified internal users as users of general purpose financial reports that have been overlooked using the SAC 2 categorisation. Internal users are defined as

---

- [8] Resource recipients or their representatives - ratepayers, residents and councillors
- resource suppliers or their representatives - ratepayers and councillors and as well lenders, creditors and suppliers of funds, and local businesses
- oversight bodies - the media, councillors, resident associations and governmental oversight bodies.

employees or other parties internal to the organisation. As well the Atamian and Ganguli (1991) study identifies 'other local government authorities' as a significant user category. Consequently, both of these groups were included in the list.

The establishment of the user categories allowed a more detailed analysis of distribution patterns of annual reports to be made. The second research issue addressed in this study is whether the profile of recipients is common across local government authorities or whether there are any cross sectional variations in the types of users and their relative importance that can be explained according to authority specific characteristics. The local authority classification scheme provides a basis for the analysis of differences across authority types. An initial distinction was made between rural and urban and then this was further refined to reflect the differing classifications of authorities within those two broad categories.

RESULTS

Research Issue 1 – Recipients of Annual Reports

The first research issue addressed in this study is the identification of the type of recipient groups for comparison with the groups of users identified in SAC 2. Table 2 summarises the groups identifiable from the recipient lists of the whole sample. Consistent with prior research all of the categories of users suggested by SAC 2 are the recipients of annual reports. However, also consistent with prior research, internal users are also well represented as recipients of local government annual reports. Internal users constitute 21.6% of total recipients and are exceeded only by residents and taxpayers (24.2%). This research identified an additional material set of users as being other councils who represent 14% of the total number of recipients of annual reports.

Table 2

Identification of User Groups

Whole Sample of 97 Local Government Authorities

User Category	n(%)	Identified by SAC 2
Residents & Ratepayers	885 (24.2)	Yes
Lenders & Fund Providers	512 (14)	Yes
Councillors	156 (4.2)	Yes
Consumers of Services	389 (10.6)	Yes
Oversight Bodies	409 (11.2)	Yes
Internal	791 (21.6)	No
Other councils	515 (14)	No
Total	3657 (100)	

Internal users were found to be users in the studies of both Atamian and Ganguli (1991) and Dixon et al. (1994) and this initial analysis confirms those results in an Australian context. As well Atamian and Ganguli (1991) provided evidence of the distribution of annual reports to local government municipalities by other local government municipalities and this result is confirmed in this study. The confirmation of the findings of Atamian and Ganguli (1991) and Dixon et al. (19940in an Australian context reveals the development of a consistent body of research across jurisdictions identifying these two categories of users.

Research Issue 2 – Cross-sectional Analysis of Users

A comparison is made between the recipient lists of the individual authorities to determine if there are any cross-sectional variations in the distribution patterns of annual reports across Queensland local government authorities. The first point of comparison is to disaggregate the total sample into the two broad groups of urban and rural authorities. Table 3 provides an overview of the distribution patterns for the whole sample and a comparison between urban and rural authorities on an average per council basis.

Table 3

Annual report distribution on an average per council basis

User Category	All Authorities N	Urban Authorities n	Rural Authorities n
Councillors	9.12	10.26	8.84
Internal	5.28	10.94	3.9
Lenders & Fund Providers	1.61	1.79	1.56
Consumers of Services	4.01	18.68	.44
Oversight Bodies	4.22	11.11	2.54
Residents & Ratepayers	8.15	24.05	4.28
Other Councils	5.31	15.42	2.85
Total	37.7	92.25	24.41

The average number of reports distributed by all authorities was 37.7. This varied from an average of 92.25 for urban authorities to an average of 24.41 for rural authorities. This clearly indicates that urban authorities have a much broader distribution base than rural authorities. This finding is consistent with the fact that urban authorities are larger and therefore have a broader base of constituents than do rural authorities.

Table 3 also indicates that there are differences between the relative importance of the various categories of recipients for urban and rural authorities. For example, the most popular recipients of annual reports for the whole sample is councilors, while this is also the case for the rural sub-sample, residents and taxpayers are by far the most prevalent category for urban authorities. These apparent differences between urban and rural authorities are investigated further through statistical testing for differences between the proportion of reports distributed to each of the recipient groups for urban and rural authorities. These results are reported in Table 4.

