



Annual Reports of Australian Public Sector Organisations – Insights from stakeholders

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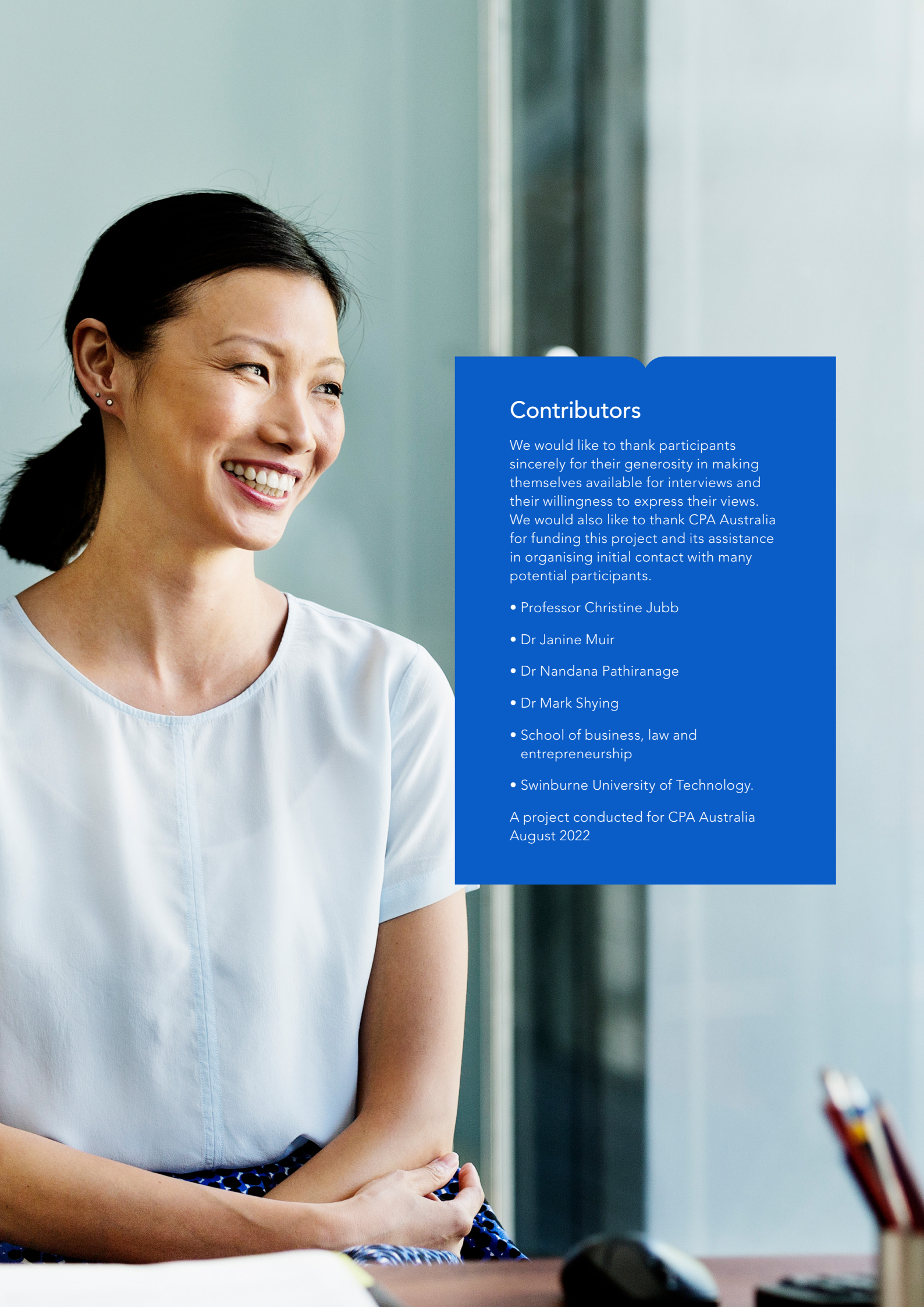
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Contributors

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Executive summary

The purpose of this report is to examine how:

- public sector organisations across the three levels of government use the annual report, including the financial statements, to show they are accountable,
- the information in the annual report of public sector organisations across the three levels of government, including the financial statements, is used by external stakeholders to:
 - hold management and those charged with governance accountable in the discharge of their duties,
 - assess management's and those charged with governance stewardship of the resources of the organisation, and
 - make other decisions.

We conducted twenty-nine interviews with 34 individuals to enable the gathering of data through structured interview and questionnaire measures. Participants holding various roles within the sector across the three levels of government, both internal and external to public sector organisations were joined by others with an interest in the area.

Audit Committee members, councillors, media representatives, members of the public, monitors, parliamentarians and report preparers willingly gave their time to tell the stories of their public sector experiences, as well as their thoughts and suggestions for the future of reporting by organisations in this sector.

The report concludes



1. Complexity remains a challenge

While public sector reporting based on Australia's 'transaction neutral' approach to Accounting Standards is bedded down, and there is no sense of a revolution about that, it would be misguided to think universal satisfaction with the approach and system is present for those working in the sector.

This project repeatedly heard mystification over how consumers of public sector annual reports including the financial reports within them could be expected to understand the information within a jurisdiction, let alone across jurisdictions.

Further, the issue of information overload and the complexity of financial reporting was often raised. However, others wanted greater program-specific detail. Creating 'concise' financial reports with full and better-connected information, both within annual reports and from annual reports to external sources, represents one solution to this dilemma.



2. Standardised service performance reporting needed

One of the most frequent critiques raised was the absence of meaningful outcomes reporting and reporting against long-term plans of 10 years or more. What is it that the public sector organisation does, and what outcomes can it claim, both qualitatively in terms of social benefit and quantitatively in terms of economical delivery, efficiency and effectiveness?

Too often, it is outputs rather than outcomes that are the focus of reporting. The irony of reliance on an 'edifice' of accounting standards designed for the private sector when no standard exists for outcomes reporting, arguably the most important aspect of public service delivery, was not lost on interviewees.

The need for training in designing and implementing fit-for-purpose service performance indicators and a standard to guide disclosures would seem to be a solution to the widespread interviewee dissatisfaction with current reporting in this area.



3. Budgetary information is useful

Several interviewees, particularly parliamentarians, commented on the usefulness of budget information and appropriations and lamented the difficulty of comparing reported financial accounting numbers with original and revised budgets. This ability is linked to key performance indicators for outcomes too.



4. More guidance needed

From a report preparer perspective, there were calls for more assistance by the AASB to help implement new accounting standards in the sector.



5. Sustainability reporting should be addressed

One area of weakness in much public sector reporting is non-financial information (environmental, social and governance) when arguably the sector should be exemplary. The need for a unified approach to reporting on climate-related risks, the UN SDGs and other ESG information rather than each government level and jurisdiction acting alone was prominent.



6. Demand for digital reporting

The timeliness of and access to public sector reporting, both financial and non-financial, would be facilitated by digitising reporting through XBRL or other means.

Recommendations

In view of these findings, we make the following recommendations in order of priority:

1. The AASB and the FRC create a broad-based public sector advisory group to more effectively understand annual report information needs. Engagement that is skewed towards report preparers and auditors is not sufficiently representative of the different needs of stakeholders interested in reporting by not-for-profit public-sector entities from the three levels of government.
2. The AASB develop a standard on service performance reporting for the not-for-profit public sector that emphasises reporting against outcome indicators. As performance and accountability are essential to the work of the three levels of government and for enhancing the way government organisations operate, our recommendation is the development of the standard not be linked to a project on service performance reporting in the not-for-profit private sector.
3. The AASB undertake research to consider how ESG, SDG and TCFD information should be reported by all tiers of government for all jurisdictions.
4. The AASB undertake research to understand how materiality is applied by not-for-profit public sector entities from the three levels of government. This research is relevant to any legislative changes to reduce disclosures.
5. The AASB undertake research to consider how the alignment of annual report information and the budget could be improved.
6. The AASB undertake:
 - a. Research to review the interaction of AASBs 15 and 1058.
 - b. Research to review the interaction of asset management/fair value measurement/stewardship of infrastructure assets.
 - c. Research to consider the relevance to not-for-profit public sector entities of applying fair value measurement.
 - d. A review of AASBs 1058, 13 and 16 to consider what more guidance and education could be provided.
7. The AUASB amend the scope of ASA 701 to apply to audits of general purpose financial reports of all not-for-profit public-sector entities.
8. The AASB and the FRC agree a strategy to influence the development of digital financial reporting by not-for-profit public-sector entities from the three levels of government.
9. The AASB and the FRC agree a strategy to influence the more timely tabling of annual reports in Parliament, including the impact of digital financial reporting on the tabling process.
10. Public Accounts Committees, Auditor Generals and Councillor representative group agree an education strategy focused on annual reports made relevant to parliamentarians and councillors when entering the role.
11. Universities be encouraged to teach public sector accounting units in the Commerce and Management Field of Research (FoR).
12. A single repository for all public sector reports be established.
13. A digital database for financial line items in public sector reports using XBRL be set up to encourage research on the sector.

Acronyms

AASB Australian Accounting Standards Board

GAAP Generally Accepted Accounting Principles

GGs General government sector

GRI Global Reporting Initiative

IFRS International Financial Reporting Standards

IIRC International Integrated Reporting Council

IPSAS International Public Sector Accounting Standards

IPSASB International Public Sector Accounting Standards Board

KAM Key audit matters

KPI Key performance indicator

LGBTI Lesbian, gay, bisexual, transgender, intersex

PFC Public financial corporations

PNFC Public non-financial corporations

RP1 IPSAS Recommended Practice Guideline

SDGs Sustainable Development Goals

TCFD Task Force on Climate-related Financial Disclosures

UK The United Kingdom

UN United Nations

WGR Whole of government report(ing)

Accounting Standards

AASB 13 Fair Value

AASB 15 Revenue from Contracts with Customers

AASB 16 Leases

AASB 1051 Land Under Roads

AASB 1058 Income of Not-for-Profit Entities

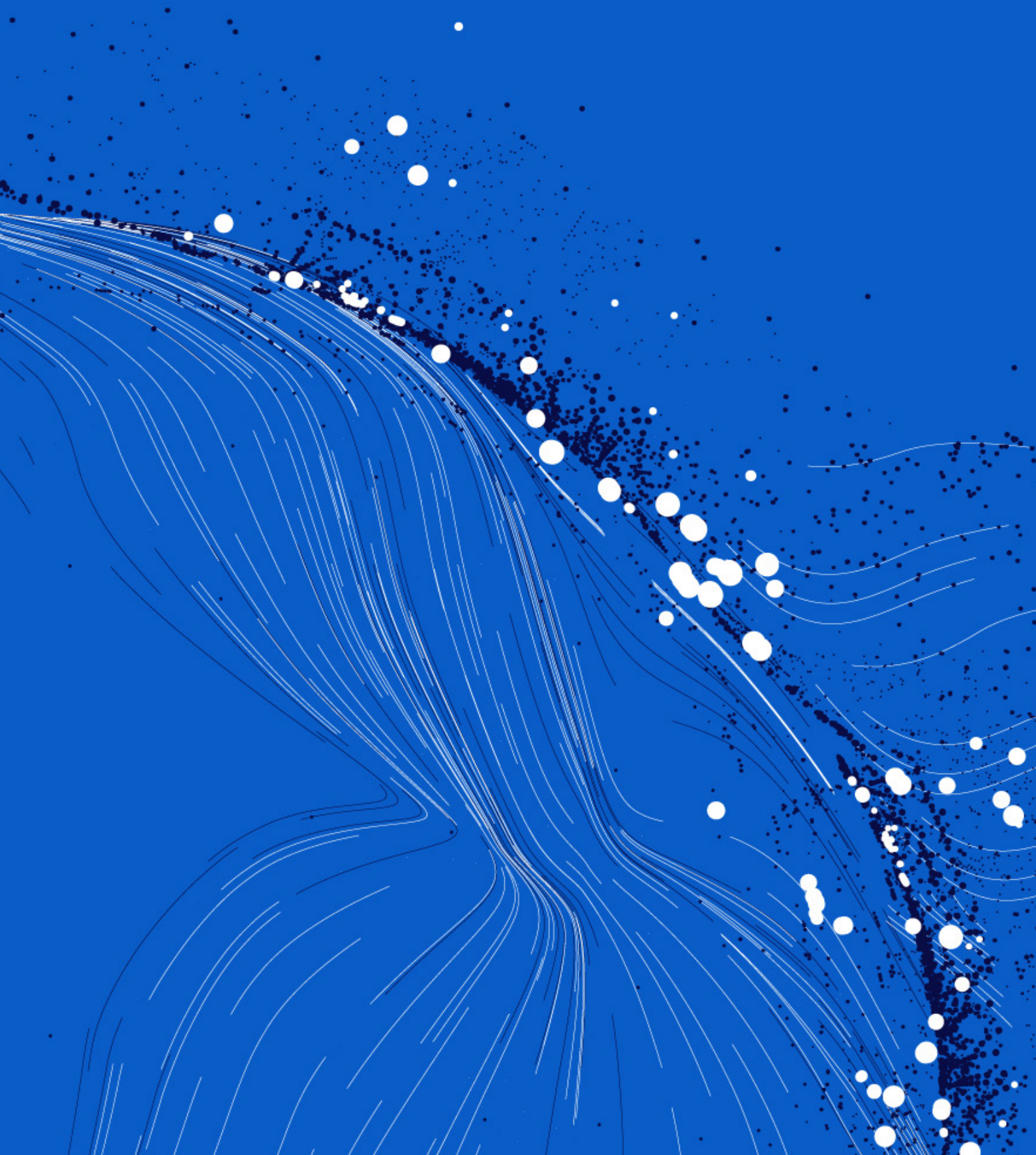
AASB 1059 Service Concession Arrangements: Grantors

Auditing Standards

ASA 700 Forming an Opinion and Reporting on a Financial Report

ASA 701 Communicating Key Audit Matters in the Independent Auditor's Report

1. Introduction



The Australian public sector comprises three levels of government

1. Federal
2. State/territory
3. Local

All levels of government raise money by collecting taxes¹ to pay for services provided. State/territory and local governments also receive some money from the federal government and separately, state/territory governments provide money to local governments.

The Australian Constitution defines the federal government's powers and its relationship with the state / territory governments.

Local government is not mentioned in the Australian Constitution. Because local government is a legislative creation of the state or territory, the powers of local government are defined by the legislation of the state or territory government.

"The accountability relationships within the public sector under the [Australian form of the] Westminster System [of government] are complex (who is accountable for what and to whom); and... the financial story told by financial reporting disclosures is only part of the story..." (Gilchrist and Simnett 2019: p77).

Chow et al. (2015: p5) studied one aspect of public sector reporting, whole of government reports (WGR).

They observed that "In Australia, previous research has mainly focused on normative ideas of how WGR-AU should be used, rather than on evidence of their actual use. Participants indicated they are generally not used or understood by parliamentarians; they attract limited media attention and public interest and have limited use by credit rating agencies. Treasury officials interviewed focused mainly on compliance rather than on the rationale of the reports...".

Gilchrist and Simnett (2019 p77) note that "... performance issues, such as those related to the economical, efficient and effective pursuit of policy outcomes, are...very hard to measure and report upon. However, they are key concepts that have not been tested relative to this sector."

The purpose of this report² is to examine how:

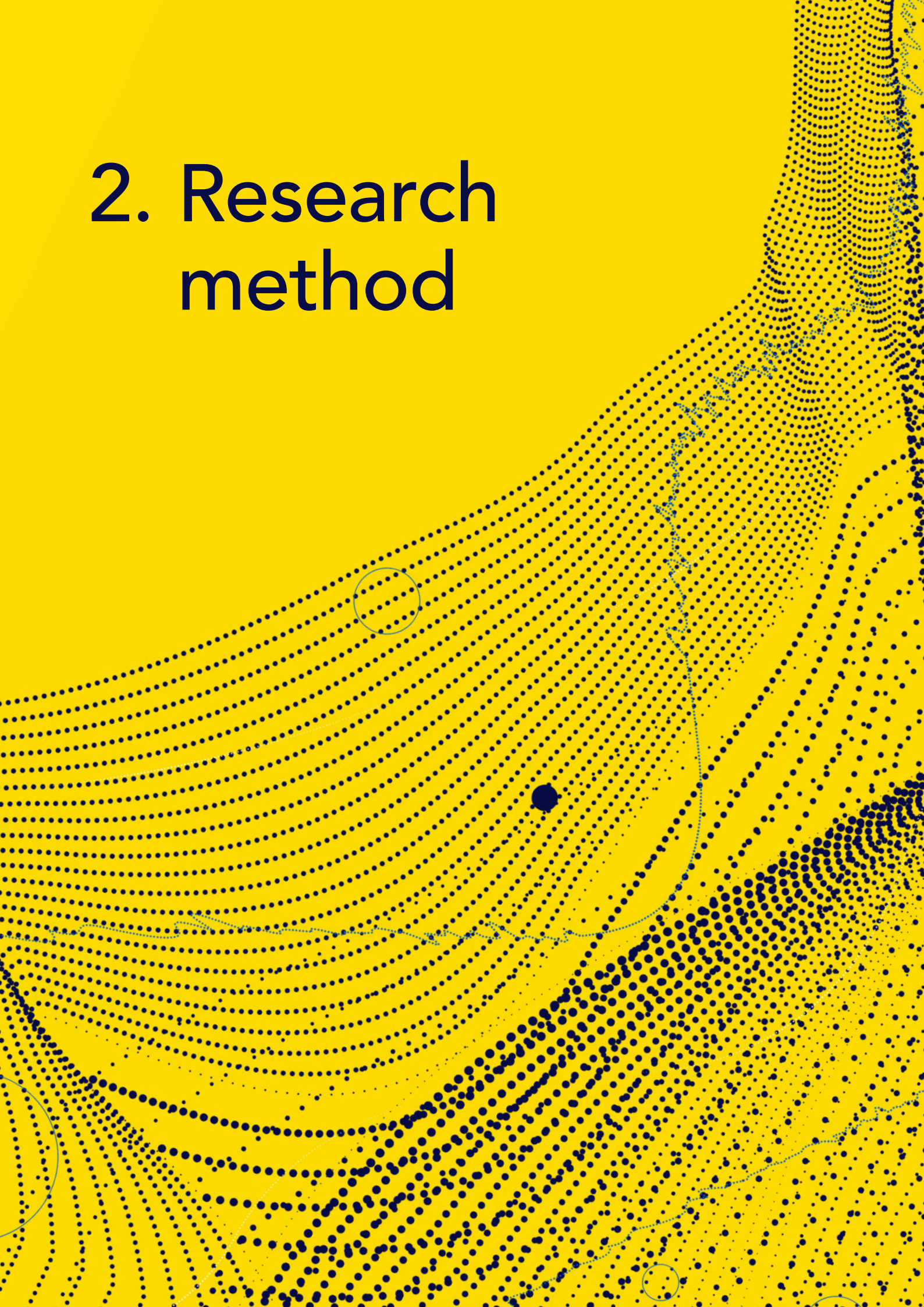
- public sector organisations across the three levels of government use the annual report, including the financial statements, to show they are accountable;
- the information in the annual report of public sector organisations across the three levels of government, including the financial statements, is used by external stakeholders to:
 - hold management and those charged with governance accountable in the discharge of their duties,
 - assess management's and those charged with governance stewardship of the resources of the organisation and;
 - make other decisions.

The next section of the report presents the research design and method. Section 3 describes the participants in the study, followed by a summary of the findings and the complete findings in Sections 4 and 5. Finally, the report concludes with concluding remarks and recommendations.

¹Local government rates are a property tax.

²This report represents the findings from stage three of a three-stage research project investigating the information needs of users of annual reports. For the results from stage one relating to For-Profits and stage two relating to Not-for-Profits, please refer to: Jubb, C., Muir, J., Pathirana, N., and Shying, M. 2020 and 2022.

2. Research method



To collect sufficient data to answer the research question “Do the current annual report and financial statements of public sector entities adequately meet the needs and wishes of various users of those reports?”, data were gathered through structured interview and questionnaire measures.

As the access to interviewee stakeholders is not easy to establish, careful planning was required before embarking on interviews, including first obtaining ethical clearance for the study from the Swinburne University Human Research Ethics Committee. As Ahrens and Dent (1998: p. 26) note, “Once access is granted, the task of gaining interviews with busy...[stakeholders], for whom time is at a premium, is nontrivial”.

Connections of the research team thought suitable were invited to participate by an emailed invitation. Subsequently, thirty-four interviews of public sector stakeholders across the three levels of government were conducted virtually through Microsoft Teams, each lasting about 1 hour were held in Quarter 1 2022.

The design of each of the 19 questions was developed following a reflective and pragmatic approach.

Whereby interview questions and discussion were designed to maximise the viewing of the research question from different angles to understand what the stakeholders think, feel, value and do with the annual report, including the financial report.

The structured interviews used a questionnaire that included a combination of open-ended and close-ended questions. Open-ended questions allow respondents to give answers in their way. Category, list, quantity and scale lose-ended questions were also developed (Youngman 1986).

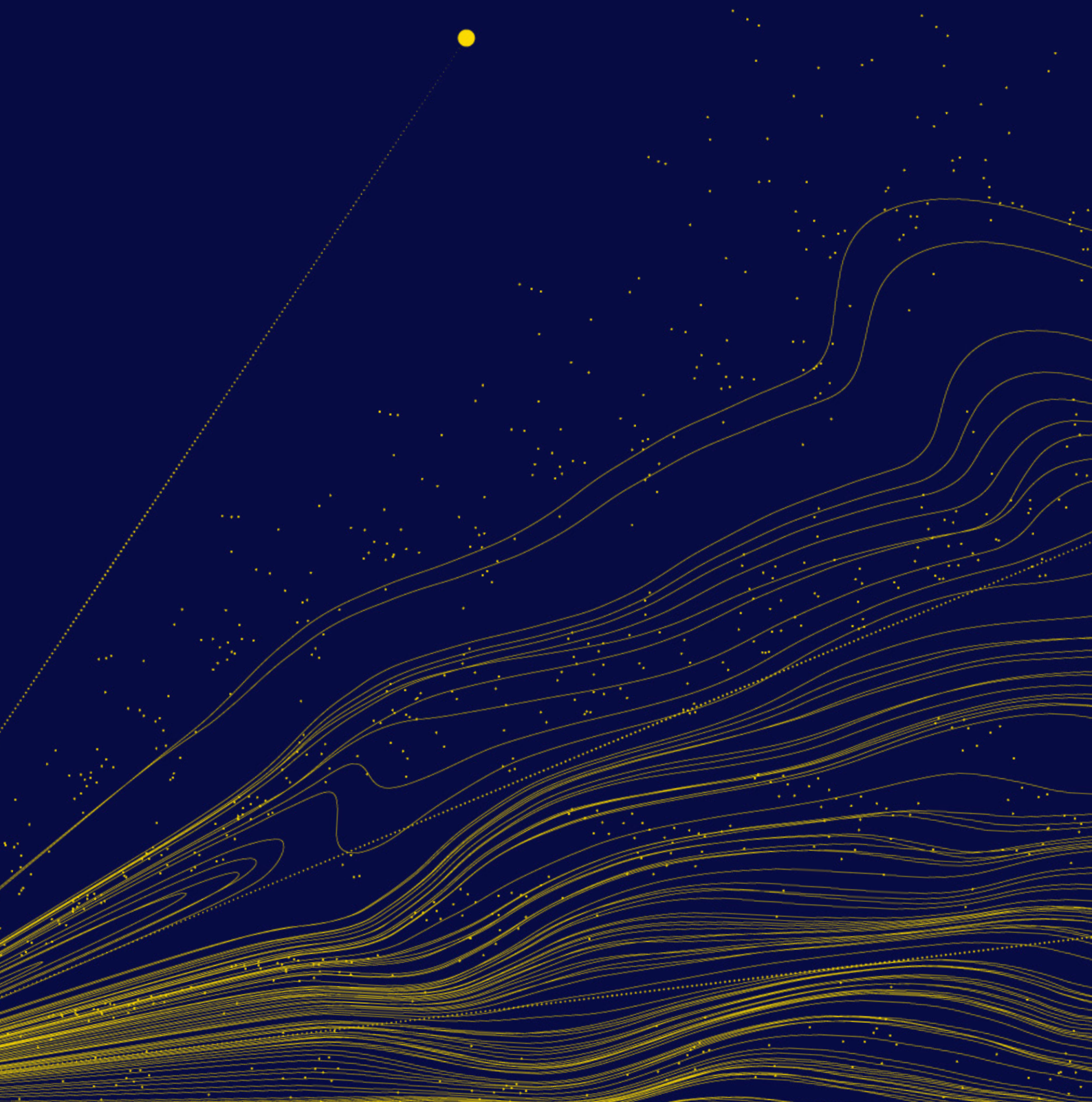
Consideration was given to the wording of each question to ensure response validity. The checklist for question-wording developed by Saunders, Lewis and Thornhill (2019) was referred to for this purpose.

Before collecting the data, the draft questionnaire was subjected to pretesting. Comments received included both technical and practical suggestions. After feedback from pretesting, minor alterations were made to some question wording, the order and flow.

We recorded interview sessions with the permission of participants and obtained system-generated transcripts. The automated transcripts were manually verified (and, where necessary, cleaned) to ensure the accuracy, consistency, and reliability of participants’ responses to the structured questions.

We allocated the analysis of specific questions around common themes to our team members and reviewed the resulting content for overlapping responses to avoid duplication.

3. Interviewees



In this research, we invited participants to join a one-hour virtual meeting with members of the research team. All members of the team were present for most of the interviews. The invitation included more detailed information about the project, the Ethics Information Statement and the questions for discussion in the interview (refer to Appendix).

We conducted twenty-nine interviews with 34 individuals; three interviews were attended by two interviewees, and one interview had three interviewees. Table 1 lists the participant categories, representing both external and internal stakeholders of public sector organisations. Males comprised 71% of the sample. In terms of age, 44% were aged 55 or older, 25% were aged 45–54, 22% were aged 35–44, and the remainder were under 35 years of age. The findings reported in the Summaries section follow the sequence of categories shown in Table 1.

Interviewees were asked to share the type of public sector organisation annual report they were familiar with and to continue thinking about that report when answering questions. As shown in Table 2, annual reports across the three levels of government were identified. State/Territory Department reports were the most strongly represented (41%), followed by Council reports (29%) State/Territory Statutory Body reports (15%), with federal department and federal statutory body and State/Territory whole of government reports making up the balance.

Although prior completion was not expected, some interviewees had prefilled some question responses, especially those requesting yes or no answers and ranking. Where this was the case, interviewees were asked to make responses available for use during the interview if they were comfortable with doing that.

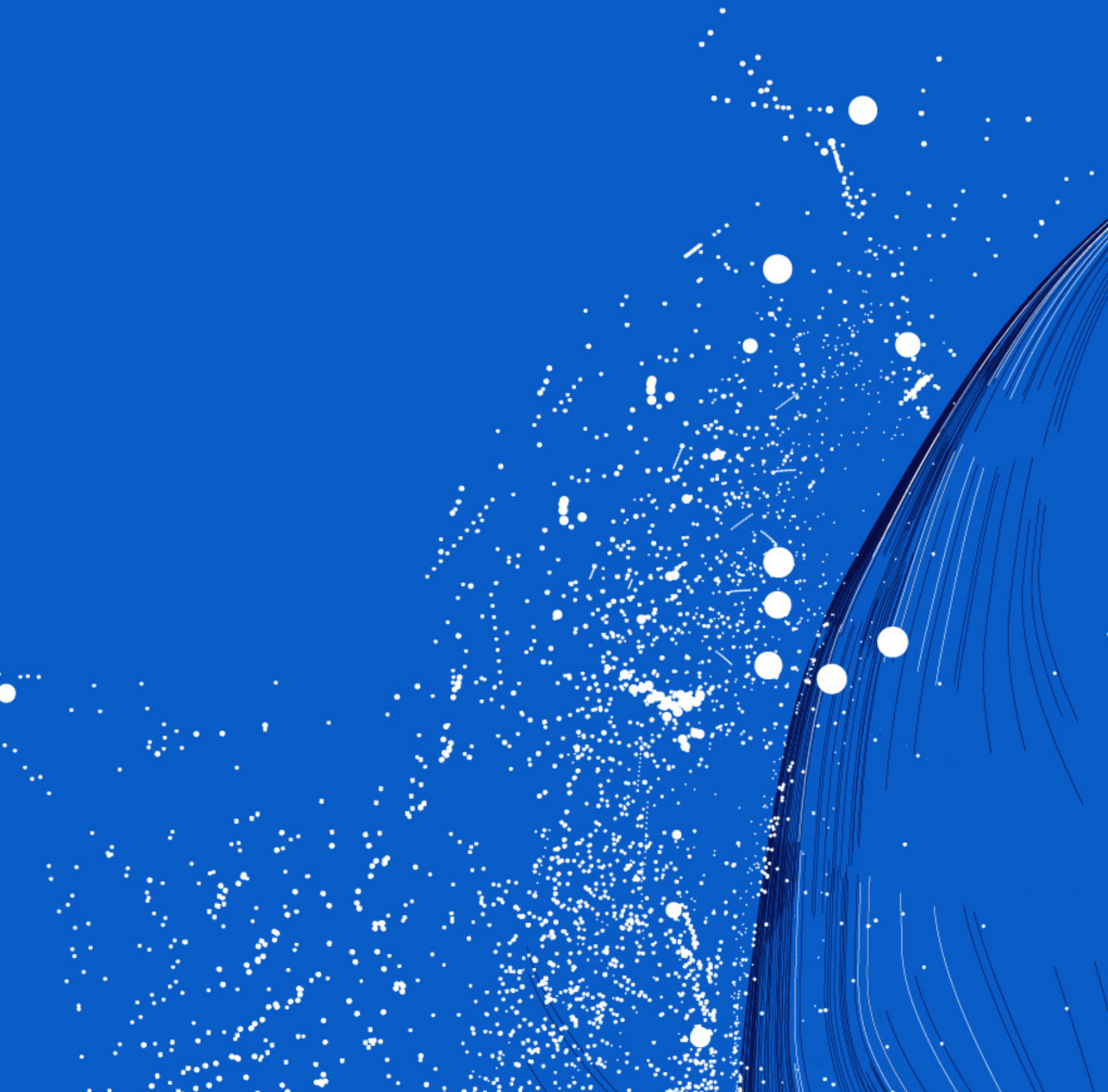
Table 1: Interviewees by category

Categories	No	Percent
Audit Committee member	6	18%
Councillor	2	6%
Media	3	9%
Member of the public	3	9%
Monitor	7	20%
Parliamentarian	3	9%
Report preparer	10	29%
Total	34	100%

Table 2: Interviewees by Annual Report Focus

Annual report focus	No	Percent
State/Territory Department	14	41%
Council	10	29%
State/Territory Statutory Body	5	15%
State/Territory Whole of Government	2	6%
Federal Statutory Body	2	6%
Federal Department	1	3%
Total	34	100%

4. Summaries



This section contains summary findings; the complete findings are reported in Section 5.

4.1 Summary – Accountability in general

When discussing what accountability meant to them, Audit committee members were concerned about demonstrating the use of taxpayers' money for intended actions to improve the community and address social issues. Councillors felt that accountability meant explaining actions so constituents could observe and evaluate performance.

For members of the Media, accountability revolved around transparently holding citizen-elected representatives to account for their decisions involving the use of scarce resources for the greater community good. For members of the public, accountability meant transparency in the government being accountable to parliament and parliament being accountable to the public.

Monitors saw accountability as inextricably linked with notions of stewardship of public resources in the public interest, transparency in terms of openness to scrutiny and responsibility for the efficiency and effectiveness of decisions made.

When asked about accountability, Parliamentarians were focused on clear and structured reporting on sources of funds, amounts expended to achieve value for money outcomes compared with budget, and explanations of variation from budget or expected outcomes.

When asked about accountability, Report preparers focused on reporting transparently on the responsible financial management of taxpayer money for service performance that satisfied taxpayers but also achieved efficiency and effectiveness to provide value for money.

4.2 Summary – Accountability and levels of government

All participants felt that accountability had the same meaning regardless of the level of government, but not only Councillors commented on local government receiving the highest level of scrutiny.

4.3 Summary – Accountability, understandability and stewardship in annual and financial reports

Audit committee members had mixed views on whether the annual report and financial report within it fulfilled their needs for accountability, understandability and stewardship.

Several felt these reports achieved these qualitative characteristics only partially, mentioning 'spin' as detracting from understandability. Councillors were eager to dispose of the myth that 'rubbish, roads and rates' were their primary activities reported on in annual reports.

They used as evidence of annual reports demonstrating accountability queries received on content citing specific page numbers. Media representatives noted that annual reports were important sources for news stories and acted as a historical record and institutional history but were not necessarily written in a way everyone finds compelling or understandable.

Members of the public varied from wanting more disaggregation in the financial report to follow specific projects to conceding never having looked at the financial report section. Monitors agreed that annual reports met their own needs for accountability, understandability and stewardship from a professional point of view. However, they were more doubtful from a public user perspective due to the long length and complexity of the content.

Highly material amounts 'buried' in notes to the financial statements were called out. Parliamentarians had mixed views about annual reports as an accountability mechanism, with it also seen as a marking tool. The standardised format of the financial report made it the most understandable at one end of a continuum.

In contrast, it was seen as intentionally difficult to understand. Report preparers mentioned that annual reports were more understandable when they used plain English, were clear and concise, included summaries, and used model government entity financial statements that formed a standardised approach. Prescriptive content was not seen as meaningful except for well-informed readers.

The summary statistics showed that 84% agreed annual reports discharged accountability, 78% agreed for understandability, 88% agreed for stewardship and 66% for use for other purposes. When asked about meeting interviewees' needs for accountability, the percentage agreeing for the annual report was 78% and 88% for the financial report.

For understandability, the percentage agreeing their needs were met was 75% for the annual report and 81% for the financial report. For stewardship, the percentage agreeing their needs were met was 75% and 72% for the annual and financial report, respectively.

For whether the information was useful for other purposes, the percentage agreeing was 34% for the annual report and 28% for the financial report. In ranking from one to three views of whether the annual report met their information needs, 25% opted for accountability, 12.5% for understandability and 10.7% for stewardship as their first-ranked attribute.

For the financial report, 34.4% ranked accountability first, 15.6% ranked understandability first, and 9.4% ranked stewardship first.

4.4 Summary – Budget information in annual reports

All interviewees felt budget information was important to better understand entities' planned activities and their execution. However, the inclusion of budget information in annual reports varied, meaning that actual figures could not always be compared with budget.

Councillors noted that budget information was available online but not in annual reports, so there was no comparison with budget.

Media representatives consider budget information and the ability to compare what was announced with how it was implemented as fundamental to the principle of accountability.

Members of the public indicated budget figures were not included in annual reports but felt they should be so they could use the annual report to assess value for money.

Parliamentarians argued that budget information is very important as it can be used to reflect on and ask important questions about how performance compares with expectation.

Report preparers noted that budget figures were important to communicate to stakeholders but are required by legislation in only some jurisdictions.

4.5 Summary – Sustainability of finance, key programs and key performance indicators

Information about the sustainability of finances in annual reports was rare, possibly because public sector entities are mostly guaranteed by government. Audit committee members noted that KPIs and key programs were more likely to be included in reports than details about long-term sustainability. Councillors observed that council reports tended to include information on the long-term sustainability of finances, key programs, and KPIs.

Media representatives were divided on the importance of sustainability of finances information, key programs and KPIs, whereas all members of the public felt it was important to report on these items. The less than helpful tendency to report on outputs rather than performance was raised. Monitors observed that sustainability was 'reverse engineered' – how much there is to spend was the first consideration. Parliamentarians were highly critical of the quality of KPI information, noting that a focus on outputs rather than outcomes limited the usefulness of what was reported.

Different interpretations of what constituted the 'long term' emerged from some Report preparers. They considered asset management sustainability important and raised financial sustainability as more relevant to the private than the public sector. Reporting on key programs was important to understanding the nature of projects, with KPIs important to draw inferences.

The summary statistics show that 47% confirmed the annual reports that participants' referred to included information on long-term financial sustainability, 94% responded positively about the information on key programs being present, and 84% responded positively about KPIs being included.

4.6 Summary – Audit Report

All participants except Media representatives placed direct value on the audit report even though it was rarely read. Audit committee members felt audit reports important to credibility and to giving financial report readers confidence in what was being presented. They noted the value of disclosure of key audit matters (KAM). Councillors said the audit report represented independent confirmation of doing the ‘right’ thing.

Members of the public felt an auditor’s independent validation and sign-off were important for credibility. Monitors emphasized the importance of the audit process rather than the audit report. Parliamentarians noted the audit report provided confidence that what was being presented was indeed true and fair – that someone had drilled down into the numbers to see if there were any problems.

Report preparers noted the importance of the management letter prepared by auditors and doubted auditors’ ability to detect misstatements while valuing assurance of what they had prepared. The summary statistics show that the audit report was important to 94% of interviewees who answered this question.

4.7 Summary - Information to additionally include (Interviewee category)

Interviewees had various suggestions for inclusions in annual reports. The following list is compiled if at least one interviewee mentioned it, and similar ideas have been combined at the authors’ discretion. The interviewee category(ies) is(are) bracketed for each idea.

- Environmental (including climate change mitigation), social and governance information, including on spending (Audit committee, Parliamentarian)
- Progress against Sustainable Development Goals (Audit committee)
- List of major contractors (Audit committee)
- Additional budget information, including reporting against strategies and the forthcoming budget. (Audit committee, Monitor)
- Greater integration of qualitative and quantitative financial and non-financial information (e.g., Report on Operations) on service performance outcomes and more relevant, appropriate output measures, including social benefits (KPIs) (Audit committee, Monitor)
- Audited performance statement to clarify the relationship of non-financial information to outputs to the costs associated with the delivery of the outputs (Monitor).
- Management discussion and analysis (Audit committee)
- Reporting of activity against the organisation’s long-term (10-year) plans, including financial objectives (Audit committee)

- Financial sustainability in relation to assets (Audit committee)
- Risks that need to be mitigated to achieve output goals and linking between risk and goals (Audit committee (Audit committee))
- Links to available relevant documents, including appropriation documents (Audit committee, Monitor)
- More infographics replacing textual content (Audit committee)
- Information about the activities, risks, and choices the organisation makes (Audit committee)
- Care or stewardship with how public money had been spent, assets employed and cared for, activities engaged with (Audit committee, Monitor)
- Content responsive to circumstances (e.g. COVID-19) (Audit committee)
- Present financial and budget information in languages other than English (Councillor)
- Program-by-program breakdown of spending (Media)
- Better cross-referencing of related qualitative and quantitative information (Member of public)
- Clear, concise language (Media, Monitor, Report Preparer)
- Linking of financial statements to long-term financial and asset (10-year) plans, including liability for managing gifted assets (Monitor)
- Turn numbers into ratios and talk about them (Monitor)
- Legislation and frameworks reported against (Monitor)
- Digital (e.g., XBRL) information and storytelling (Monitor)
- More thoughtful and meaningful notes to the accounts, including to budget papers (Parliamentarian)
- Full segment reporting (Parliamentarian)
- Staffing policy and workforce diversity (Parliamentarian)
- Discussion and analysis of budget versus actual variance (Report preparer)
- Disclosure of electoral advertising costs (Report preparer)
- Technological changes, including exposure to current and future technological changes and reporting of incidents and exposure to cybercrime, and strategies to mitigate it (Report preparer)
- Staff and organisational satisfaction (Report preparer)
- Effectiveness and efficiency of use of taxpayer money (Report preparer)
- Information on corrections made or needed to achieve targets (Report preparer)

4.8 Summary – Information to exclude from annual reports

Interviewees had various suggestions for exclusions from annual reports. Several expressed concern about the growing length of public sector annual reports and the complexity of financial reports and felt more information could be located on websites as an alternative to annual reports.

The list that follows is compiled if at least one interviewee mentioned it, and similar ideas have been combined at the authors' discretion. The interviewee category(ies) is(are) bracketed for each idea.

- Attendance at meetings (Audit committee)
- Compliance information (e.g., tenders, contracts and public health statements) (Audit committee)
- Profiles of elected representatives and staff groups (Audit committee, Member of public)
- Opinion content about why an entity is doing well because it is selective (Media)
- Information about governance committees (Member of public)
- Less content to be driven by legislation and government direction (Audit committee)
- Superannuation disclosures relating to the defined benefit fund (Monitor)
- Trust accounts (Monitor)

4.9 Summary – Governance information

Varied reactions to the importance of governance information were presented. Most interviewees felt that governance information was important, and Councillors felt it was becoming even more important over time. However, audit committee interviewees were concerned the information mirrored that of private sector corporates too much.

Several felt the information could be moved out of annual reports to websites. Media representatives and Members of the public were least interested. The summary statistics show that governance information was important to 88% of the interviewees.

4.10 Summary – Consolidated vs parent reporting and reduced disclosure reporting

Audit committee members felt both consolidated and parent information was needed to show how or subsidiaries were contributing to the department, subject to materiality and not necessarily both on the face of the financial report.