Table 4

Tests for Differences Between the Mean Proportion of Annual Reports Distributed to User Categories by Urban and Rural Authorities

User Group	Urban Mean	Rural Mean	Mann-Whitney U Z Statistic	Asymp.Sig(2-tailed)

	Proportion	Proportion		
Councillors	.18	.43	-5.361	.000
Internal	.16	.16	-.4	.689
Lenders	.03	.06	-2.685	.007
Consumers	.15	.01	-5.746	.000
Oversight	.12	.11	-.223	.824
Residents	.24	.17	-2.728	.006
Other Councils	.13	.04	-3.334	.001

The analysis confirms that the proportions of annual reports distributed to the various user categories by rural and local authorities was significantly different for five out of the seven user categories. The proportion of the total number of annual reports that was distributed by urban authorities was higher than for rural authorities for three of the catgories, consumers of services, residents and taxpayers and other councils. Using the rationale provided in SAC's 1 and 2, the two categories of consumers of services and residents and taxpayers are most likely to be the types of users who are dependent on general purpose financial reports to facilitate their decision making. A possible explanation for the prevalence of other councils as a user group of urban authorities is that their economic significance and increased resources makes them an important model for other councils to emulate.[9]

Two of the user categories were more important for rural authorities than for urban authorities, councillors and lenders/fund providers. Both of these categories of users could be argued to have an agency relationship with authorities that would provide them

---

[9] This was confirmed in a conversation with…………..????

with access to information so that they would not be dependent on general purpose financial reports.

For internal users and oversight bodies, no significant difference was found for the proportion of annual reports distributed to these groups by urban and rural authorities. It is not particularly surprising that the proportion of annual reports distributed to oversight bodies is not different for urban and rural authorities since all local government authorities are subject to authorities are subject to regulation by the state government. Similar to councilors and lenders/fund providers, internal users and oversight bodies might expected to have access to information other than that contained in the general purpose financial reports.

The identification of differences between the distribution patterns of urban and rural authorities justifies further analysis for variations within these groups. Table 5 further disaggregates rural authorities into the nine sub-groups based on the local government classification scheme.

Table 5

Average numbers of annual reports distributed by Rural Authorities according to major subcategories and size

	Councilors	Internal	Lenders & fund Providers	Consumers of Services	O'sight Bodies	Residents & Ratepayers	Other Councils	Total
R Agricult Large	9.57	4.42	1.29	.71	2.29	4.14		**22.43**
R Agricult Med	9	3.25	1.75		2	4.75		**20.75**
R Agricult Small	7.33	2.17	.67		1.83	2.83		**14.83**
R Agricult VL	10.08	5.83	1.33	1.75	2.67	5.08	1.83	**28.58**
R Remote Xsmall	5	1	1		2	5		**14**
R Remote Large	8.65	4.24	1.88	.24	2.17	4.76	.59	**22.53**
Rl Remote Med	8.44	3	2	.11	2.16	2.94	7.28	**25.94**
R Remote Small	7.8	1.6	2		2.2	5	8	**26.6**

R Sig'cant Growth	9.87	5.25	.875	.25	5.25	5.5	2.37	**29.38**

An initial inspection of this table indicates that in general the smaller rural authorities distribute fewer annual reports than larger rural authorities. This finding is consistent with the earlier finding that urban councils predominate rural council as distributors of annual reports. Small agricultural and extra small remote rural councilors distributed, on average, fewer than 15 annual reports with approximately half of those reports being sent directly to their own councilors. Indeed, councilors are the most important category of recipients for all of the rural sub-groups. It could be argued that the annual reports of small rural councils do not seem to be subject to significant demand from users who are likely to be dependent on general purpose annual reports.