However, consolidation as whole of government of public non-financial corporations (PNFC), public financial corporations (PFC) and general government sector (GGS) was not considered useful, with the UK the only other country requiring this. Councillors noted that reduced disclosure reporting is not an option at local government level. Media representatives were not in favour of reduced disclosure, wanting more, not less, information.

A Monitor noted the argument that local government is not controlled and therefore not consolidated upwards because councillors are elected and therefore not consolidated up. However, Ministers can remove council members and replace them, making this argument spurious.

Another Monitor noted that budgets relate to the legal organisation, department and the statutory body, not the consolidated entities “and this discouraged simultaneous consolidated and parent reporting on the face of financial statements.

Another Monitor felt the whole of government report is the most important since all decisions, transactions and balances are combined in a single statement. A Parliamentarian noted that consolidated financial statements are useful for examining the size of government, and the taxation and expenditure overall.

A Report preparer noted that credit rating agencies needed consolidation in assessing the credit rating of a jurisdiction. However, another Report preparer questioned the usefulness of whole of government reporting given the diversity of consolidated organisations.

The summary statistics show that 78% of the interviewees felt consolidated and parent financial statements were needed to demonstrate accountability. Only 50% felt that reduced disclosure reporting was acceptable for accountability.

4.11 Summary – Accounting Standard Challenges

Several participants observed the lack of technically skilled accounting personnel in the public sector and the challenges in applying some standards, especially new standards. Parliamentarians tended to disapprove of historical decisions to adopt accrual accounting and IFRS.

Accounting Standards mentioned as challenges in preparing financial reports include:

- AASB 1051 Land Under Roads (Audit committee, Monitor)
- AASB 16 Leases (Report preparer)
- AASB 13 Fair Value (Report preparer)
- AASB 15 Revenue from Contracts with Customers (Audit committee, Monitor, Report preparer)
- AAS1058 Income of Not-for-Profit Entities (Report preparer)
- AASB 1059 Service Concession Arrangements – Grantors (Monitor)

Financial statement items mentioned as challenging:

- Capital grants should be recorded as part of equity (Audit committee)
- Underspending should not be treated as deferred revenue (Audit committee)
- Net debt sits outside the financial statements but would be useful (Audit committee)
- Land under roads, schools, hospitals and depreciation, especially for roads when soil is contaminated and especially when a change in auditor brings a change in valuer (Audit committee, Monitor)
- Fair value of assets and links to asset management plans (Monitor)
- Matching grants (Monitor)
- Remuneration disclosure not revised for Tier 2 disclosure (Monitor)
- Contract revenue under AASB 15 vs AASB 1058 based on guidelines saying that it catered for all government-related assets (Report preparer)
- Lease standard impact on debt
- Fair value and leases standards' impact on infrastructure assets

4.12 Summary – Proforma guidance challenges

Audit committee members and Monitors noted challenges relating to the proforma guidance entailed its use as a model rather than a guide, regardless of materiality.

Monitors and Report preparers noted deficiencies with its manifestation in a macro-enabled Excel spreadsheet when cyber security concerns meant macros were disabled in most public sector organisations.

Report preparers noted issues with the lack of timeliness in the annual availability of proforma guidance.

4.13 Summary – COVID-19 challenges

COVID-19 brought many challenges to public sector reporting. Examples include working remotely, costs of COVID-rule compliance, reporting delays, staff shortages, virtual staff training, increased staff anxiety, and access to client data for audits.

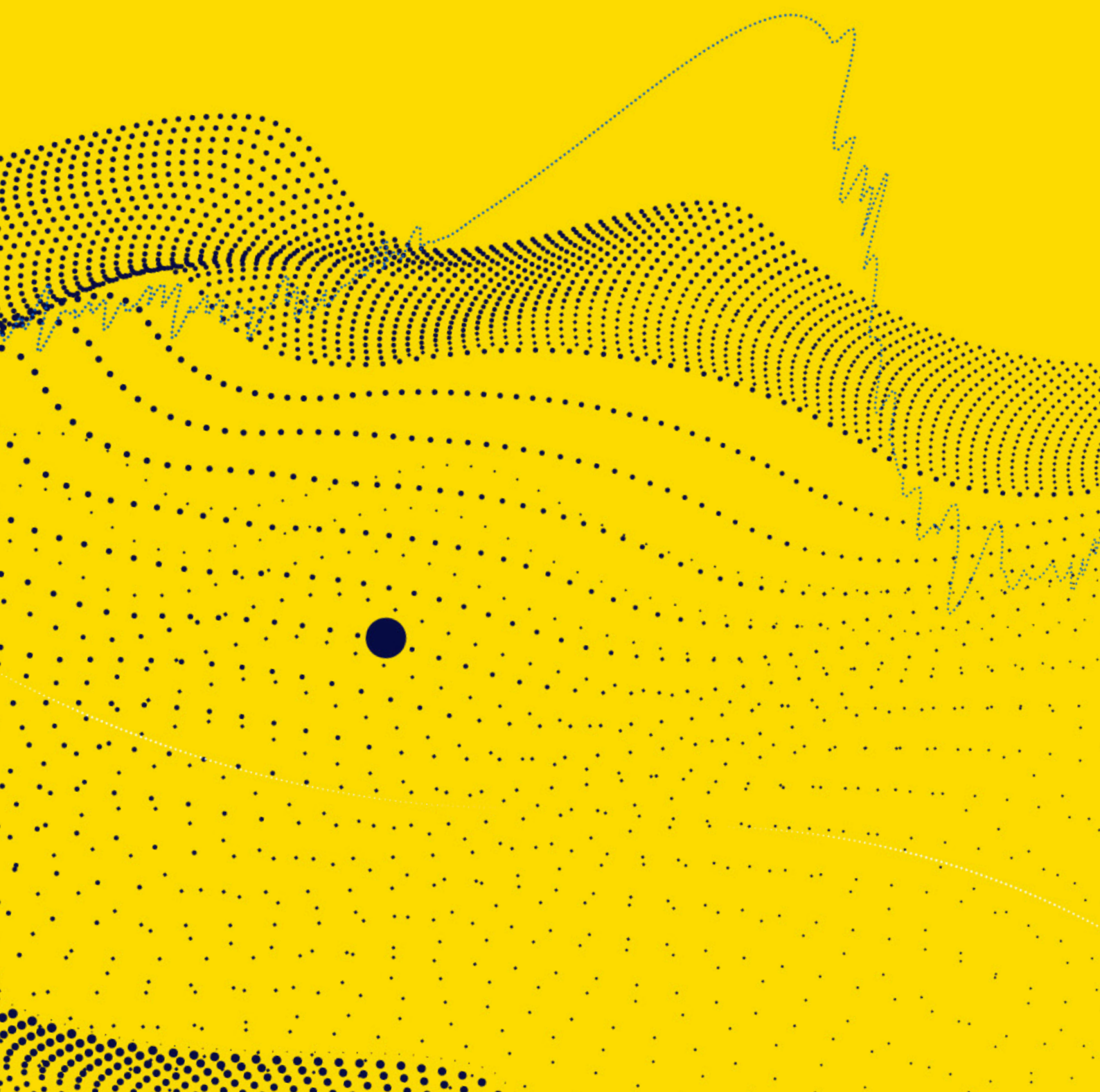
On the other hand, positives include more efficient operational practices and flexible working arrangements.

4.14 Summary – Environmental and social information

Except for Parliamentarians, most interviewees felt that sustainability information was important to include in public sector reports. However, several emphasised that there needed to be a standardised approach to presenting this information.

Reporting on climate-related financial risks, specifically TCFDs, was extremely rare in the sector. The summary statistics show that environmental or social information was reported in 66% of the interviewees' chosen reports. However, 84% felt this type of non-financial information was important to them.

5. Findings



5.1 What is the meaning you give to the term 'accountability'?

The first question asked interviewees in the context of their professional knowledge to think about *accountability* and the meaning they gave to that concept. A summary of their paraphrased responses to this question is provided next.

5.1.1 Meaning of 'accountability' – Audit committee members

In simple terms, accountability means explaining actions and how those actions contribute to the organisation's performance (or the part of the organisation). It relates to how taxes have been used in improving the community and addressing social issues. It demonstrates where the monies flow from and how they have been utilised, including whether this is in the most efficient economic and effective way considering opportunities; and ensuring any contracts have been open to fair and ethical dealings.

It involves managing the states'/territories' liability and delivering on processes and programs promised as part of an election platform and through the budget process. People often do not understand what accountability means because it can be as broad as desired; what do we want to be accounted for and transparent? The 'accountable for what' question needs to be very clear if governments are to be held to account for spending decisions and management of our assets, state/territory and programs.

Accountability for elected officials means demonstrating they are serving the best interests of their constituency, be it local, state/territory, or federal. That demonstration can be through various mechanisms, including financial reporting, to demonstrate they are working in the best interests of the people they serve.

Other elements of accountability include sanctions that might come from failure to be accountable, to deliver, usually within an electoral cycle for elected representatives; that is the ultimate sanction. Also, for the community to voice concerns and obtain explanations, you need to measure performance. These measures go beyond financial reporting to non-financial measures that show outcomes of what is being done and is needing to be done to serve the community. Elected governments are accountable to the parliament, but effectively, the parliament acts on behalf of the people.

5.1.2 Meaning of 'accountability' – Councillors

Accountability is about taking responsibility for actions. That is done by being open and transparent to the constituency to explain why things are done in the way they are and allow others to observe and evaluate performance. It involves making sure the best interests of the constituency are served when things are done.

5.1.3 Meaning of 'accountability' – Media representatives

Accountability in the public sector, in general terms, is the use of scarce resources within a government for the provision of goods and services for the public for the greater community good.

Elected officials should be held accountable to the general public and the people who elect them - their citizens. The role of a journalist in holding them accountable and sharing that with the public is important. It is essential to examine transparency, access things like annual reports and financial reporting, and hold them to account for actions, including spending public money. To be accountable means having transparency in decision-making using a clear and open process (showing your workings) so the public can have confidence that decisions have been made in the best possible way.

5.1.4 Meaning of 'accountability' – Members of the public

Considering that our system of government is one of responsible and representative government, ultimately, accountability is about the government being accountable to parliament and parliament being accountable to the public. Ultimately, the government is responsible to the public of the jurisdiction they govern.

That means being held responsible for the decisions taken, acting transparently, and being able to be interrogated by people. Accountability means the organisation has clear, evidence-based goals and that everything they say they are going to do has been done – they have followed through. They are clear and transparent, and the public can see what has been done.

5.1.5 Meaning of 'accountability' – Monitors

These interviewees saw *accountability* as inextricably linked with notions of transparency and democracy.

Governments are responsible for allocation and public resources stewardship, including public money, community assets and infrastructure and services delivery. With this responsibility comes accountability for decisions made and actions taken. Accountability means being open, honest, and transparent about your actions and taking responsibility. In a finance context, the annual reporting requirements of public sector entities are key to this accountability.

Accountability has three aspects to it. The first is about responsibility. In the context of government, it is about accepting responsibility to act in the best interests of the public represented by government members and parliament to a lesser extent.

The second is integrity; in those actions, members of the government and parliament act ethically and honestly. The third element, transparency, involves the government being open and honest with how it discharges that responsibility by providing information, insights, and data on how the government is performing, whether from a service or financial perspective.

Once that accountability is available to the public, allowing them to assess and analyse whether they think the government is acting in their best interests, democracy kicks in. If the public does not agree their best interests are being served, they can influence the consequences through an election and a change of government.

Accountability is doing what you're supposed to be doing. There need to be consequences if you do not do what you are supposed to be doing, whatever that is, in an efficient, effective and economical way and consequences from not doing what you are supposed to be doing, to be accountable.

From a government perspective, the electoral cycle means being held accountable for promises the government has made, its policy commitments and implementing those commitments back to the public through the parliament. In practical terms, we see one of the functions of the parliament and the legislature is to hold the government to account. Holding to account means being open to scrutiny and questioning and explaining good and bad performance. From a financial accounting perspective, accountability means having accountability for the resources entrusted to the government, how the money is spent, where the money is spent and how effective and efficient those decisions are, and what significant contracts, obligations or commitments the government might be entering. Being accountable for those things, being transparent and being open to scrutiny are very important.

5.1.6 Meaning of 'accountability' – Parliamentarians

The whole accountability picture sits over the top of everything else. It is accountability for the money spent, the outcomes achieved compared with the initial aim, and that spending lines up against that budget. If there is any significant variation, a proper meaningful explanation is given.

When thinking about *accountability*, clarity is important, and an easily understandable reporting structure to appreciate how decisions are made around expenditure. How is that expenditure accounted for? Was all or only part of the money spent on a particular project or within a department? If all money was not spent, why? If over budget, why? What was the source of extra money? Was a supplementary appropriation bill or request for additional funding needed?

Seeking answers to these questions involves completing the circle. A meaningful, clear explanation is required where an aim is not achieved, together with a plan to avoid a similar occurrence.

The *accountability* challenge is a clear line of sight between budget and what was intended to be spent, acknowledging that a budget is at a point in time, and things change. Being accountable means giving an accurate and clear record, particularly of financial transactions or other aspects of responsibility.

5.1.7 Meaning of 'accountability' – Report preparers

At the highest level of reporting, accountability is at the Ministerial Department level, and it involves stewardship, sound financial management and sound service performance. From a reporting perspective, accountability is being able to show users of the reports what you have done to satisfy them. It represents the obligation of the government to utilise resources effectively and efficiently to deliver appropriate services needed by the community efficiently and effectively and appropriately.

Accountability means taking responsibility and justifying how, when and what is done; why this decision rather than another. It involves transparency, governance, and alignment of how the monies flow into and out of the entity and answering questions about these issues from the parliament, media, etc. Besides being unbiased and neutral in reporting, high integrity is important for government organisations.

As report preparers, we are accountable to our community. Taxpayer money must be spent in favour of taxpayers to provide value for money. We deliver with care and build this value, and we consider what taxpayers would think about how the money was spent. We need to balance efficiency and funds management because the government does not fund certain things we do, which puts pressure on us.

5.2 Is the meaning you give to accountability different for local government, federal departments, state/territory departments, other government non-business entities?

The second question asked interviewees to think about their conceptualisation of accountability and whether it was different depending on level of government. A summary of their paraphrased responses to this question is provided next.

5.2.1 Is accountability government-level contingent? – Audit committee members

Four of the six Audit committee member interviewees felt there was no difference in accountability regardless of the level of government. The other two conveyed a more nuanced view with a slightly relaxed standard of accountability for federal and state/territory departments and other government non-business entities compared with local government.

This difference was attributed to the constituency served, with departments representing instruments for delivering government policy and local government supporting elected representatives.

For other government non-business entities, accountability is to the shareholder (government) and the board, which is accountable to the shareholder (government), so there is a less direct link to the community, with many people unaware of these relationships. Both interviewees conceded that this perceived difference in accountability was minimal.

The rationale for those arguing no difference rested on all levels having the power to raise money from citizens, act as custodians of assets and provide services to the community on behalf of elected members.

They argued that accountability relates to community satisfaction with how well services are provided - how efficiently, which drives cost, how effectively, and how sustainable the service delivery can remain.

5.2.2 Is accountability government-level contingent? – Councillors

Councillors felt the standard of accountability should be the same across levels of government. There is no prescribed instrument for accountability, but both interviewees believed legislation places onerous requirements on elected members regarding conflicts of interest and other issues, so accountability is morally and legally imposed.

One councillor referring to the laws and regulations of their state/territory jurisdiction noted no government regulations prescribe what departments must do or what can and cannot be done. In contrast, local government legislation prescribes these matters. However, how local government achieves accountability is different from other levels. Local government arguably has high accountability due to direct civil society engagement creating oversight since it is closest to people on the ground who expect access to financial and other information.

This information is made publicly available, subject to privacy and confidentiality issues, and is arguably not so transparent at the state/territory and federal levels.

For departments, it is different because they are accountable to their chief executive officer (CEO), ultimately to the Minister, and then to the government of the day, whether state/territory or federal. Some parliamentary appointments, such as the Auditor-General, carry accountability with them. It varies depending on what level of government, state /territory or federal government.

Ultimately there is a line of command, and you are accountable to the person above you. Government department accountability and transparency should flow through everything, with only the government departments responsible for national security deserving of the right to a different standard of transparency as the risk outweighs the benefit to the populace. There may be similar situations for public authorities.

For other government non-business entities, accountability depends on how the legislation is set up. Many appointments or statutory bodies are established by legislation that prescribes rules, including how and to whom they are accountable, with some to Parliament, the Minister, a Chief Minister or Premier, the Auditor-General or other appointees.

5.2.3 Is accountability government-level contingent? – Media

All three interviewees within the media group responded there was no difference in the definition or concept of accountability dependent on the level of government or whether an other government non-business entity or not, with only the context changing.

5.2.4 Is accountability government-level contingent? – Members of the public

Members of the public felt that given public funds were involved, the responsibility for accountability, openness and transparency were incumbent at local, state / territory and federal government levels. It was conceded that other government non-business entities could be held to a lower standard contingent on their function.

5.2.5 Is accountability government-level contingent? Monitors

In its simplest form, it should not differ contingent on the level of government. In reality, the extent of public interest or public scrutiny impacts accountability across levels of government. Comparing an other government non-business entity to a state /territory department, the public's level of interest and scrutiny is fundamentally different, and, therefore, the expectation of accountability differs.

Expectations of departments are far greater than those for a small other government non-business entity. But one Monitor questioned whether the public fully understands the role of departments in government. How well the public is educated about government operations impacts accountability expectations, as do particular circumstances. For instance, accountability expectations for a public health department will differ before, during and after a pandemic like COVID-19.

The expectation of accountability was commented on as high at the local government level. Councils were seen to bear an elevated level of public scrutiny, particularly regionally. Rising council rates, the ability to see council meetings streamed live, and perceived conspiracies around councils' decision-making were reasons for this high public scrutiny.

However, another Monitor thought local governments were like, but not the same as, government departments. One Monitor did see accountability as differentiated, arguing that individual public sector entities see themselves as the administrative or organisational arrangements described and defined by the relevant leader.

These arrangements give effect to government policy and administration of government programs and deliver against the government of the day's commitments. Their accountability is not directly to the public but rather to the executive government.

The role of their CEO, board chair, or department secretary is clear in having accountability back to the relevant Minister. However, there is a great deal of overlap and commonality in accountability when looking at the 'report card' of government and its public service through annual reports and financial statements.

These documents for government entities taken as a whole and for the 'state / territory', at whatever level, go to the role and function of individual organisations.

5.2.6 Is accountability government-level contingent? – Parliamentarians

All three parliamentarians interviewed felt the meaning of accountability was identical across all three levels of government. The consensus was that, ultimately, these levels of government use taxpayer funds.

An organisation with significant government funding has a duty and responsibility to be accountable for that funding. Regardless of level, there is a need to set goals, look at the resources used to achieve those goals, and assess whether the goals are met. However, each level deals with vastly different funding levels and, to a degree, different reporting requirements.

5.2.7 Is accountability government-level contingent? – Report preparers

All 10 Report preparer interviewees felt accountability did not differ depending on the level of government examined. However, accountability under one type of legislation (e.g. local government) may not be the same as other legislation; hence accountability might differ slightly.

One preparer commented that in moving through the levels of government from local to federal, a challenge occurs due to a loss of detail, which often causes frustration for communities (leading to mistrust). However, breaking down a huge volume of information into smaller chunks to provide granularity like local government means it cannot be digested, making the data meaningless. The media or community want to drill down to extremely granular levels when something goes wrong.

That can lead public sector employees to become defensive because they are unaccustomed to such scrutiny. Employees can act as though they are 'caught out', or the level of granularity expected by the stakeholder is unreasonable.

5.3 Does your chosen annual report and the financial report section to the annual report include information that shows how the entity is accountable for its management and use of resources, understandable and could be acted upon, shows the care the entity takes with public money and other assets, and for other purposes) if any?

Together, questions 3, 4, 7 and 8 ask interviewees whether the annual report/financial report of a public sector organisation familiar to them shows accountability and stewardship and is understandable. A summary of their paraphrased responses to the questions is provided next.

5.3.1 Annual report, financial report and accountability, understandability and stewardship – Audit committee member

One Audit committee member who chose a **State/Territory Statutory Body report** felt the presentation of the receipt of government grants as an underspend was important for accountability as the funds are not available until allocated. This interviewee agreed *accountability, understandability and stewardship* were demonstrated by the financial report but commented that it could not be known if this was done economically and could not be used for other purposes.

This interviewee noted that sometimes complex transactions could be explained better in the notes, potentially affecting understandability. For other purposes, this interviewee felt the annual report supplied information outside statutory requirements selectively, depending on whether it showed the activity in a good light; negative information was not included.

Another Audit committee member, using a **State/Territory Statutory Body report**, felt the front part of the report was user-friendly and could be read by a layperson. Explanation of deliverables in various areas and statistics, numbers, pictures, and text describing the *accountability* for delivery against the strategy were present. A financial summary, the organisation chart/structure, and governance framework were all seen as important in explaining how the organisation is structured and has delivered in terms of public money received.

For *other purposes*, this Audit committee member felt key stakeholders could use the report, especially those willing to provide funding (e.g., private sector businesses, industry bodies), to understand how the money they provide would effectively deliver on social/economic goals.

This interviewee felt there had been a significant improvement in the financial report with some simplification in communicating monies earned and how spent, money invested, and borrowings, summing up the underlying basics of how an organisation operates.

Using a **Council report**, another Audit committee member felt accountability was on display but only to a certain extent. The financial statements were doing a decent job, and financial sustainability measures regarding the underlying result were added; however, areas for improvement remained in other parts of the report. Regarding *understandability*, this person thought the annual report was reasonably easy to follow, linking the strategic plan and objectives, although the strategy could have been more prominent. The compliance information was felt to clutter the report and would have been better located elsewhere. It made it harder to understand how the council was progressing in its strategy, annual plan, and delivering against that – the ultimate *accountability*.

Although written well, the presentation was through a compliance lens, and it would have been better to 'cut to the chase'. In terms of *stewardship*, the council was discharging its financial reporting obligations – the outcomes of operations and the results.

This interviewee felt the annual report showed only a "point-in-time" picture. It was difficult to track finances and operations during the year without KPIs. Some of that future-looking information was useful from an audit committee perspective as it gave a sense of operations. This interviewee felt *stewardship* of public money and other assets could be demonstrated through 'decent' *accountability* reporting. *Understandability* was easier for somebody who has knowledge and experience was the feeling. However, the organisation had voluntarily moved to adopt model statements that are to become mandatory. This interviewee felt these model statements helped demonstrate *accountability* and *stewardship* in terms of assets,

particularly when financial sustainability measures focusing on key council operation metrics were included. However, this interviewee also felt the absence of management discussion and analysis diminished the report's value, commenting that Audit committee members could understand what was happening, but there was no long-term picture.

One Audit committee member who had chosen a **Federal Department report** felt, generally, *accountability* was served through the annual report creating a record of activity and including sections about its activities and how it had used its resources, particularly money resources. Departments need to prove they live within what parliament appropriated for them. Because the revaluation model accounting policy was applied, there was no sense of how assets are cared for, just the change in value.

For example, whether assets had been misused is unknown, whereas impairment informs how this asset or group of assets has been treated and the care taken. This audit committee member felt *understandability* was present, but occasional spin-doctoring detracted from it. People could not be held *accountable* if the presented information was not *understandable*.

Stewardship of financial resources was thought to be present but not non-financial resources. Distinguishing between *stewardship* and *accountability*, this Audit Committee member felt that *stewardship* is how things are done, while *accountability* is the capacity to inquire about what has been done, presuming it can be *understood*. This interviewee felt it would be impossible for the public to understand government accounts or how government finances work. A reader needed to have quite a depth of public finance knowledge for all three attributes to be present, with even commercial accountants without government experience finding some practices and concepts 'odd' (e.g., budget and appropriation [authority to spend money that links back to the budget] flowing through the financial statements and some financial instruments).

This interviewee felt the existing framework under which financial reporting occurred was not completely adequate for their needs because the framework was incomplete, with non-financial performance measures not clear from this interviewee's perspective. Using an example from education, this interviewee argued the difference in relevance to public policy between information about students from a low socio-economic status (SES) postcode area and students from a low statistical SES area (a subset of the postcode) was not understandable.

The notion of decision-making or acting based on an annual report was rejected by this interviewee, seeing it as more of an *accountability* document than a document used for active decision-making.

A **State/Territory Statutory Body report** was the choice of another Audit committee member, who thought the report partially addressed each element of *accountability*, *understandability*, and *stewardship*. The annual report was seen by this person as only one part of the *accountability* infrastructure and the only part publicly available, with continuous reporting by department(s) and frequent interaction with departments hidden from view.

They saw the annual report as fulfilling a compliance requirement to fulfil funding requirements and other organisational obligations, with doubt about the extent to which it was relied upon for *accountability* in a complete sense. They felt the financial report provides some information to satisfy *accountability* in a restricted sense by including information on how resources have been used and financial decisions made regarding *stewardship*.

This Audit committee member also saw the annual report as *understandable*. However, this audit committee member felt the need for more clarity and detail to improve the quality of the information regarding what represented value or what was valuable for organisations contributing to the public good.

Showing how resources were spent is not the same as informing how the organisation fulfilled its purpose, which for the public sector is key.

Another Audit committee member choosing a **State/Territory Statutory Body** report responded positively about *accountability*, *understandability* and *stewardship* and noted the body was accountable because the relevant legislation compelled the organisation to comply, including publishing financial statements.

The reports include annual audited financial statements and commentary on the financial results, which was seen as being *accountable*. It explained the management structures and responsibilities, the use of some but not all resources, how the allocated money was spent, salary and wage expense, and commentary on some of the key performance indicators (KPIs) delivered against. However, there was concern the annual report deals with the historical context.

Acknowledging that government does not permit organisations to make some decisions, this interviewee felt the financial report shows acquittal in what has been done and how the asset base was managed. What was needed was not what the organisation would do about fixing or developing policies to fix issues.

Further, in exploring what the future looks like based on existing resources and decisions, governments need to consider what could be reported on but is not. The budget does not give forward estimates, although the relevant coordinating department does this for the next three years. However, even that does not provide context or the whole of state situation. Some states/territories produce a fiscal sustainability report which looks at the next four years, but it assumes current government policies will continue without exploring other options. Regarding other purposes, this interviewee argued the government had set the purpose, so it was present through the entity's objectives and how it had been set up.

5.3.2 Annual report, financial report and accountability, understandability and stewardship – Councillors

One Councillor using a **Council report** felt the annual report did show the council's *accountability*, and everything else flows from being *accountable* to the people, the state/territory government, and the department responsible for local government. The Councillor explained the council is *accountable* because people can ask questions on the report (or any report). Also, every month two council meetings occur with a pre-meeting half-hour session for one of these where the public can ask questions without notice to all councillors. People come with the prior annual report, open it on a certain page and read aloud commitments they allege have not been fulfilled.

Why? It makes us *accountable*. This Councillor noted that councils are required by the relevant state / territory or local government law and regulations to be accountable and provide information to the rate paying public and information about finances to the relevant department every three months. Councils must be solvent and cannot have a deficit. Money cannot be borrowed unless the Minister approves and money cannot be spent without a council resolution. Before adopting a budget, it is on the council website for 21 days so the public can examine it and comment before adoption. Feedback from constituents and elected members is considered. Information people look for today compared with 10 or 20 years ago is quite different. As constituents become more digitally financially literate, expectations about information also increase.

This interviewee claimed the annual report provides information for people to understand what the council does and does not do. Evidence of *understandability* was how people email councillors and staff, highlighting a particular page and paragraph of an annual report stating something they think is incorrect. However, even council members sometimes find it difficult to understand parts of the financial statements despite trying to

make them as simple as possible to explain what is being done without jargon. Also, constituents contact councils to ask about any information they are unsure of, find anomalous or feel does not represent their interests.

Stewardship matters because you must show what you are doing and why you are doing it, especially with public resources. However, an example the Councillor gave of *stewardship* could be evidence of a lack of *understanding*. Money raised from car parks cannot be used other than for car parks and this is stated clearly, according to the Councillor, in the reports and elsewhere, but people still query why rates are raised when banked cash is so high.

Regarding other *purposes*, the Councillor felt the annual report shows how well a council is doing. The last thing needed is a public perception of hiding things because it can be used against councillors at election time. Not hiding anything shows you are not corrupt and counters misinformation because you can always point to the report and ask someone to read it. Many people still think of the stereotypical 'rubbish, roads and rates' view of councils, this Councillor observed.

They do not realise that councils look after some or all libraries, childcare centres, parks and entertainment centres, provide grants to organisations and commission public art, among other activities. Annual reports provide information about these activities.

A second Councillor, also choosing a **Council report**, commented that regarding understandability and *acting upon* information, if people read something they do not understand or notice an anomaly, they are quick to contact the council, which is welcome. Councils have an obligation under the law to deliver these reports in a particular way, and transparency means nothing if you cannot *understand* them. The information provided exceeding requirements needs to be accessible to whoever is reading so they *understand* it.

Nevertheless, as much as councils are *accountable*, the public is responsible for informing themselves about what councils are doing. There is a mutual responsibility because of rates, this Councillor observed. Several public-facing documents have been developed to meet regulatory or legislative requirements and address requests from the community. Councils also run surveys that allow an opportunity to provide feedback about where more information is needed.

The satisfaction with the information provided can be gauged through that survey. Regarding *stewardship*, a financial plan is included in the annual report so constituents know how debt is being managed over the long term.

5.3.3 Annual report, financial report and accountability, understandability and stewardship – Media

One Media representative who had chosen a **State/Territory Department report** was equivocal about whether the annual report showed *accountability*. They observed that it differed from department to department, with some reports providing little information and others the opposite.

In terms of being *understandable*, there was a more positive answer, but with the reservation that sometimes the language can vary, which can affect the understanding of a journalist, so interpreting and writing about what is in the annual report carries risk because of the language used.

This interviewee felt *stewardship* was conveyed for the most part, but there was a reservation again. Annual reports are probably not very explanatory for members of the public. For *other purposes*, it was felt annual reports are a communications tool within the department, an effective way of sharing what staff are doing. However, they may not be that interesting to the public.

Another representative from the Media chose a **Federal Statutory Body report** and felt it generally showed the organisation as *accountable*. However, there was a reservation that gaps in *understanding* and a steep learning curve hindered that understanding. Without *understandability*, there could not be *accountability* or *stewardship* because no item in the annual report could be assessed appropriately.

For *stewardship*, the response was a general yes. Regarding other purposes, this interviewee noted that annual reports function as a historical record, an institutional history, by providing a snapshot in time of activity, but not necessarily written in a way everyone finds compelling or understandable.

Choosing an annual report of a **State/Territory Statutory Body**, another Media representative responded positively that the annual report includes information showing the body was *accountable*, with information about what the organisation has done and perhaps where money or resources were lost.

The report was *understandable* and showed care and stewardship. Its use for *other purposes* was argued to be promotional, with it being used to promote a successful strategy, future goals and how they can be achieved. This interviewee noted that 2020-year annual reports were later than normal but back to usual timing in 2021.

This person noted that annual reports were important for writing news stories and used this as an example of making a difference for other purpose assessments.

5.3.4 Annual report, financial report accountability, understandability and stewardship – Members of the public

On *accountability*, the Member of the public using a **State/Territory Department report** felt generally, yes, it was displayed in the annual report and that it was *understandable*, could be *acted upon*, and evidenced *stewardship*. However, this interviewee did not generally use the financial report section, having only ever looked at it in the context of trying to understand expenditure on particular initiatives. However, the level of detail in the financial statements made it difficult to cross-reference against initiatives.

Hence, the financial report was not particularly relevant because the way the information was disaggregated was inconsistent with how this interviewee wanted to analyse the data. For *other purposes*, this person felt the report spoke to the organisation's purpose, objectives and what was delivered in the financial year in terms of outcomes for the government.

For *other purposes*, this person pointed to more detail being needed about the legal structure of portfolio entities associated with the department and to look at initiatives delivered and those yet to come, the financial expenditure associated with those initiatives, and the department's achievements or outcomes or outputs for that financial year.

Another Member of the public, using a **Council report**, felt the report did show *accountability*, but not for everything. It did not have a breakdown of spending in each town in the local government area.

However, this interviewee felt the financial report showed *accountability* because preparers must follow accounting standards, rules and laws, etc. The annual report was felt to be *understandable*, and the use of many graphs aided understanding of the financial information. For care or *stewardship*, the person felt it was hard to know and did not have any *other purposes*, commenting they like to know what the council's goals are and what it is doing with the financial report not applicable for *other purposes*.

5.3.5 Annual report, financial report and accountability, understandability and stewardship – Monitors

One Monitor who had chosen a **Council report** questioned the report being '*understandable*', feeling it depended on the reader. It was felt a degree of experience is required to *understand* the report.

The feeling was that although not many read annual reports, the population reading local government annual reports was different from that reading listed company annual reports, presenting a challenge. Also noted was annual report quality varying across councils, even within a single state/territory. Some councils see the annual report process as a 'tick the box' process and prepare bland compliance reports.

Others see it as a marketing exercise with a future-oriented focus that blurs the report's purpose, while another group sees it as an engagement piece.

Another Monitor using a **Council report** felt the annual report was not perfect but did show admission of *accountability* for resources. So, ratepayers, grant providers, and people paying user fees can, subject to the *understandability* question, see where their money is going regarding the council's operations.

This interviewee commented they could certainly *understand* the reports and act upon them. However, reports needed to be *understandable* to allow someone to decide if they meet the *accountable* requirement. The sentiment was that accountability could not be assessed without understandability. Regarding *stewardship* of public money and other assets, this Monitor felt where the money had gone could be seen in simple terms.

However, questioning the sense of *stewardship* was whether the money had gone to its destination carefully and thoughtfully or recklessly, which could not be discerned.

Choosing a **State/Territory Department report**, one Monitor felt *accountability* was not present, providing an example of education and the lack of explanation for Australia's declining results or role model gender balance among teachers. This interviewee felt something was being done about *accountability* through the audited financial report; however, whether what was being reported was necessarily useful information about asset management was questioned.

On a more positive note, this Monitor felt the reports were *understandable*; however, the reports did not provide relevant information. Regarding stewardship, this interviewee noted the financial statements with money coming in and out but questioned whether anyone could determine that money was used efficiently, effectively and economically.

While producing something that is saying all these different programs are in place and all these things are being done, who is interested in it, they asked?

Regarding acting upon it, this interviewee felt it could feed into voting intentions. So, someone could say, okay, this state / territory is going backwards on an international basis. What are they doing about it? Someone should be looking at these reports systematically, was the final word.

Another Monitor relying on a **State/Territory Department report** also felt the annual report did not provide *accountability* partly due to a lack of *understanding* of financial reporting. Further, the interviewee felt some content (e.g. credit risk information) did not make sense in a public sector setting. Also noted was a lack of integration of the financial and non-financial information, with marketing spin common.

Overall, the conclusion was the management commentary and analysis and the financial report were either not *understandable* or not *actionable* in terms of *accountability*. This interviewee argued that financial report production could normatively demonstrate *stewardship* over finances.

However, using infrastructure assets as an example, this interviewee felt problems with measurement were pervasive, controversial, and poorly understood and applied. Hence gleaning meaningful information from balance sheets about these assets was questionable. This interviewee observed that financial reports simply tell how much was spent, not how well it was spent, which is crucial to *accountability* because it goes to efficiency and effectiveness.

In this Monitor's view, a disconnect in *accountability* occurs when a costly 120-page general purpose financial report is privileged due to the edifice of standards behind it. This claim was a reference to Accounting Standards built up through the private sector imposed on the public sector when the 'real game' is the non-financial performance – the service delivery, for which no standard exists.

Another Monitor who had chosen a **State/Territory Department report** expressed similar sentiments. This interviewee felt *accountability* was not present via the annual report and that one of the problems was not knowing who the users were. The Conceptual Framework nomination of for-profit entity primary users as investors, credit providers, etc., does not translate well to the public sector, was this interviewee's observation. They questioned whether the users are parliamentarians, the public, or credit rating agencies? This interviewee observed who the users are needed to be known before asking about the usefulness of the information.

Even preparers have limited knowledge of some metrics, such as GAAP harmonisation with GFS metrics like key fiscal aggregates. More information does not necessarily mean being more accountable or transparent, especially if not presented *understandably*.

Yes, for all of those (*accountability, understandability, stewardship*), another Monitor responded with a chosen **State/Territory report**. They noted in some state/territory jurisdictions, reporting results against KPIs and those results being audited occurs, whereas this is not the case at the federal or local government level. In talking about the accountability for management, this interviewee argued that it lay in the KPI section being audited.

Using a **State/Territory Department report**, another Monitor felt *accountability, understandability, stewardship*, and other purposes were displayed by the annual report. However, this interviewee was concerned about highly material amounts being 'buried' in the notes to the financial statements. For example, with treasury's accounts, it is not obvious they run the consolidated account and have responsibility for liquid stewardship of a huge amount because it is lost in the notes, this interviewee felt.

So, it was this interviewee's very strong preference that face statements for the consolidated account would appear behind upfront departmental statements and then include amounts as relevant for both the department and when administered. Having a strong control environment around management and disclosure and then presentation for users is important for programs of interest, this Monitor observed.

Another Monitor who had chosen a **State/Territory Statutory Body** report felt the annual report met their needs for *accountability, understandability* and *stewardship* from a professional point of view; however, they were more doubtful from a public user perspective. This interviewee noted the annual reports are long (100-200 pages or more) and questioned whether a reader without governance or financial and accounting literacy could understand what is within them.

This Monitor felt the Accounting Standards have made the understandability of accounts difficult, commenting on the difficulty in explaining, not only to the public and people without financial literacy but

also to audit committees and boards at times, what was in their accounts and what the accounts mean.

Noting a good understanding of who the users are, this interviewee felt *accountability, understandability* and *stewardship* in conveying organisational performance to the public were not easily digestible by a reader.

Can these reports be, in fact, accountable, the interviewee asked rhetorically? In terms of acting upon the information, this Monitor questioned what one could act upon other than being informed because there was often no actionable choice.

5.3.6 Annual report, financial report and accountability, understandability and stewardship – Parliamentarians

One Parliamentarian using a **State/Territory Department report** felt *accountability* in the financial report was present by providing the expected forward position in taxation, revenue, debt, etc., over the next 10 years or another period. However, it was also felt that many assumptions were inbuilt, providing different ways not to achieve objectives and to explain that non-achievement away.

The pandemic, with the collapse in taxation revenue but massive unbudgeted expenditure, is an example where delivery of outcomes and consequences of turning off the temporary expenditure is questionable, this parliamentarian felt, specifically mentioning tenancy relief schemes.

Regarding *understandability*, this interviewee felt the annual report was not easily understandable and saw it as primarily a marketing document and, in some places, intentionally difficult to *understand*, so not useful. They observed that many numbers are taken over different time frames and cherry-picked to look good or bad, whatever the case may be, commenting that it was very difficult to *understand*.

For instance, some KPIs were argued to be confusing and problematic. However, the financial report section was the most *understandable* part of an annual report due to its standardised format, unlike many other outputs information per department included in the budget papers.

Regarding *stewardship*, this parliamentarian felt it depends on the area but noted an impression of waste. However, this parliamentarian acknowledged that dividing the quantity purchased into the budgeted amount can be misleading when other costs such as training or storage are included in the full cost without explanation.

Another Parliamentarian relying on a **State/Territory Department report** commented the chosen report was written *understandably*. However, this Parliamentarian expressed frustration that what was reported in the budget information reflects the prior year's budget against the estimated outcomes in the current budget.

This Parliamentarian observed that despite yearly increases, the actual revenue and expenditure differed from the budget. These observations made budget information challenging at times to *understand*. Compared with the budget papers, different performance measures in the department's annual report made it challenging to link outcomes with expenditure.

This interviewee felt the annual report often did not link the delivered outcomes to the allocated funding for particular items. Because of the timing of certain documents compared with the budget, figuring out whether the money allocated was all spent was difficult to track. However, the Public Accounts Committee could follow that issue up. *Understanding* came from having good financial statement notes and accounts that clearly show the *stewardship* and accountability aspects.

If the department were a good steward of the money, *accountability* would be evident from the information presented. However, the rest of the work to follow the money could not be done without *understanding* the information.

Using a **Council report**, the third Parliamentarian argued that *accountability* was present broadly. However, most readers cannot understand financial statements due to their complexity, with significant growth in accounting standards since IFRS. They have become overwhelming for people and lost meaning for the average person who could have understood them previously.

Stewardship was present broadly speaking but only to a certain extent. Regarding use for other purposes, this Parliamentarian felt the report should be capable of telling ratepayers what was going on with finances. They observed some aspects of operational matters and history are informative for certain people, and some could use remuneration and related party transactions information.

5.3.7 Annual report, financial report and accountability, understandability and stewardship – Report preparers

One Report preparer who had chosen a **Council report** praised the organisation's publication of a summary annual report as useful for most residents. In contrast, the annual report was not a document most would read or find meaningful. This preparer argued that most people wanted to know how their rates contributed to looking after parks and reserves, footpaths, dog management, planning and building applications, etc.