Other councils are found to be major recipients of annual reports from two of the rural sub-groups, rural remote small and rural remote medium. Further investigation of the data reveals that one council in the rural remote small category distributes 30 annual reports to other councils whilst another council in the rural remote medium category distributes 120 annual reports to other councils. At this level of analysis these two councils can be considered to have abnormal distribution patterns. If they are removed from the sample the average number of annual reports distributed for rural remote small becomes 17.5 and the average number of reports for rural remote medium becomes 16.61. The analysis continues to show support for differing distribution patterns for entities of the same type with some user groups not being represented at all or having a very small representation for some categories of rural authorities. When the analysis is refined even further to an individual entity basis (see Appendix 1) this becomes more evident.

The small number of urban authorities rendered analysis using the thirteen possible sub-groups non-informative so a broader aggregation based on size was employed resulting in sub-groups small, medium and large (includes very large authorities). Table 6 illustrates the distribution patterns for urban local government authorities. The number of reports distributed by urban authorities is also related to size, with smaller authorities distributing

on average one half the number of reports distributed by large and medium urban authorities. However, small urban authorities still distribute more reports than rural authorities on average. The distribution across the categories of users is approximately consistent across small, medium and large urban authorities.

Table 6

Average numbers of annual reports distributed by Urban Authorities according to size

Urban	Councillors	Internal	Lenders & Funds Providers	Consumer of Services	O'sight Bodies	Residents & Ratepayers	Other Councils	Total
Large	11.43	14.43	2.14	13.14	9.14	24.43	21.42	96.13
Medium	10.29	10.14	1.29	27.86	17.42	32.28	16.14	115.4
Small	8.6	7.2	2	13.6	5	12	6	54.4

This further level of disaggregation for both Urban and Rural authorities continues to indicate differences in the distribution patterns for annual reports amongst local authorities with size was found to be the most important determinant of the number of annual reports distributed.

The results of this analysis provide confirmatory evidence of US research that the distribution patterns for annual reports for an entity type are not necessarily uniform for all entities within that type. The analyses at all levels provide evidence of cross-sectional variations in the distribution patterns of annual reports amongst Queensland Local Government Authorities.

CONCLUSIONS

The private sector 'user needs' model with its emphasis on providing users with information for decision making has also been adopted for the Australian public sector. Moreover the model has been adopted in its entirety without any allowance for the different types of public sector entities. This model has been seen by some researchers to be problematic. There has been little empirical evidence in Australia or overseas to

substantiate the model. However, some research suggests that there maybe other categories of users in existence other than those identified by the model and that distribution patterns within a particular entity type may not be the same for all entities. Consequently two research issues were proposed ,first, an empirical examination of the veracity of the user categories identified by SAC 2 and second, to determine if there is any variation in recipients amongst local government authorities.

 to This research has examined the distribution of annual reports in Queensland local government authorities by direct reference to the distribution lists of those authorities. This research method is an advancement on previous research as it uses the actual data bases of recipients of annual reports

In terms of the first research issue this study has found that all the categories of users identified by SAC 2 are in fact recipients of the annual reports of Quennsland local government authorities. However it also revealed that there are recipients of annual reports produced by local government authorities that are not identified by the user/needs model as stated in SAC 2. 'Internal users' and 'other local government authorities' were found to account for 28% of the recipients of annual reports of local government entities. This result confirms New Zealand and American findings. In terms of the second research issue this research found that the distribution patterns for all entities within a particular entity type are not always the same. It confirms American research that the distribution lists of annual reports for individual entities within a class of entities are not always uniform.

Further, this research because of its access to primary data sources was able to provide more detailed analysis of the distribution of annual reports by local government authorities. It was able to investigate any cross sectional variations in the distribution of annual reports by local government authorities. Urban authorities were found to distribute four times as many annual reports as rural authorities. Further the proportion of annual reports distributed to the seven groups of users was found to be significantly different in five out of the seven categories. The differences were not however in the same direction. The proportion of annual reports distributed to 'councillors' and to

'lenders and fund providers' was significantly higher for rural authorities than it was for urban authorities while the proportion of annual reports distributed to 'consumers of services', 'residents and ratepayers', and 'other councils' was greater for urban authorities. These results add further support to the American research that distribution patterns are not always uniform. Interestingly for those two categories of users in which rural authorities distributed a higher proportion of annual reports it could be argued that both of these groups were able to demand specific purpose reports.

A possible limitation of this research could be seen as its lack of generalisability in terms of other public sector entity types as it has only examined one entity type. However, the internal validity of this research has been enhanced because of this. As the classification of users for the user/needs model is presumed to be the same for all entity types then any deviation from those classifications by even one entity type creates doubt about the veracity of the model. In these circumstances and because the study is exploratory the researchers believe that the improved internal validity and the resulting richness of the data is more beneficial to the exploration of the identification of users than a more general analysis would be.

Whilst this research is exploratory it has provided evidence that there are differences in the distribution patterns of annual reports for urban and rural local authorities not only in terms of the numbers distributed but also in terms of the proportions distributed to various user groups. This research offers some initial support for the notion of differential reporting for urban and rural local authorities. These findings have implications for reporting and standard setting throughout the public sector since they question the notion of a homogenous set of external users for all public sector entities. .

The results of this research support the claims by previous researchers (see   for example Rutherford, 1992) for further empirical work to be done to identify users of public sector

general purpose financial reports. Further research areas which could provide valuable information include the extension of this research to determine if in fact receivers of annual reports are in fact users of general purpose financial statements. Within the context of local government the research to identify users could also include an examination of the information requirements of those users and the purposes to which they put that information. This research also needs to be extended to determine if the same findings apply to other public sector entity types.

REFERENCES

Anthony

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

Australian Accounting Research Foundation (AARF), (1990), Statement of Accounting Concepts SAC 1 “Definition of the Reporting Entity”, Melbourne, Australian Accounting Research Foundation.

Australian Accounting Research Foundation (AARF), (1990), Statement of Accounting Concepts SAC 2 “Objective of General Purpose Financial Reporting”, Melbourne, Australian Accounting Research Foundation

Australian Accounting Research Foundation (AARF), (1991), Australian Accounting Standard AAS 27 “Financial Reporting by Local Governments”, Melbourne, Australian Accounting Research Foundation.

Australian Accounting Research Foundation (AARF),(1993), Australian Accounting Standard AAS 29 “Financial Reporting by Government Departments”, Melbourne, Australian Accounting Research Foundation.

Australian Accounting Research Foundation (AARF),(1994), Australian Accounting Standard AAS 31 “Financial Reporting by Governments”, Melbourne, Australian Accounting Research Foundation.

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

Burton, John, (1980) Public Reporting by Governmental Units: A Revised Financial Reporting Model for Municipalities, Proceedings of the Arthur Young Professors' Roundtable 1979. David Solomon, Editor. The Council of Arthur Young Professors, Reston International Center, Reston, VA

Butterworth, P., Gray, R.H. and Haslam, J. (1989), "Communication in UK Local Authority Annual Reports", *Financial Accountability & Management*, Summer.

Carnegie, G., and Wolnizer, P., (1995), "The Financial Value of Cultural, Heritage and Scientific Collections: An Accounting Fiction", *Australian Accounting Review*, Vol 5, No 1, pp31-47.

Canadian Institute of Chartered Accountants, Local Government Financial Reporting, A Research Study, CICA, Toronto, 1985.

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

Dixon, Keith, Coy, David, Buchanan, John & Tower G., (1994), "Identifying Annual Report Users", *Chartered Accountants Journal* Vol.73, No. 11 pp. 34-35.

Drebin, A, Chan, J L, and Ferguson, L C., Objectives of Accounting and Financial Reporting for Governmental Units: A Research Study . NCGA Research Report Vol 1. Chicago, National Council on Governmental Accounting

Emy, Hugh V. & Hughes, Owen E. 1991, *Australian Politics: Realities in Conflict,* Second Edition, Macmillan, Melbourne.
English, L., (1999), "Unsubtle Differences, Editorial", *Australian Accounting Review,* Vol 9, No1, p2.

English, L and Guthrie J 2000, Emasculating Accountability in the Name of Competition: Reform of State Audit in Victoria, Working Paper , Macquarie University...