How much rates had gone up and whether the council was sustainable were also information of interest. More questions must be answered if those items cannot be ticked off.

This Report preparer felt what does an organisation the greatest service in demonstrating *accountability* is genuineness in listening and then consideration leading to action from that listening. The sentiment was that this genuineness in listening builds trust and *accountability* more than a document reporting what was done a year ago.

It is important to think about what pushes activities through the planning process. However, the complexity the accounting rules create diminishes the ability of most people to understand the financial report section of annual reports. The common person's *understanding* is not necessarily consistent with applying accounting rules and how an item 'looks' to the average person is important to consider/manage.

Regarding *stewardship*, there was some equivocation that the annual report did well. However, posting eligible staff's monthly credit card statements on the website was well received as demonstrating transparency and *stewardship*. Similarly, another demonstration of *accountability* beyond the annual report was holding council meetings in public. The intergenerational equity of asset management

as part of *stewardship* was also raised, and future generations would have to bear a disproportionate load without increases in rates.

The Report preparer observed that, unlike other businesses, councils' work goes on forever, so *stewardship* of assets was particularly important. The Report preparer noted the annual report follows a required prescriptive legislative approach of minimum content – for both the general governance content and financial statements at the local government level. This approach was considered unlikely to be meaningful except for professional or well-informed readers.

In terms of use for other purposes, this Report preparer argued that several different economic consulting firms and advocacy bodies utilise information from the department's annual report to become informed, for example, about the level of activity or investment in physical infrastructure projects.

The Report preparer noted that questions from domestic and international people who had read the notes to the financial statements had been received. They wanted to know about opportunities to invest through the supply chain.

A second Report preparer relying on a **Council report** felt it was *understandable* – it tells a story but was not sure it is clear. One observation was that some of the accounting standards make the annual report more confusing. I doubt whether the average person would understand the new leasing standard. Does anyone read it? In general, the public at AGMs. We try to engage (videos – maybe pictures, a summary etc.). There should be more transparency with more detail with some of those things.

Another Report preparer who had chosen a **State/Territory Department report** felt the report was *understandable* but only to a certain extent, depending on whether the commentaries were *understandable*.

Again using a chosen **State/Territory Department report**, a Report preparer observed that, among *other purposes*, criminals look at the annual report because often the organisation experiences phishing attacks following its release.

Another Report preparer who had chosen a **State/Territory Department report** felt the report was *understandable*. This preparer noted the report was audited, used plain English, was clear and concise and used model government entity financial statements that formed a standardised approach. This standardisation made reports comparable and adhered to Australian Accounting Standards, in the interviewee's opinion. Regarding *stewardship*, this preparer felt the report shows the entity did what it said it would do and, if not, explained why not. It also showed where the money has been spent and what was delivered for that money.

Another Report preparer with a chosen **State/Territory Department report** felt the report was only partially *understandable*. The granularity and level of aggregation were so high that making any decisions based on its content would require a high level of understanding of the internal operations. This preparer felt *stewardship* was again only partially displayed for the same reasons. Regarding use for *other purposes*, the additional information showing the growth and development of the organisation and the service provision can be used. It is more of an information-sharing exercise, almost promotion and marketing.

A Report preparer who had chosen a **Federal Statutory Body report** reporting against its obligations felt the report was *understandable*. It was prepared as though it would be read more widely even though nobody apart from the board read it. Also, the entity's director read it thoroughly many times before issuance. Regarding use for *other purposes*, this report preparer felt the report could help users understand challenges the arts and cultural sector may face and the additional funding required to digitalise some operations.

5.3.8 Summary Statistics for Accountability, Understandability and Stewardship

Despite some negative comments in response to questions regarding accountability, understandability and stewardship, the summary statistics reported in figure X and X and the accompanying graphs reveal high levels of agreement for accountability, understandability and stewardship.

When asked whether the annual report discharged accountability, understandability and stewardship, for accountability, 84% agreed, for *understandability*, 78% agreed, and for *stewardship*, 88% agreed. Regarding the use of the annual report for other purposes, the agreement was lower at 66%. However, when asked whether the annual report met interviewees' needs for accountability, the percentage dropped from 84% to 78% but increased to 88% for the financial report.

For *understandability*, the percentage dropped from 78% to 75% but rose again to 81% for the financial report. For *stewardship*, the percentage dropped from 88% to 75% and then dropped to 72% when asked about the financial report. For whether annual report information was useful for *other purposes*, the percentage dropped from 66% to 34% and dropped further to 28% for the financial report.

Regarding Table 3 dealing with *accountability*, dissenters (3) came primarily from the Monitor group. Of this most financially literate group of seven, 43% did not feel their chosen annual report included information to discharge accountability.

This level of dissent extended to the annual report meeting their own needs for accountability. Whether the financial report met their needs for accountability showed a slight improvement, with two of the seven (29%) dissenting.

Most interviewees (78%) felt the annual report included information that discharged understandability and met their *understandability* (75%) needs. This latter percentage rose for the financial report (81%). Dissenters [(2) for the first criteria and (3) for the latter two criteria] again came primarily from the Monitor group.

That is, 43% of the most financially literate group did not feel their chosen annual report or the financial report within that annual report met their needs for *understandability*. For this last criterion, perhaps not as unexpectedly, a Member of the public and a Media representative joined them. Such a high level of those in the Monitor group expressing this negative perception is concerning.

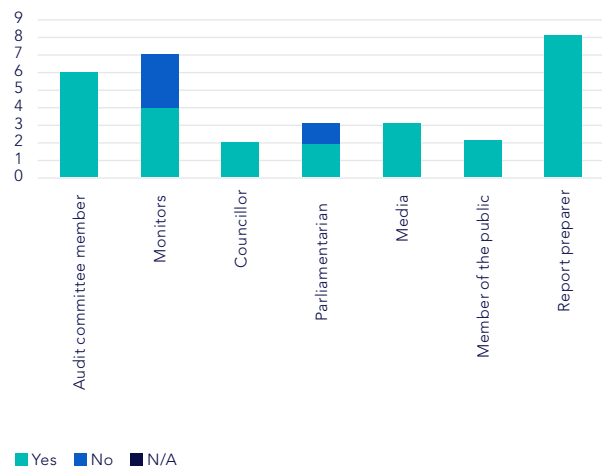
For *stewardship*, as reported in Table 4, 88% felt the annual report included information that discharged *stewardship*, dropping to 75% when asked if the annual report met their needs for stewardship and 72% when asked if the financial report met their needs on this criterion.

As reported in Table 5, 66% felt the annual report met their needs for *other purposes*, but this dropped to 34% for the annual report and 28% for the financial statements.

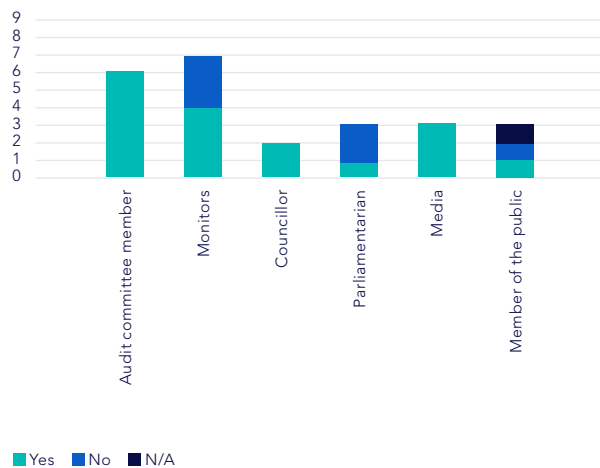
Table 3. Accountability and Understandability Statistics

Interviewee/ Type of reports used	Annual Report incl. info to discharge Accountability			Annual Report meets my needs: Accountability			Financial Report meets my needs: Accountability			Annual Report incl. info that is Understandable			Annual Report meets my needs: Understandability			Financial Report meets my needs: Understandability		
	Yes	No	N/A	Yes	No	N/A	Yes	No	N/A	Yes	No	N/A	Yes	No	N/A	Yes	No	N/A
Audit Committee member	6			6			6			6			5	1		6		
Council	1			1			1			1			1			1		
Commonwealth Dept	1			1			1			1			1			1		
State/Territory Dept	1			1			1			1				1		1		
State/territory statutory body	3			3			3			3			3			3		
Councillor	2			2			2			2			2			2		
Council	2			2			2			2			2			2		
Media	3			3			3			3			3			2		
Federal statutory body	1			1			1			1			1			1		
State/Territory Dept	1			1			1			1			1				1	
State/territory statutory body	1			1			1			1			1			1		
Member of the public	2		1	1	1	1	1	1	1	2		1	2		1	1	1	1
Council			1		1	1	1		1			1	1		1	1		1
State/Territory Dept	1			1				1		1			1				1	
Monitor	4	3		4	3		5	2		5	2		3	3	1	4	3	
Council	2			2			2			2			2			2		
State/Territory Dept	1	3		1	3		2	2		2	2		1	3		1	3	
State/territory statutory body	1			1			1			1					1	1		
Parliamentarian	2	1		1	2		3			1	2		2	1		3		
Council	1				1		1				1		1			1		
State/Territory Dept	1	1		1	1		2			1	1		1	1		2		
Report preparer	8			8			8			6	2		7	1		8		
Council	2			2			2			1	1		2			2		
Federal statutory body	1			1			1			1			1			1		
State/Territory Dept	5			5			5			4	1		4	1		5		
Grand Total	27	4	1	25	6	1	28	3	1	25	6	1	24	6	2	26	5	1
Grand Total -Per cent	84%	13%	3%	78%	19%	3%	88%	9%	3%	78%	19%	3%	75%	19%	6%	81%	16%	3%

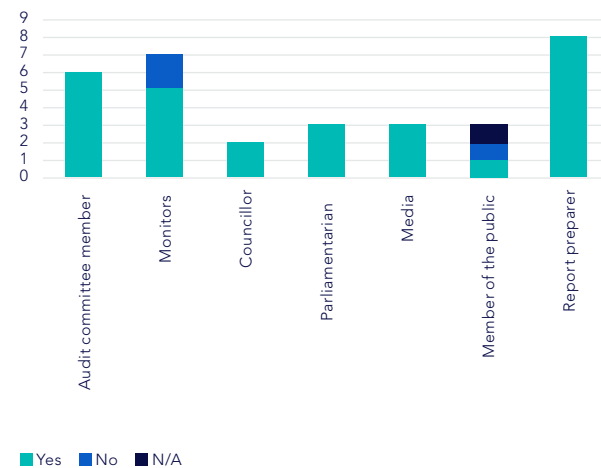
Annual Report includes information to discharge Accountability



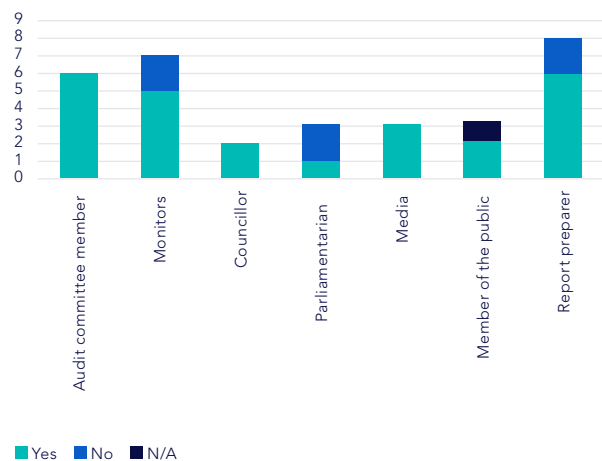
Annual Report meets my needs: Accountability



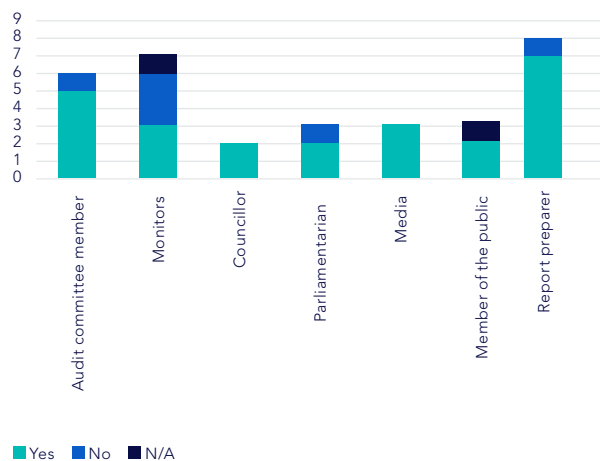
Financial Report meets my needs: Accountability



Annual Report includes information that is Understandable



Annual Report meets my needs: Understandability



Financial Report meets my needs: Understandability

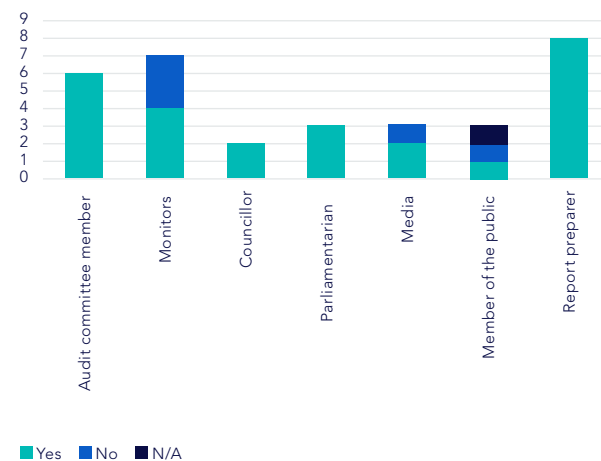
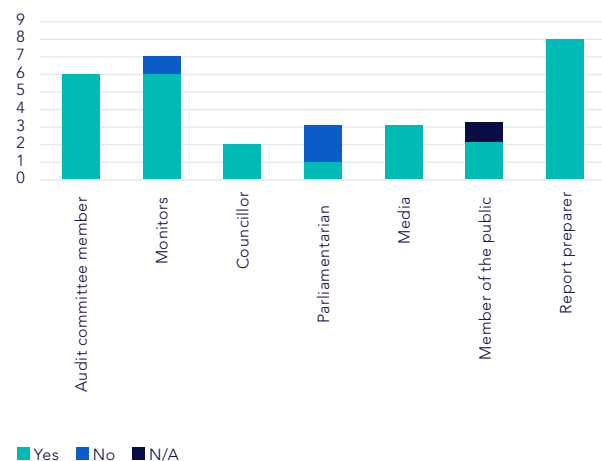


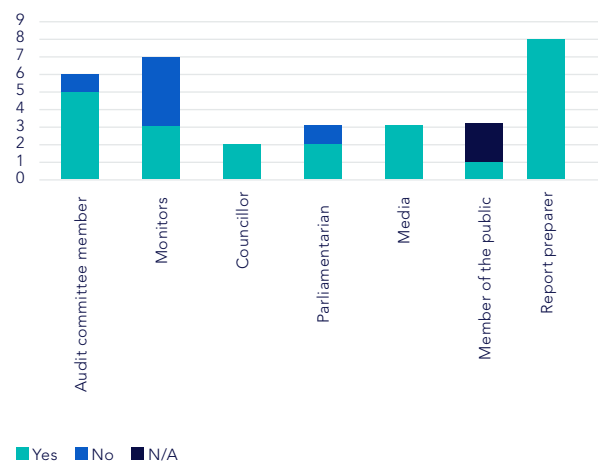
Table 4. Stewardship Statistics

	Does the Annual Report Include Information to Discharge Stewardship?			Does the Annual Report meet my Needs for Stewardship?			Does the Financial Report meet my Needs for Stewardship?		
	Yes	No	N/A	Yes	No	N/A	Yes	No	N/A
Audit Committee member	6	0	0	5	1		5	1	
Councillor	2	0	0	2			2		
Media	3	0	0	3			3		
Member of the public	2	0	1	1		2		2	1
Monitors	6	1	0	3	4		3	4	
Parliamentarian	1	2	0	2	1		3		
Report preparer	8	0	0	8			7	1	
Grand Total	28	3	1	24	6	2	23	8	1
Grand Total -Per cent	88%	9%	3%	75%	19%	6%	72%	25%	3%

Annual Report includes information that demonstrates Stewardship



Annual Report meets my needs: Stewardship



Financial Report meets my needs: Stewardship

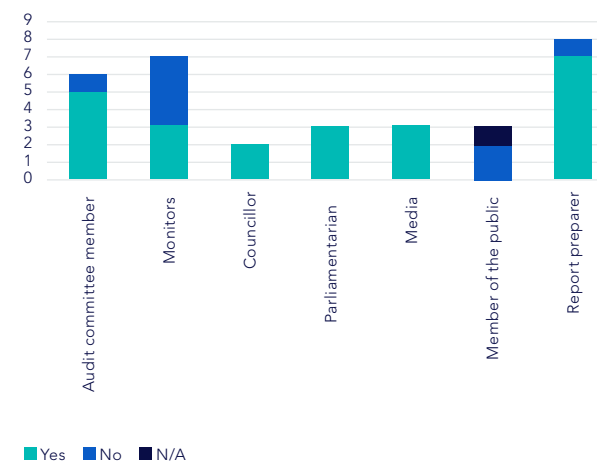
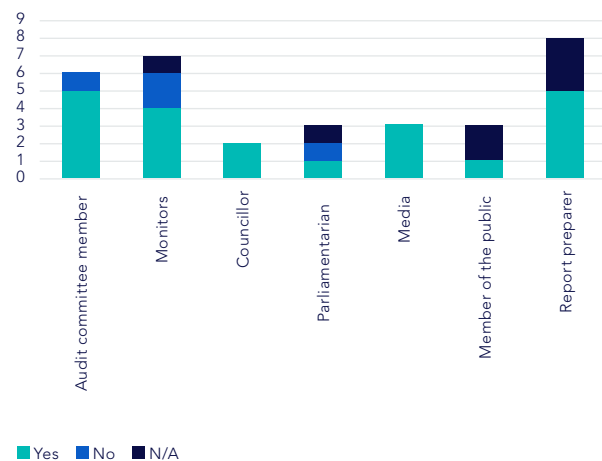


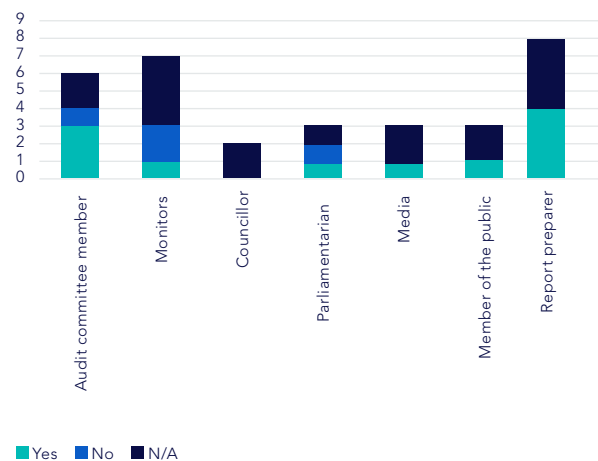
Table 5. Other Purposes Statistics

	Does the Annual Report Include Information to Discharge Stewardship?			Does the Annual Report meet my Needs for Stewardship?			Does the Financial Report meet my Needs for Stewardship?		
	Yes	No	N/A	Yes	No	N/A	Yes	No	N/A
Audit Committee member	6	0	0	5	1		5	1	
Councillor	2	0	0	2			2		
Media	3	0	0	3			3		
Member of the public	2	0	1	1		2		2	1
Monitors	6	1	0	3	4		3	4	
Parliamentarian	1	2	0	2	1		3		
Report preparer	8	0	0	8			7	1	
Grand Total	28	3	1	24	6	2	23	8	1
Grand Total -Per cent	88%	9%	3%	75%	19%	6%	72%	25%	3%

Annual Report includes information for other purposes



Annual Report meets my needs: Other purposes



Financial Report meets my needs: Other purposes

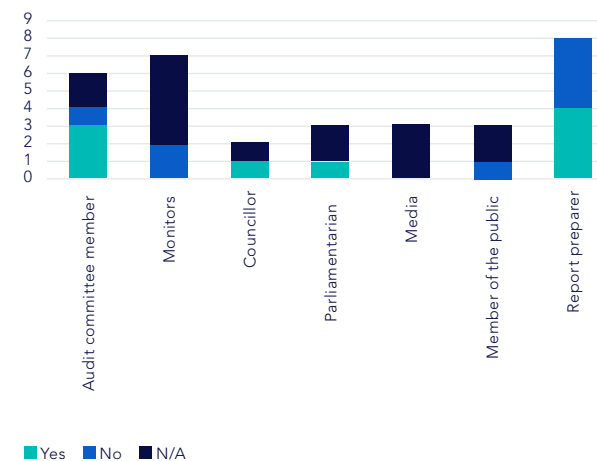


Table 6. Comparison between Perceptions of Annual and Financial Report Characteristics on a Scale of 1-5 by Interviewee Category

On a scale of 1-5, where 5 is strongly agree, Information I obtain from the:

Annual Report is understandable

Categories	Average
Audit Committee member	4.8
Councillor	3.5
Media	4.0
Member of the public	4.5
Monitor	3.5
Parliamentarian	3.3
Report preparer	4.3
Grand Total	4.1

Financial Report is understandable

Categories	Average
Audit Committee member	5.0
Councillor	3.5
Media	4.0
Member of the public	4.0
Monitor	3.5
Parliamentarian	3.3
Report preparer	4.3
Grand Total	4.0

Annual Report is Available in time to be useful

Categories	Average
Audit Committee member	3.7
Councillor	3.0
Media	3.0
Member of the public	4.0
Monitor	3.5
Parliamentarian	3.3
Report preparer	4.0
Grand Total	3.6

Financial Report is available in time to be useful

Categories	Average
Audit Committee member	4.2
Councillor	3.0
Media	3.0
Member of the public	4.0
Monitor	3.7
Parliamentarian	3.3
Report preparer	4.0
Grand Total	3.7

Annual Report is Comparable

Categories	Average
Audit Committee member	3.7
Councillor	5.0
Media	4.3
Member of the public	4.0
Monitor	2.8
Parliamentarian	3.3
Report preparer	4.6
Grand Total	3.8

Financial Report is Comparable

Categories	Average
Audit Committee member	4.4
Councillor	3.5
Media	4.3
Member of the public	4.0
Monitor	3.0
Parliamentarian	3.0
Report preparer	4.4
Grand Total	3.9

Annual Report is of a quality that helps assure me the information presented faithfully represents the economic and other phenomena it purports to represent

Categories	Average
Audit Committee member	4.2
Councillor	5.0
Media	4.3
Member of the public	4.0
Monitor	2.8
Parliamentarian	3.0
Report preparer	4.4
Grand Total	3.9

Financial Report is of a quality that helps assure me the information presented faithfully represents the economic and other phenomena it purports to represent

Categories	Average
Audit Committee member	4.8
Councillor	5.0
Media	4.7
Member of the public	3.0
Monitor	3.5
Parliamentarian	3.7
Report preparer	4.6
Grand Total	4.3

5.3.9 Summary of Statistics

Table 6 reports average scores between one and five given by interviewee groupings according to their perceptions of various attributes for the annual report compared with the financial report within that annual report. The sample size is too small to enable statistical tests of difference by group, and there is no difference at conventional statistical significance levels for the full sample.

However, financially literate interviewees (Audit committee members and Monitors) scored financial report understandability, timeliness, comparability, and faithful representation higher than other groups. In contrast, other groups' scores declined or remained constant on these characteristics.

For faithful representation, Parliamentarians, Media Representatives and Report Preparers joined Audit committee members and Monitors in increasing their scores.

5.3.10 Rankings for Annual and Financial Report information meeting needs for Accountability, Understandability and Stewardship

Questions 7 and 8 asked interviewees to rank from one to three their views of whether the annual report and the financial report within the annual report met their information needs that management was accountable, understandability and stewardship.³

Not all interviewees provided ranking and of those doing so, not all ranked both reports. Table 7 reports that of the 27 interviewees who provided at least one annual report ranking, 25% opted for accountability, 12.5% for understandability and 10.7% for stewardship as their first ranked attribute.

For their second ranked attribute, 10.7% opted for accountability, 16.1% for stewardship and 8.9% for understandability. For the third-ranked attribute, 10.7% was received for understandability and 5.4% for stewardship.

Only 20 interviewees gave rankings on these attributes for the financial report. For accountability, 34.4% ranked this attribute in the first place, 15.6% ranked understandability first, and 9.4% ranked stewardship first.

The proportion ranking accountability as providing information meeting their needs as the first place jumped from 25% to 34.4%, and the proportion ranking understandability first jumped from 12.5% to 15.6%, respectively. In the second ranking, accountability and stewardship each attracted 12.5%. In the third-place ranking, understandability attracted 9.4% and stewardship 6.3%.

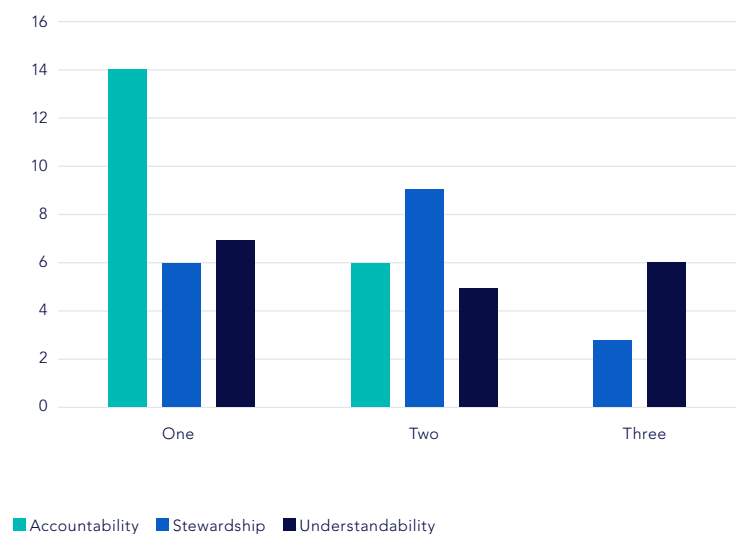
These jumps are mainly attributable to the highly financially literate interviewees (Audit committee members and Monitors).

³The question was, in the context of the chosen annual report, whether it met their needs for information i) That shows how the entity is accountable for its management and use of resources to those that provide them with resources, and to those that depend on them to use those resources to deliver necessary services?, ii) That I understand and can act upon?, iii) That shows the care (stewardship) the entity takes with public money and other assets?, and iv) For other purpose(s)? If yes, interviewees were asked to rank i, ii, iii, or iv in meeting needs where no. 1 best meets your needs (joint rank if needed).

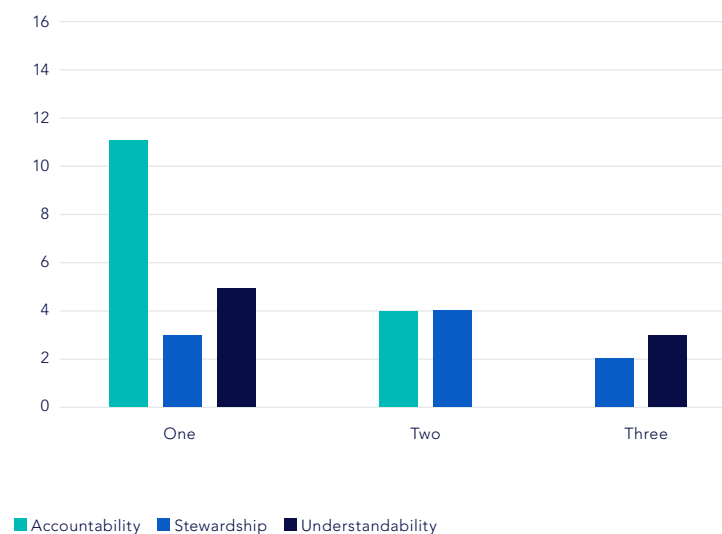
Table 7. Ranking Summary Statistics

	Annual Report No of Times Attribute is ranked(N=56 instances of a rank)						Financial Report No of Times Attribute is ranked (N=32 instances of a rank)					
	1	%	2	%	3	%	1	%	2	%	3	%
Accountability	14	25.0	6	10.7	0	0.0	11	34.4	4	12.5	0	0.0
Understandability	7	12.5	5	8.9	6	10.7	5	15.6	0	0.0	3	9.4
Stewardship	6	10.7	9	16.1	3	5.4	3	9.4	4	12.5	2	6.3
Grand Total -Per cent	27	48.2	20	35.7	9	16.1	19	59.4	8	25.0	5	15.6

Annual Report: Number of Times Attribute is ranked (N=56 instances of a rank)



Financial Report: Number of Times Attribute is ranked (N=32 instances of a rank)



5.4 Does the annual report include information enabling comparison with budget? Is that important to you? Why?

Question 9 asked interviewees whether the annual report of a public sector organisation familiar to them includes information that enables comparison with budget. Some interviewees in answering this question placed an emphasis on the stand-alone budget information and whether the information in the annual report could be compared to that information. Other interviewees restricted their comparison to a comparison of the actual and budget information reported in the annual report. A summary of their paraphrased responses to this question is provided next.

5.4.1 Annual report enabling comparison with budget - Audit committee members

Audit committee members who chose **State/Territory Department** and **Statutory Body reports** noted budgeted information was not part of the report. In contrast, Audit committee members selecting **Council** and **Federal Department** reports observed the reports included high-level information on the face of the financial statements (with commentary around material variances). All interviewees felt this information was important to better understand the planned activities and their execution – without which, readers are ‘none the wiser’. Using a **Federal Department report**, the Audit committee member stated it would be helpful to get all financial information in one place, but the report does not house such detail.

A noted complication in communicating (and reporting against) budget information was the provision of ‘original’ budgets and ‘final’ budgets in the organisation’s report. Furthermore, the difference between the budget process and the year-end acquittal process was flagged as a weakness by an interviewee using a **State/Territory Statutory Body report**. That interviewee felt that while the original budget is typically very well scrutinised by many stakeholders including the media, the same cannot be said after year-end. It was further suggested that parliament should be required to scrutinise the actual performance against budget once annual reports were tabled.

5.4.2 Annual report enabling comparison with budget - Councillors

Councillors interviewed noted **Council reports** did not include information to facilitate a comparison of actual figures with budget. However, budgets are published and available online, so if anyone wants to go in-depth in this regard, they can go to the website and download what they want.

Observing public availability of such information is very important for transparency, these interviewees felt publishing online helped to ensure an annual report that is understandable and not too lengthy, while communicating an overall picture of what the organisation has done.

5.4.3 Annual report enabling comparison with budget – Media

Media representatives consider budget information and the ability to compare what was announced with how it was implemented as fundamental to the principle of accountability. The **State/Territory Department, Federal Statutory Body and State/Territory Statutory Body reports** referred to by this category of interviewee include reference to budget figures, notwithstanding that detailed budget information was in the budget papers themselves.

They felt assessing performance against budget information was critical because that is where things may potentially be hidden.

5.4.4 Annual report enabling comparison with budget – Members of the public

The Member of the public using a **State/Territory Department report** was unaware of any comparison with budget. Interviewees referring to Council reports indicated budget figures were not included but felt they should be so they could use the annual report to assess whether they are getting value for money (i.e., their rates). They did acknowledge, however, budget information could be accessed online.

5.4.5 Annual report enabling comparison with budget – Monitors

Monitors choosing **State/Territory Department** and **Council reports** observed the reports provided information enabling comparison of actual and budgeted results. However, this was not the case for the interviewee choosing a **State/Territory Statutory Body report** (although there was some actual/budget reporting related to financial sustainability indicators).

One Monitor who had chosen a **State/Territory Department report** felt inclusion of budget information was unhelpful since meaningful information was communicated in great detail in reports generated as part of the formal budgetary process (Income Statements, Balance Sheets and Cash Flow Statements for all areas consolidated). Another Monitor relying on a **State/Territory Department report** felt the explanation of variances was often unenlightening. Nevertheless, comparing actual with budget was seen as very important for discharging accountability.

5.4.6 Annual report enabling comparison with budget-Parliamentarians

The three Parliamentarians noted their selected **State/Territory Department** and **Council reports** did include budget figures for comparison. One Parliamentarian felt this information is very important in **State/Territory Department reports**, as it is used to reflect and ask important questions, such as how actual performance compares with expectation.

Another Parliamentarian using a **State/Territory Department** report felt it could be difficult to reconcile budget information in the report with the original budget documents since finding the detail can be difficult. They believed a financial piece that sits alongside the policy piece would be helpful.

5.4.7 Annual report enabling comparison with budget – Report Preparers

One Report preparer who has chosen a **Council report** observed, consistent with the requirements of the Local Government Act (LGA) applying in their jurisdiction, such comparisons were not included in the statutory accounts but were reported more thoroughly as part of a quarterly budget review report.

This interviewee noted the financial statements compare current and actual numbers, not a comparison with budgeted numbers.

They felt that annual reports are historical documents, whereas what the community often wants is the ability to influence things going forward. In that sense, being able to act upon information may be relevant because the annual business planning and budgetary process have community engagement components.

A second Report preparer who had chosen a **Council report** of a different jurisdiction noted such comparisons were included in the annual report, and detailed information was available as part of the broader budgetary process. Irrespective of whether and to what extent budgetary information was included in the annual report, report preparers felt it was very important to be communicated to stakeholders, as it underlies the principle of accountability. It reflects the adage 'tell us what you are going to do and then tell us what you did'. Budget information communicates what an entity planned it would do and how it tracked against that, including where there were significant changes (if applicable).

Interviewees choosing **State/Territory Department** reports and **Federal Statutory Body reports** observed reported budget figures, as it is a legislative requirement. Similarly, they felt it was important information that facilitated the discharge of accountability. Ultimately budget information 'tells a story' about what has occurred and helps explain difficulties experienced during the year. It was noted, however, that a budget's value is a function of how robust and meaningful its creation was in the first place. Additionally, the value of budgets can be diminished by focusing on what funding is available rather than what is needed. This focus can flow into reporting spending where the budgeted funds are stored rather than where they were spent.

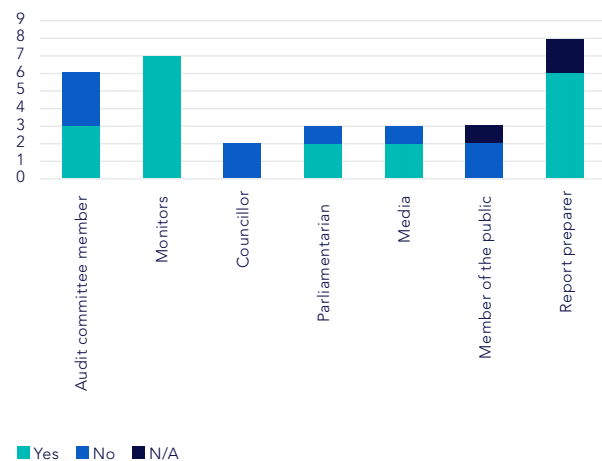
5.4.8 Summary of Statistics

Figure X reveals the chosen annual reports of only 63% of the 32 interviewees included a comparison with budgeted amounts. However, 28 of the 32 or 88% responded that comparing financial results with budget was important to them.

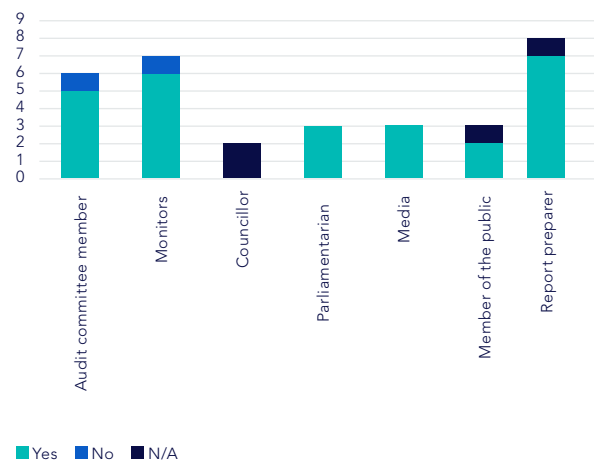
Table 8. Comparison with Budget Statistics

	Annual Report includes info for comparison of financial results with budget			Is information that enables the comparison of financial results with budget important to you		
	Yes	No	N/A	Yes	No	N/A
Audit Committee member	3	3		5	1	
Councillor		2		2		
Media	2	1		3		
Member of the public		2	1	2	1	
Monitors	7			6	1	
Parliamentarian	2	1		3		
Report preparer	6	2		7	1	
Grand Total	20	11	1	28	4	
Grand Total -Per cent	63%	34%	3%	88%	13%	0%

Annual report includes information for comparison of financial results with budget



Is information that enables the comparison of financial results with budget important to you?



5.5 Does the annual report include information on long-term sustainability of finances, key programs, key performance indicators (KPIs)? Rank order. Is each important to you? Why?

Question 10 asked interviewees whether the annual report of a public sector organisation familiar to them includes information on long-term sustainability of finances, key programs and KPIs. A summary of their paraphrased responses to this question is provided next.

5.5.1 Annual report information about sustainability of finances, key programs and KPIs – Audit committee members

One interviewee choosing a **State/Territory Department report** noted there was nothing specific regarding outcomes/outputs, and key programs were covered in the notes and directors' report. Furthermore, the sustainability of finances was not explicitly covered. Referring to a **State/Territory Statutory Body report**, an Audit committee noted with no requirement for inclusion, long-term sustainability of finances was not in the report, whereas information about key programs and KPIs was.

An Audit committee member choosing a **Council report** observed the report included information about long-term sustainability of finances, key programs and KPIs. KPIs and key programs were more likely to be specifically included in reports than details about long-term sustainability. The interviewee referring to a Federal Department report included details on key programs and KPIs but not the long-term sustainability of finances.

The Audit Committee interviewees had a range of views related to reporting on the long-term sustainability of finances, key programs and KPIs, but largely ranked KPIs as the most important, with key programs a close second and sustainability of finances coming in third. One reason for the low sustainability of finances ranking was that public sector entities are nearly always guaranteed by government, so long-term finances are not as much of an issue as they are within a corporate context.

Furthermore, it was suggested by participating audit committee members that key programs are relatively easy to change if the results suggest the organisation is not sustainable or tracking well. KPIs also had their critics, with the observation that they can constrain/restrain behaviour, be 'gamed' to achieve, and sometimes have unintended consequences that are not for the benefit of the organisation or the public.

5.5.2 Annual report information about sustainability of finances, key programs and KPIs - Councillors

Council reports tended to include information on the long-term sustainability of finances, key programs, and KPIs. The Councillors interviewed were adamant that long-term financial planning was critically important to their constituents and, therefore, to them – and that if not respected, would see them not re-elected.

They indicated the importance of demonstrating where the council was headed with its finances and how large assets were paid for, with mindsets needing to extend across generations. Long-term sustainability of finances was of primary importance to this category of interviewees, with KPIs and key programs following.

5.5.3 Annual report information about sustainability of finances, key programs and KPIs – Media representatives

The interviewee choosing the **State/Territory Department report** noted it included information related to long-term financial sustainability, key programs and KPIs. The other Media representatives were less clear regarding the reports of the **Federal and State/Territory Statutory Bodies**. This question resulted in some informative discussions with the Media representatives.

Ultimately they were divided on the importance of sustainability of finances information, key programs and KPIs, with no two interviewees holding the same view for ranking importance.

To some, KPIs and key programs were equal numbers one, with sustainability either unranked or a clear second. Others gave the pole position equally to sustainability and KPIs, whereas others felt KPIs unworthy of a ranking.

To varying degrees, the interviewees felt the above information could indicate whether the organisation is likely to make substantial cuts to operations or whether they are expanding. Furthermore, KPIs enabled them to compare projections to achievements, which has value.

5.5.4 Annual report information about the sustainability of finances, key programs and KPIs – Members of the public

There was some variability in the extent to which the long-term sustainability of finances, key program and KPI information were included in the reports to which these interviewees referred. The Members of the public choosing **Council reports** observed the reports did not include this content, while the Member of the public choosing the **State/Territory Department report** believed it did. All interviewees felt it was important to report on these matters, with key programs and KPIs considered more important than reporting on long-term sustainability. The propensity to report on outputs as an 'easy' proxy for performance (outcomes) was raised, with the observation that doing so does not generate valuable insights.

5.5.5 Annual report information about the sustainability of finances, key programs and KPIs – Monitors

Using a **Council report**, the Monitor observed the long-term sustainability of finances was not covered in the report. Monitors choosing **State/Territory Department** and **Statutory Body reports** felt the report did include such information (at the higher **Whole of Government** level, though) and information on key programs and KPIs.

Once again, the concept of sustainability of finance in government organisations was questioned, with the observation that their sustainability was 'reverse engineered' – how much there is to spend on anything is worked out backwards. It is about what level of service can be provided and what level of asset standards can be maintained with available funds. Reporting information pertaining to key programs was considered vital, as these drive everything. KPIs were also considered important; although consistent with the report preparers, it was common to hear that the 'wrong' KPIs were being used. Hence there was a clear message indicating the focus was not quite 'right'.