Greenall, D. T., Paul, J. and Sutcliffe, P (1988) *Financial Reporting by Local Governments*, Australian Accounting Research Foundation, Melbourne.

Guthrie, J. (1998), "Application of Accrual Accounting in the Australian Public Sector – Rhetoric or Reality?", *Financial Accountability & Management,* 14 (1) February, pp. 1-19.

Hay, D. (1994),"Who Uses Public Sector External Reports? An Exploration", *Accounting Forum*, March, Vol.17 No. 4 pp. 47-65.

Hood, C. (1991), "A Public Management for All Seasons", *Public Administration,* Vol. 69 Spring, pp. 3 – 19.

Institute of Municipal Management (1999), WWW.

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

Jones, D.B., Scott R.B., Kimbro, L. and Ingram, R. (1985), "The Needs of Users of Governmental Financial Reports", Government Accounting Standards Board.

McGregor, W. (1999), "The Pivotal Role of Accounting Concepts in the Development of Public Sector Accounting Standards", *Australian Accounting Review,* Vol 9 No 1 pp 3 – 8.

Ma, R. and Mathews R. (1993),"Financial Reporting by Government Departments: ED 55 – A Dissenting View," *Australian Journal of Corporate Law*, Vol 3 No1. pp. 67 – 88.

Mayston, D. (1992), " Financial Reporting in the Public Sector and the Demand for Information", *Financial Accountability & Management,* Vol. 8 No. 4. Winter pp. 317 – 324.

Micallef, F., Sutcliffe, P., and Dougherty, P. (1994) *Financial Reporting by Governments",* Australian Accounting Research Foundation, Melbourne.

Micallef, F. (1997), "Financial Reporting by governments: the big picture", *Charter,* Vol. 68 No. 1 pp. 50 – 1.

Mignot, H and Dolley C. (1996) "Public Sector Accounting Reform: Responses of Users to AAS 29", Accounting Association of Australia and New Zealand Conference.

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

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

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

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

Queensland Financial Management Standard 1997

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

Ryan, C. (1998) "The Introduction of Accrual Reporting Policy in the Australian Public Sector: An Agenda-setting explanation", *Accounting, Auditing & Accountability,* Vol. 11, Iss. 5.

Rutherford, B.A., (1992), " Developing a Conceptual Framework for Central Government Financial Reporting, intermediate Users and Indirect Control", *Financial Accountability and Management,* Vol.8 No. 4 Winter, pp. 265 –280.

Sutcliffe, P. (1985), *Financial Reporting in the public sector- a framework for analysis and identification of issues,* AARF.

Taylor & Rosair.

Walker, R.G. (1989), "Should there be common standards for the public and private sectors" ASA Government Accounting Research Lecture.

Walker, R.G. (1995), "Public Sector Consolidated Financial Statements," UNSW School of Accounting Working Paper Series (Sydney).

Wanna, John, O'Faircheallaigh, Ciaran, & Weller, Patrick 1992, *Public Sector Management in Australia,* Macmillan, Melbourne.

APPENDIX 1

Distribution of Annual Reports by Queensland Authorities

Local Government Authority Type	Councilors	Internal	Lenders & fund Providers	Consumers of Services	O'sight Bodies	Residents & Ratepayers	Other Councils	Total
	no	no	no	no	no	no	no	no
Urban MetropolitanMedium	9	9	3	85	29	40		**175**
Urban Metropolitan Very Large	11	15	1	6	13	55	112	**213**
Urban Regional Small	38	31	10	67	23	52	30	**251**
Urban Regional Medium	44	30	6	91	66	139	106	**482**
Urban Regional Large	21	38		11	14	17	38	**139**
Urban Regional Very Large	15	12	6	22	4	22		**81**
Urban Fringe Small	5	5		1	2	8		**21**
Urban Fringe Medium	19	32		19	27	47	7	**151**
Urban Fringe Large	19	22	4	11	27	27		**110**
Urban Fringe Very Large	14	14	4	42	6	50		**130**
Total Urban	**195**	**208**	**34**	**355**	**211**	**457**	**293**	**1753**
Rural Agricultural Very Large	121	70	16	21	32	61	22	**343**
Rural Agricultural Large	67	31	9	5	16	29		**157**
Rural Agricultural Medium	36	13	7		8	19		**83**
Rural Agricultural Small	44	13	4		11	17		**89**
Rural Remote Large	147	72	32	4	37	81	10	**383**
Rural Remote Medium	152	54	36	2	39	53	131	**467**
Rural Remote Small	39	8	10		11	25	40	**133**
Rural Remote Extra Small	5	1	1		2	5		**14**
Rural Significant Growth	79	42	7	2	42	44	19	**235**
Total Rural	**693**	**304**	**122**	**34**	**198**	**334**	**222**	**1904**
Total Urban & Rural	**885**	**512**	**156**	**389**	**409**	**791**	**515**	**3657**