5.5.6 Annual report information about the sustainability of finances, key programs and KPIs – Parliamentarians

Long-term financial sustainability, KPIs and key programs tend to be included in the **State/Territory Department** and **Council reports** referred to by the Parliamentarians. One interviewee felt the relative importance of long-term sustainability varied across different departments. By way of example, the pandemic resulted in service-oriented departments like health care and education going into survival mode, and questions about long-term sustainability necessarily took a back seat to here-and-now type questions.

By contrast, for other non-service-oriented departments, it was considered important for long-term sustainability to be demonstrated in decision-making and reporting. This viewpoint felt a focus on outputs rather than outcomes limited the usefulness of what was reported (at key program or KPI level). Another Parliamentarian noted that government departments were not like other business entities, ceasing to exist if they failed financially.

A government department does not have that same existential pressure - there is no realistic threat they will no longer exist if they are not financially sustainable (they can always raise taxes, for instance). Without real pressure to survive, the long-term sustainability of finance could not be ranked number one. KPIs have a role to play in highlighting problems, but unfortunately, the quality of KPIs can be lacking.

Yet another viewpoint was that demonstrating the long-term sustainability of finance was critically important for parliamentarians. KPIs were of secondary importance, giving a good snapshot that enabled the reader to quickly determine what was going on without analysing pages of financials.

5.5.7 Annual report information about the sustainability of finances, key programs and KPIs – Report preparers

Interviewees selecting Council reports observed the report included information about key programs and KPIs, but one would need to visit councils' websites for information pertaining to long-term finances. **State/Territory Department** and **Federal Statutory Body reports** covered all three. Long-term financial sustainability information did tend to be included in the reports referred to by Report preparers; however, it was apparent there were different interpretations of 'long-term'.

A five-year time horizon is a common financial reporting window, and some interviewees interpreted this as 'long term', while others thought it might naturally extend beyond this. Despite this, long-term financial plans were produced (and typically available online), with financing sustainability and asset management sustainability considered important. The viewpoint that long-term sustainability of finances is more relevant to the private than the government sector (due to appropriation matters), was again expressed by Report preparers.

Reporting on key programs was considered an important communication to help readers understand the nature of projects (both in progress and completed), with KPIs important to draw inferences. It was stated that KPIs are a good way to provide a snapshot of comparability. Even if a reader is not particularly financially literate, they can get a picture of whether matters are broadly in order. While specific KPIs may be reported on, Report preparers felt more thorough insights might be achievable with a different/targeted set of KPIs – however that could affect comparability. The view of the report preparers echoed audit committee members' views insofar as set KPIs can be constraining.

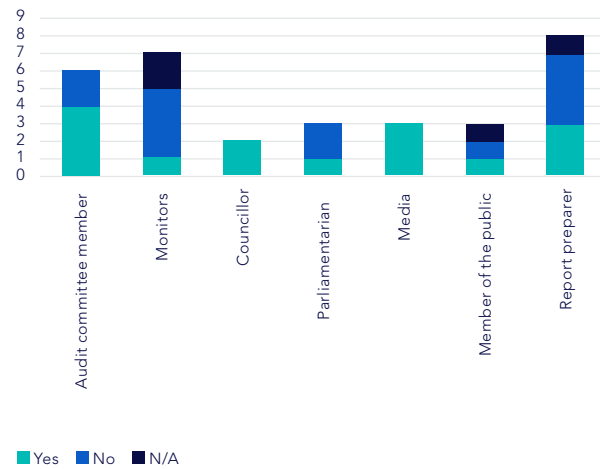
5.5.8 Summary Statistics

In summary, Table 9 reports that of the 32 interviewees who responded, 15 or 47% confirmed that their annual reports included information on the long-term financial sustainability of the organisation, 30 or 94% responded positively about the information on key programs being present, and 27 or 84% responded positively about KPIs being included.

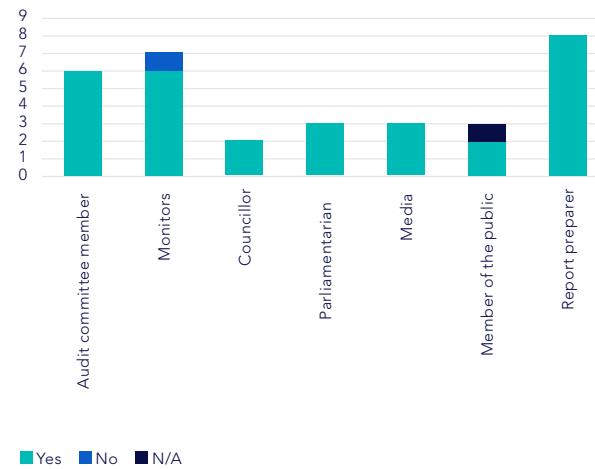
Table 9. Information about other issues Statistics

Interviewee/ Type of reports used	Long-term Sustainability of Finances			Key Programs			Key Performance Indicators (KPIs)		
	Yes	No	N/A	Yes	No	N/A	Yes	No	N/A
Audit Committee member	4	2		6			5	1	
Council	1			1			1		
Commonwealth Dept		1		1			1		
State/Territory Dept	1			1			1		
State/territory statutory body	2	1		3			2	1	
Councillor	2			2			2		
Council	2			2			2		
Media	3			3			3		
Federal statutory body	1			1			1		
State/Territory Dept	1			1			1		
State/territory statutory body	1			1			1		
Member of the public	1	1	1	2		1	2		1
Council		1	1	1		1	1		1
State/Territory Dept	1			1			1		
Monitor	1	4	2	6	1		5		2
Council		2		2			2		
State/Territory Dept	1	1	2	3	1		2		2
State/territory statutory body		1		1			1		
Parliamentarian	1	2		3			2	1	
Council	1			1				1	
State/Territory Dept		2		2			2		
Report preparer	3	4	1	8			8		
Council	1	1		2			2		
Federal statutory body	1			1			1		
State/Territory Dept	1	3	1	5			5		
Grand Total	15	13	4	30	1	1	27	2	3
Grand Total -Per cent	47%	41%	13%	94%	3%	3%	84%	6%	9%

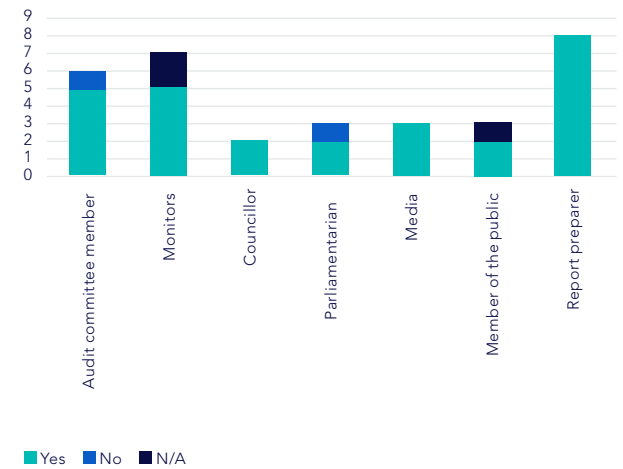
**Annual Report includes information
Long-term Sustainability of Finances**



Annual Report includes information Key Programs'



**Annual Report includes information on Key Performance
Indicators (KPIs)**



5.6 Is the audit report in the annual report important to you? Why?

Question 14 asked interviewees whether the audit report in their chosen annual report was important to them. A summary of their paraphrased responses to this question is provided next.

5.6.1 Audit report importance – Audit committee members

All Audit committee members felt the audit report was important to add credibility to the financial report and give the reader confidence they can trust what is being presented. Key audit matters (KAM)⁴ were said to provide useful insights into the key risks associated with Council financial reports. In this respect, the KAMs helped the audit committee understand where the external auditors thought the key financial reporting risks were.

Consistent with Auditing Standard ASA700, not all selected reports include KAMs – despite interviewees seeing value in this additional information being included.

5.6.2 Audit report importance – Councillors

The Councillors interviewed indicated the audit report was very important to them. They said the audit report represented an independent confirmation that they were indeed doing the 'right' thing.

5.6.3 Audit report importance – Media representatives

The Media representatives reflecting on a **State/Territory Department** report and **State/Territory** and **Federal Statutory Body reports** indicated they did not refer to audit reports or find them useful.

They echoed the Members of the public's sentiment that it is very rarely the case there is anything untoward mentioned. Nonetheless, it was acknowledged the audit report provided benefit in the form of assurance to readers that the financial reports had been prepared in accordance with relevant accounting standards and other reporting requirements.

5.6.4 Audit report importance – Members of the public

While Members of the public (reflecting on **Council and State/Territory Department reports**) did not tend to read the audit report themselves, they felt independent validation and sign-off were important for credibility. It was noted the auditor usually says 'everything is fine', which may explain why the audit report's detail was not of great significance to this category of interviewees.

⁴Required for financial audits of listed entities or when the auditor is otherwise required by law or regulation or decides to communicate such information under ASA 700.30-31.

5.6.5 Audit report importance – Monitors

The audit report was considered very important by Monitors reflecting on **Council reports** and **State/Territory Department and Statutory Body reports**. While the audit report provided confidence that the financial report could be relied upon, it was stressed by those reflecting on **State/Territory Department and Statutory Body reports** that such confidence came from knowing the financial report had been subjected to the auditing process.

The process of the auditor questioning numbers, disclosures and internal controls enabled the public to have confidence the financial report had substance underlying it. The audit report represented an independent party's completion of the assurance process. It was additionally noted that for someone without an understanding of auditing, the audit process and resulting audit report could be quite challenging to derive meaning from.

When reflecting on a **State/Territory Body report**, KAMs were specifically flagged as problematic. While they helped readers understand the audit focus, the view was that because auditors were limited with the level of detail they could go into in the audit report, the KAMs were not necessarily as helpful as they might be.

5.6.6 Audit report importance – Parliamentarians

The Parliamentarians also felt the audit report was very important. Across **Council and State/Territory Department reports**, the audit report was said to provide confidence that what is being presented is indeed true and fair – that someone had drilled down into the numbers to see if there were any problems therein.

Those reflecting on **State/Territory Department reports** indicated they valued the auditor's comments – such comments were said to help point them to matters in the financial report that may otherwise not have been looked at.

5.6.7 Audit report importance – Report preparers

The Report preparers indicated the audit report was an important document to them. It, they said, provided assurance of the work they had done, that it was true, fair, correct and comparable. Regarding audits of **State/Territory Department reports**, interviewees indicated that when done well, an audit was valuable as an independent validation of the financial report they were presenting.

However, some **State/Territory Department report** preparers did not have high confidence in their auditor's ability to pick up misstatements. One interviewee choosing a **Federal Statutory Body report** felt that 'career auditors', without having ever prepared a financial report or been engaged in the day-to-day running of an organisation, lacked the requisite experience to capture anomalies an auditor should routinely capture. Consequently, such audits did not provide the high level of assurance expected.

Despite this, this interviewee found the management letter (provided by the auditor to the client at the end of the audit, discussing findings and providing recommendations for improvement) helped identify areas needing focus (and were therefore important in their own right).

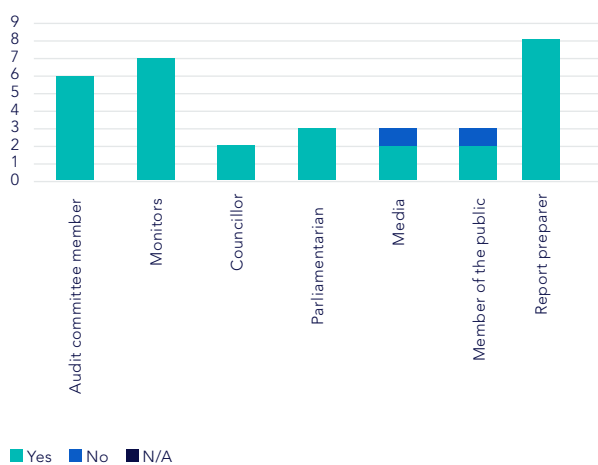
5.6.8 Summary Statistics

The audit report was important for 30 (94%) of the 32 interviewees who answered this question, remembering that two interviewees chose not to refer to any specific annual report during their interview. This statistic, reported in Table 10, displays overwhelming confidence in auditing, assurance and the audit report from all perspectives represented among the sample participants.

Table 10. Audit Report Statistics

Annual Report includes info for comparison of financial results with budget			
Is the audit report important to you?	Yes	No	N/A
Audit Committee member	6		
Monitors	7		
Councillor	2		
Parliamentarian	3		
Media	2	1	
Member of the public	2	1	
Report preparer	8		
Grand Total	30	2	
Grand Total -Per cent	94%	6%	0%

Is the audit report important to you?



5.7 What additional information would you like included in the annual report, and what currently included information is not useful?"

Questions 5 and 6 asked interviewees what additional information they would like included in their chosen annual report and what current included information is not useful. A summary of their paraphrased responses to the questions is provided next.

5.7.1 Additional annual report information considered useful and included information considered not useful - Audit committee members

One Audit committee member who chose a **State/Territory Department report** felt the report was 'light on detail' about environmental spending. This interviewee would also like to see a listing of major contractors and the inclusion of additional information about the budget, including reporting against strategies and the budget for the coming year. For not useful information, this Audit committee member felt meetings attended information is not useful and should not be part of the report. They noted if somebody were not attending, the board would act and remove that person from their position.

Using a **Council report**, another Audit committee member felt the need for better environmental, social and governance information. This interviewee would like the report to include 'decent' activity measures, information on outcomes, and reporting against the organisation's long-term plans (10 years). This interviewee felt that from an *understandability* point of view, a management discussion and analysis section would be beneficial.

Explanation of how the council was discharging its responsibilities was not easy to follow, with the financial statements needing to be understood to achieve that. However, analysing how the council was tracking and linking that back to the long-term plan, including financial objectives, would have helped.

That would see the elevation of the status of the long-term plan as a tool and not just a compliance piece. This Audit committee member observed infrastructure assets are reported at fair value and some financial sustainability measures related to this valuation. While the council maintained the asset stock in a reasonable state, knowing where to find this information required expertise. This interviewee noted the annual report does talk about current results in the context of the 4-year plan, which aligns with the election cycle.

Regarding not useful information, this Audit committee member noted the report included a lot of information on compliance obligations that could be reported elsewhere, for example, tenders, contracts and public health statements. This interviewee felt the good-feel stories of what the organisation has done to support the community were useful, but the granular detail belongs elsewhere as it is not useful to the demonstration of accountability. While they felt the profiles of elected representatives should be published on the organisation's website, they saw no reason to repeat it in the annual report.

One Audit committee member who had chosen a **Federal Department report** felt the inclusion of sustainability information would improve the report; environmental, social and governance information and information about climate change. They noted the debate over whether this information should be focused on addressing the financial or non-financial impacts and how far up and down the value chain that reporting should range. This interviewee felt the annual report needed to report against the United Nations Sustainable Development Goals (SDGs) and the organisation's progress against these.

This interviewee felt the framework the organisation reports against is reasonable. The problem is how the individual organisations apply and report against that. This Audit committee member felt a common annual reporting framework for sustainability reporting across the federal and state / territory levels of government would be good. They noted a precursor step to a common framework is a common set of standards. On the financial reporting side, that exists.

On the non-financial reporting side, there is very little. This interviewee observed there is always competition between the state / territory and federal levels regarding who does better reporting. They felt there was merit in having a single framework based on an international standard for annual reporting. No one will pick up another jurisdiction's standards; they will say it is not suitable due to their circumstances. If there were an international standard, using that for annual reporting by organisations of these two levels of government as done for financial reporting would be a good idea.

For example, something similar to the Uniform Presentation Framework would be good. This Framework is a federal and state / territory agreement on how they will report finances, what standards they will use, or what information they will put in the budget papers.

Commenting on not useful information, this Audit committee member noted the report includes verbiage they would like removed. Some organisations 'wax lyrical' about why they did so well, and it is never their fault when they do poorly. This interviewee's preference was to remove all opinion content and instead provide numbers to allow the reader to form their own opinion rather than telling readers what their opinion should be.

A **State/Territory Statutory Body report** was the choice of another Audit committee member, who felt the current disjoint between reporting on the organisation's strategies and the risk the organisation faces in delivering on these needs to be addressed. They noted the annual report includes

information about inputs in the form of resources coming in and outputs. However, regarding delivery models, clarity around risks encountered needing to be mitigated to achieve these outcomes is lacking. This interviewee would like more content about risk, and the link between risk and outcomes made clear in the annual report. Also, they would like to see more linking to available documents instead of reiterating content in the annual report.

In terms of not useful information, this audit committee member felt pages of text in the annual report could be replaced by infographics. For example, the text on the organisation's operations would be more useful if presented as a pie chart; a reader can immediately see these are the things we are doing in these areas.

Lengthy explanations of governance committees could be read about elsewhere. People do not want a lot of text; they want to look, comprehend it and move on. If they need detail, they can go elsewhere on the organisation's website to read detail. The annual report is a communication piece.

Another Audit committee member choosing a **State/Territory Statutory Body report** would like to see qualitative information that looks at outcomes. This interviewee noted the current report includes an analysis of what happens. However, that does not give the full picture of what ought to happen and whether what did happen is effective.

Although the report showed how public money had been spent, assets employed, activities engaged with and the expenses, a lack of certainty about the extent to which the care or stewardship the entity was taking was expressed. This interviewee felt it important the report provide evidence of how care was exercised. There was also uncertainty about how the report conveys the activities, risks, and choices the organisation makes, observing that it would be more valuable if it addressed those elements.

Using a **State/Territory Statutory Body report**, another Audit committee member noted the report is one component of the information the public may want, and it is not reasonable to expect the annual report to speak to all issues. This interviewee noted the contents of the organisation's report were primarily driven by legislation and government direction.

They noted that when COVID-19 hit, the organisation wanted to include a lot of information in the annual report about the consequences, which were quite severe in terms of how services were provided.

The government said, no, keep it simple, no more than a page. This interviewee did not think this reduction in information was helpful. They did observe the organisation's annual report is already 100 pages, and they were not sure how many people would be able to 'take that in' any way. This interviewee thought a smaller annual report would be more helpful, with the information provided in a different form.

5.7.2 Additional annual report information considered useful and included information considered not useful – Councillors

The two Councillors, who both had chosen **Council reports**, noted feedback from their communities indicated a high level of community satisfaction with and understanding of what each council is doing. Accordingly, both councillors did not identify any additional information for inclusion in their organisations' reports.

Nonetheless, one Councillor reflecting on the presence of highly diverse multicultural communities felt more could be done to present financial and budget information in languages other than English.

5.7.3 Additional annual report information considered useful and included information considered not useful – Media Representatives

One Media representative who had chosen a **State/Territory Department report** noted the quality of the information in the report varied by organisation. This interviewee would like a more granular approach to presenting information, for example, a program-by-program breakdown of spending.

Another representative from the Media chose a **Federal Statutory Body report** and felt using a less bureaucratic language would improve the communication quality of the report. This interviewee questioned whether KPIs need to be included in the report.

They also felt there might be a way to meet accountability without all the tables. This interviewee felt tables were overused and looked like a 'tick-a-box' exercise. They felt the report could be formatted to better convey the story being told.

Commenting on the annual report of a **State/Territory Statutory Body**, another Media representative identified communication as an issue and called for the use of clearer neutral language. This interviewee thought certain information about activities and outcomes is currently hidden in the annual report – be that intentional or otherwise.

They noted when the organisation decides to emphasise information about activities and outcomes, the organisation manipulates the language used and then uses different language in a later year to de-emphasise and / or hide negative activities and outcomes. They found this unhelpful.

5.7.4 Additional annual report information considered useful and included information considered not useful – Members of the public

Using a **State/Territory Department report**, one Member of the public felt information about the success or otherwise in achieving outcomes was quite sketchy and should instead be complete. This interviewee noted some sections of the report use descriptive language to talk about success, while other sections talk about outcomes with the information presented in a table using performance measures.

This interviewee felt it was difficult to cross reference those two sections and thought better cross-referencing would be helpful. This Member of the public would also like to see more detail in the report concerning portfolio organisations sitting underneath the department, feeling this type of information is 'quite light'.

While acknowledging some are small organisations, this interviewee noted that without access to each organisation's report, there is little detail on each organisation's performance and accountability. They were critical of how information is linked and noted the limited utility of the information unable to be cross-referenced to other information. For example, they commented that it was hard to contextualise and make appropriate assessments without a clear link between parts of the financial statements and the initiatives, objectives or projects to which the expenditure is related.

Notwithstanding this Member of the public's need for additional information they it unnecessary to rehash website information. This interviewee noted the volume of information in the report's first section to 'wade through' before getting to the substantive information of interest.

The two Members of the public using **Council reports** felt greater clarity through disaggregation around how and where money was spent was needed.