Extra Some of this could be written into results for issue One
The number of annual reports distributed by each local government classification in Queensland is summarised in Table 3. Several conclusions can be drawn. First, on average local government councils distributed 38 annual reports per yearwith Mackay City Council distributing the largest number of 241 and Tambo distributing the smallest number 8. These figures can be further analysed by breaking down the distribution patterns for urban and rural authorities. The 19 urban authorities included in the data distributed an average of 92 annual reports with the largest number distributed being 241 by Mackay City Council and the smallest 19 by Hervey Bay City Council. The average number of annual reports distributed by the 78 rural local government authorities was 24 with the distribution varying from a high of 168 for Booringa Shire Council to a low of 8 for Tambo shire council. It would appear however that these descriptive statistics for rural authorities are a little misleading. Booringa Shire Council distributes more than twice the number of annual reports than any other rural local government authority as it sends its report to every other local authority in Queensland. It is the only authority that does this. If Booringa's figures are excluded the figures for rural shires become an average of 22, with a range from 67 to 8. However on average urban authorities distributed more reports than rural authorities.

The second observation that can be made from Table 3 is that 'councillors', 'residents & ratepayers', 'other councils' and 'internal' users are the four largest categories of users. Of these, two – internal users and other councils –   are not identified as users by SAC 2. In fact together, those two categories of users account for 28% of recipients of annual reports. This represents a large proportion of the total number of annual reports distributed being distributed to groups not considered to be users by SAC 2. Table 3 also offers support for the Atamian (1991) findings that the dissemination lists of local government authorities were not uniform – that is, that recipients varied from authority to authority. This support is not only indicated by the non-dissemination of annual reports to some user groups by particular classes of local authority but also by the varying numbers distributed to user groups.

In two categories of recipients 'councillors' and 'lenders and fund providers' the average number distributed by urban and rural councils is quite similar. The number distributed to councillors is quite close being 10.26 for urban authorities and 8.84 for rural authorities. This is not a surprising result since the number of councilors in each local authority does not vary greatly. 'Lenders' and 'fund providers' the other category which does not show a large variation in the average number distributed by urban and rural councils the numbers being 1.61 and 1.79 respectively. Similarly this result is not surprising as all councils tend to have a limited number of finance suppliers.

The areas which show the largest variations are 'consumers of services', Residents & Ratepayers and Oversight Bodies. In all of these categories of users urban authorities distribute more annual reports than do rural authorities. Urban authorities also distribute more of their annual reports to other local government authorities than do rural authorities. Undoubtedly some of the differences highlighted here can be attributed to the size of the authorities. Rural authorities tend to be smaller in terms of population than urban authorities. Hence it could be expected that a smaller number of annual reports would be distributed to ratepayers and residents in rural authorities than in urban authorities. Anecdotally several officers from rural authorities indicated that if anybody wanted to know anything they just phoned up and asked. This method of communication and accountability becomes more difficult the larger and more complex the local authority administrative structure becomes. The size differential could also be a factor in terms of the services provided by local government authorities and this would account for the greater number of annual reports being sent to consumers of services in urban authorities than in rural ones. Again possibly as a function of size responsibility for the annual report was most likely to be in the hands of a communications or public relations department in urban authorities and thus more likely to be distributed to other local authorities more likely by these authorities. Several authorities indicated that the annual report awards created more interest in the annual reports of other authorities.