5.7.5 Additional annual report information considered useful and included information considered not useful – Monitors

One Monitor who had chosen a **Council report** felt the organisation's report had not kept up entirely with the broader accountability framework – there is a gap which they felt needs to be closed with the annual report speaking to these matters and would like to see the report more clearly tie in the financial statements to the long term financial and asset plans. The core of most local councils is the provision of infrastructure to the community, "roads rates and rubbish", sporting facilities, community facilities, and maternal and child health. Councils have a vast asset base.

These organisations recognise that it is important, and it is legislatively recognised that they need to develop a 10-year asset plan to address that, but that is not necessarily linked to the accountability framework. This interviewee noted the organisation's budget is not picked up in the annual report.

This interviewee noted the challenge for government financial reporting is the consequence of governments and local governments being gifted assets from the community and developers. The organisation records these gifts as revenue, resulting in significant profit. However, the reality is they have a subsequent liability for the future cost of maintaining those assets.

The annual report, including the financial statements, does not tell that story. This Monitor noted that at the federal level, financial reports are structured to report on administered programs delivered on behalf of the government.

All social welfare payments are reported through an administrative income statement or profit and loss. The actual costs of administering or running the department sit in the departmental financial report, so you can clearly see these are the costs of delivering the services in that departmental part of the financial report.

Then on the administered side, these are the amounts spent administering the relevant legislation or programs of government. That gives you a better understanding of what the department does and the cost of delivery that department has against the programs. Looking at councils whose local government area includes growth corridors, they report massive operating surpluses that are just the result of assets coming on board they are administering.

If you look at some of the other accounts, they might have substantial deficits being driven by the depreciation of infrastructure in the timing gap between what is capitalised and not what they are doing in terms of replacement activity. It makes it very hard to read the annual report and the financial statements and understand whether the council is efficiently delivering the services or not.

This Monitor was not sure how to fix that but felt it does probably come back to the understandability piece. In terms of not useful information, they felt information around superannuation disclosures relating to the defined benefit fund could be excluded as it is a distraction to the users of the report.

Choosing a **State/Territory Department report**, one Monitor felt the report lacked important granular information. This interviewee was interested in education and felt there should be information in the annual report to help understand why Australia's decline in PISA (OECD-Programme for International Student Assessment) results, despite increased funding, was occurring and efforts to remedy that situation.

Another example was information about efforts to even the gender balance in teaching given the acknowledged need for male role models, yet this type of information was absent. Also, this Monitor felt more information about asset management was needed. For example, how are school buildings and technology equipment being managed and is it being managed for the long term?

This interviewee felt the inclusion of this information was necessary if the organisation was to demonstrate accountability. Regarding not useful information, this interviewee noted that policies over the last five years designed to make reporting more effective and cut the clutter informed the structure and content of this annual report. Consequently, they felt there was not much content that could be removed other than that about trust accounts and budget versus actual.

Another Monitor relying on a state / territory department report would like to see the annual report include a performance statement to clarify the relationship of non-financial information to outputs to the costs associated with the delivery of the outputs. This interviewee was most interested in that financial information as it allows some analysis of technical efficiency.

This Monitor noted that one way to make financial statements more understandable is to turn numbers into ratios and talk about them. For instance, the organisation could be reporting on a range of efficiency and effectiveness ratios. This interviewee would like to see a shift in the accountability equation where we privilege the reporting of performance information, non-financial plus the cost, and put as much energy, attention, thought, systems and processes and controls into that as for the financial information, which is not used.

Regarding non-financial performance – the service delivery – this interviewee noted that no standard existed for reporting this item, nor the expertise to define services and indicators, set targets and report meaningfully against those targets. Continuing with the critique, the interviewee noted the headline revenue item in IFRS did not exist in the public sector.

Further, there was no sales revenue, balance sheets were not tied to income statements, no nexus existed between assets and liabilities and no return on assets was reflected in income. Given this, annual reports being hard to understand was not surprising because the connections are not visible.

Instead, reporting defaults to content regarding workforce costs because that is one number that can be reported. The conclusion was that the net result is meaningless in a government department's accounts. Departments receive appropriations equivalent to their spending and a meaningless bottom line that no one knows what to do with. Further, the performance statement needs to be audited, and the audit of the performance statement sits at least alongside a financial statement, if not instead of a financial statement.

This Monitor noted the people who put together the Report on Operations (the management commentary and analysis) for the annual report often lack sophisticated financial literacy. Consequently, there is very little connection between the Report on Operations and the performance information spread throughout the report. This connection needs to be addressed since there is value when it is done reasonably well with a clear explanation of actuals and variances as to why things occurred and did not occur.

This interviewee felt, in many cases, the content in a public sector setting did not make a lot of sense, based on accounting standards built up through the private sector imposed on the public sector. Credit risk and the associated disclosures, predicated on a private sector model, were given as an example.

Another Monitor who had chosen a **State/Territory Department report** felt it was important the annual report included information about the legislation and frameworks reported against. Using the report requires an understanding of the structure of government and appropriations. They noted the annual report provided little of this type of information and appropriations and implied a lot of knowledge.

This interviewee acknowledged not all information can be placed in the annual report. However, it needs to include directions to other important information outside the annual report.

Another Monitor who had chosen a state / territory Statutory Body report would like to see the inclusion of more information with a focus on outcomes performance. Currently, the report does not cover how well the organisation is serving customers and where customers' dollars are going in terms of benefit to the local community.

Much output information is unrelated to the organisation's core focus areas; water quality, sewerage, and environmental impacts. The report needs to talk about how effective the organisation's services are.

This interviewee felt more simplicity in what is presented is needed. There was far too much information that rested within the annual report. Streamlining the content is critical to make the messaging more understandable for the public, not just those with accounting and governance literacy.

There is not a good linkage between service performance and financial performance, that whole outcome base and how that links to the financial performance. The first 50-70 pages of the annual report contain information about things done throughout the year, including leadership and governance, financial outcomes and other performance outcomes. Then there are the statutory performance statements and statistics. There's a disconnect between it all, and you question why there is such a focus on providing financial information in two separate areas of the report and how well they align and tell the story.

This Monitor felt a 'good' annual report tells the story of financial and non-financial performance and is very important in the public sector for users and parliament. This interviewee felt ringfencing the story of the financial and non-financial information was the way to address the issue of more information vs simplification. They lamented that, currently, the annual report falls short.

Also, this interviewee felt it would be good to move to XBRL or similar rather than pdf as digital reporting. If the organisation shifted to streamlining reports and structuring them in a way that tells a story of the financial and performance of the organisation, the digital storytelling that could be presented would make it much easier for all stakeholders to understand what happened within the reporting period. They acknowledged it would be a huge step to achieve that, and there was a lot to get through to get to that point in the public sector, including that parliament requires a hard copy for transmission. This Monitor felt a really good hard look at the current reporting framework was needed and whether it should be applied to organisations within the jurisdiction and more broadly in government. While noting the importance of a stand-alone annual report as that is what is tabled in parliament, this interviewee felt when information already sits on the organisation's website, it does not need to be reproduced or can be reduced. The removal of leadership structure and strategy information was used to illustrate this point.

Choosing a **Council report**, another Monitor would like to see the report include sustainability and climate impact reporting and be not used as a promotional and marketing document. They noted that 194 pages was the length of one organisation's annual report and felt this was too long and should be reduced. This interviewee acknowledged the requirements of the different accountability frameworks applying to this organisation played some part in this outcome.

5.7.6 Additional annual report information considered useful and included information considered not useful – Parliamentarians

One Parliamentarian who had chosen a **State/Territory Department report** responded that there was a need for better reporting on what the money was intended for and the outcomes of funded services/programs, including more evidence about and explanation of the social benefits achieved and their links to the funding. Many output measures do not address this.

An example was publishing the number of hip replacements when what be useful is a meaningful measure of complications from this type of surgery, hospital readmissions, or deaths. These 'red flag' data types must be systematically captured to ensure that money spent does what is intended. This interviewee gave two further examples of funding for elective surgery to illustrate their position.

The first example noted that as soon as you open the door for more funded elective surgery, more people come forward, and so it can look like things are worse rather than better. It is being able to pull that data apart to identify it is not that more patients need this surgery; instead, we have made it more accessible to those who were already in need. We did not know; we were not counting them because they were not on any list, but now they are.

The second example involved additional money allocated for elective surgery, but the number of surgeries equalled the year before. That outcome would appear bad unless another explanation applied, such as doing complex surgery instead of quick and easy surgery.

This example highlights the difference between measures of outputs and outcomes. An annual report focused on outputs invites questions of the organisation as to why despite the additional funding, only a similar number of surgeries were managed? In contrast, an annual report focused on outcomes invites a different set of questions.

For example, can we assume without the additional funding for elective surgery, these people could have ended up much sicker in hospital with more complex problems if we had not dealt with them? Some commentators may see this as mere speculation. Other commentators note much evidence showing that if, for example, a hip replacement is not timely, the patient becomes less mobile, more overweight or finds it harder to lose weight.

Other complications like clots and pneumonia then leave them in the hospital longer. This Parliamentarian believed that ways to measure such outcomes do exist. However, the information in annual reports does not address these questions.

This interviewee thought the most important thing for a non-accountant user was to have meaningful notes to the accounts, including the budget papers. They observed the numbers should always be accompanied by an explanation, particularly unspent funding and overspending and that it was amazing how much information is 'buried' in the notes. If a report preparer thinks some explanation is needed, even if many might know the answer, the notes provide valuable information and highlight errors. They also noted the absence of full segment reporting is a failing of some reports they read.

Another Parliamentarian relying on a **State/Territory Department report** would like a more concise report written in a way that is easier to understand and clarifies which ministry is accountable for the portfolio and responsible for activities, programs, outputs and outcomes. They felt the current annual reporting is very opaque. Their main concern was the KPIs /outputs in the budget papers did not look right and could lead a reader astray as they were aimed at very high-level issues and were not sufficiently sophisticated.

This interviewee felt KPIs were important because they represented a management metric, and many departments had a focus but were not looking at issues under that focus holistically.

A hypothetical example was a KPI involving targets for speeding fines when the aim is to reduce speeding. However, a declining number of offences could indicate a lower detection rate.

They thought there was too much unnecessary information currently included in the annual report. This interviewee would rather it be more concise and written in a way that was easier to understand by removing material that speaks to issues they felt were unrelated to the department's objectives. Examples cited by this Parliamentarian were reporting on staffing policy and workforce diversity. It was this interviewee's view the presentation of these metrics, along with other metrics which they perceive as not related to department objectives, should be reported outside the annual report.

Using a **Council report**, the third Parliamentarian argued that what is currently in the annual report, specifically in the financial section, is excessive and far too complicated for people. The report should be capable of telling ratepayers about what was going on with finances, but this interviewee was not sure it would be capable of doing this.

5.7.7 Additional annual report information considered useful and included information considered not useful – Report preparers

One Report preparer who had chosen a **Council report** noted the content of the report is very much a function of legislation, and it is very easy for the state / territory government to add additional layers of requirements that impact content. This interviewee expressed extreme caution about including more information in the report. This Report preparer noted from time to time, typically on the back of rates rising, the community asks the organisation why it is providing fringe services that are not important to me; instead, concentrate efforts on the delivery of core services.

This interviewee articulated some different approaches the organisation could take to communicating information through the report. For example, the organisation could publish a suite of documents separate from the annual report or chapters within the annual report that focus on particular areas and provide detail of policy decisions that support those areas (the why and what) and the actions, costs and impacts (efficiency and effectiveness) of their execution. Various structures could be applied.

For example:

- Legislatively required and regulatory services (that *have* to be provided)
- Discretionary Services
- Parks, gardens, open spaces and outdoor recreational areas
- Libraries and community facilities
- Regulatory activities
- Governance and administration
- Physical assets (roads, paths, drains, etc.)

This Report preparer noted their organisation currently endeavours to report in this way using a summary document which provides a suite of indicators against the goals and objectives of their strategic plan. The communication piece in this summary document is founded on the principle of 'this is what we said we would do, and this is what we have done'. This interviewee noted a 200-page pdf report document annoys many people.

They felt the organisation tries very hard to get as much information up on our website because most people with a question would prefer they can get the answer from the website rather than having to read through the annual report.

A second Report preparer relying on a **Council report** felt the report is currently deficient in some areas. It could be improved by including information about financial sustainability and measures, including the long-term financial plan, the environment and what the organisation is doing for climate change mitigation.

This interviewee felt the importance to users of this additional information varied across stakeholder groups. They suspected councillors would place the greatest importance on financial sustainability and the long-term financial plan.

This interviewee felt the jargon used in the report, more specifically in the financial section, did not resonate with the community. They felt the use of fair value measurement distorted the usefulness of some information. While acknowledging the importance of note disclosures, they felt some of this information could be scaled back.

Another Report preparer who had chosen a **State/Territory Department report** also felt the current report had some deficiencies. This interviewee thought improvements to the report should be made around telling the organisation's story to enhance organisational transparency and accountability.

This Report preparer suggested better information was needed around the discussion and analysis of the budget versus actual variance, the commentary elements; operational and capital-based programmes; and an alignment with state budget papers, narratives and commentary. This interviewee felt some future-looking perspective was also an important part of any annual report. In this regard, they noted their organisation's reporting against the Global Reporting Initiative (GRI).

In terms of not useful information, they suggested removing the disclosure of electoral advertising costs. While acknowledging this information is required by legislation, it was unclear to this interviewee how useful anyone finds it.

Again, using a chosen **State/Territory Department report**, a Report preparer considered the report as currently presented was not complete and needed to include information they categorised as environmental, climate-related, social responsibility and governance. Specifically, this interviewee wanted information about how the organisation is tackling environmental matters such as landfill for roads and the organisation's use of electric vehicles.

This report preparer also expected to see information about the technological changes experienced by the organisation, including exposure to current and future technological changes and reporting of incidents and exposure to cybercrime, and strategies to mitigate.

Another Report preparer who had chosen a **Federal Statutory Body report** felt the report would benefit from having as its focus a demonstration of how the organisation effectively uses taxpayers' money. This Report preparer noted that producing an appropriately focused report would require information with a different focus to be reported outside the annual report.

This interviewee felt the annual report included excessive information, and they observed the more information, the less people are inclined to read.

Information should be succinct, and a consistent approach to information needed from organisation to organisation. Therefore, the financial statements need to be prepared in the same way, in the same format and the annual report should be in the same format. Under this consistent approach model, information would be included even if not relevant and not applicable to an individual organisation.

Another Report preparer with a chosen **State/Territory Department report** felt the report would benefit from improved reporting on staff and organisational satisfaction. This interviewee considered information of this type talks to the strength of the organisation in that motivational satisfaction space and its relationship with staff.

When an organisation is not meeting targets, this Report preparer felt the annual report must include a clear communication as to how that will be corrected, including the interim reporting measures to be implemented.

Another Report preparer who had chosen a **State/Territory Department report** did not identify any additional information for inclusion. Instead, this interviewee questioned the quantum and value of information from the annual report compared to specific reports prepared and openly available in the budget papers.

From a cost-benefit perspective, this interviewee felt the budget papers, mid-year reviews, and other reviews through the budget cycle, with their forward-looking focus, provide more useful information than the annual report. They felt that unless you worked within the organisation, you did not have the context necessary to understand a significant amount of the information within the annual report and make appropriately informed decisions about it.

This interviewee observed that much speculation went into interpreting the information, and it was arguable that 80% to 90% of it was not useful.

5.8 Is the governance information in the annual report important to you?

Question 15 asked interviewees whether their chosen annual report included governance information. All responded in the affirmative and a summary of their paraphrased responses to the question is provided next.

5.8.1 Annual report governance information importance – Audit committee members

Audit committee members felt the governance information in the annual report was important. For some, it illustrated senior management was performing ethically, while for others, it was a mechanism to show the public the organisation is being legitimately operated and has sound structures.

Although the information could be improved (said interviewees with respect to state / territory Statutory Body reports), the focus tends to mimic the private sector, with information on governance structures in place (executive committees, audit committees, etc.), how often they meet, information about board members and so on.

5.8.2 Annual report governance information importance – Councillors

Councillors were adamant that governance is 'critically' important and becoming more so. Indeed, they collectively indicated governance is a primary issue at the local government level. The sentiment was that how things were done was just as important as what was done.

Consequences for bad governance centred on ruined reputations and names of those associated with such practices being sullied. Consequently, openness and transparency in disclosure were important mechanisms to assure that the council was solid in its performance and not only performed its function properly but was accountable.

5.8.3 Annual report governance information importance – Media Representatives

The Media representatives were somewhat indifferent about the governance information in the annual reports. Although it was important from an accountability perspective (especially as some individuals are receiving significant public monies), governance information was not particularly important as it did not typically include anything controversial. This was true for media representatives reflecting on state / territory department and state / territory and Federal Statutory Body reports.

5.8.4 Annual report governance information importance – Members of the public

The Members of the public who chose to use Council reports were not interested in the governance sections in the annual reports. Using a state / territory department report, this Member of the public expressed interest in such information, they found it provided useful insights into formal structures and overall composition of the organisation.

5.8.5 Annual report governance information importance – Monitors

From a Monitor perspective, the governance information in the annual report was important, albeit not necessarily interesting to all interviewees, who suggested some of the content could be more appropriately communicated through the organisation's website. It was noted in respect of **State/Territory Department and Statutory Body reports** that reported governance information was typically prescribed by legislation and included details of the governance framework (structures, divisions, committees), including roles and responsibilities. Acknowledging the disclosures were an important mechanism to discharge accountability, the variability in the detail of such information in **Council reports** was noted, and the overall effectiveness of such disclosures was questioned.

Although providing governance content in an annual report provides a better understanding and awareness of the internal framework in place, examples of significant governance failures exist. Hence, getting the governance frameworks and disclosures 'right' was absolutely critical for this category of interviewees.

5.8.6 Annual report governance information importance – Parliamentarians

Governance information in **Council reports and State/Territory Department reports** was important to the Parliamentarians. They were interested in who's who, their backgrounds, experience, engagement at meetings and how much they are paid. Not only this information was considered a matter of public interest, it also provided insights into how the entity governs itself and who is making the decisions.

5.8.7 Annual report governance information importance – Report preparers

The Report preparers varied in how important they believed the governance information in the annual report was. Interviewees choosing a **Council report** indicated that while some of the disclosures are prescribed by the legislation, additional supporting information was provided.

They felt this was useful in showing leadership within the council and was, therefore, likely useful to the public. Interviewees choosing **State/Territory Department reports** similarly felt the governance information was important to users, offering comfort about a robust framework for decision-making.

However, they did concede an element of window dressing in the governance section of the annual report. The interviewee choosing a **Federal Statutory Body report** felt the governance information disclosures were the least useful of the information provided to external stakeholders.

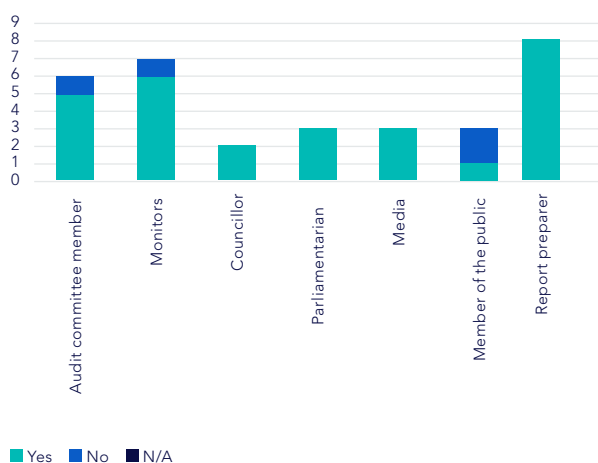
5.8.8 Summary Statistics

Regarding governance information, 28 (88%) of 32 interviewees felt its presence in public sector annual reports was important, as reported in Table 11.

Table 11. Governance Information Statistics

Annual Report includes info for comparison of financial results with budget			
Is the audit report important to you?	Yes	No	N/A
Audit Committee member	5	1	
Councillor	2		
Media	3		
Member of the public	1	2	
Monitors	6	1	
Parliamentarian	3		
Report preparer	8		
Grand Total	28	4	
Grand Total -Per cent	88%	13%	0%

Is the Corporate Governance information important to you?



5.9 Are consolidated as well as parent financial statements needed for accountability? Is reduced disclosure reporting acceptable for accountability?

Question 16 asked interviewees whether consolidated and parent financial statements are needed for accountability and is reduced disclosure reporting acceptable for accountability. Most interviewees noted the annual report they had chosen did not include consolidated financial statements as the organisation did not have subsidiaries.

Some interviewees took the opportunity to put their views on Whole of Government reporting. A summary of their paraphrased responses to the question is provided next.

5.9.1 Are consolidated and parent financial statements needed for accountability and is reduced disclosure reporting acceptable for accountability? Audit committee members

One Audit committee member who chose a **State/Territory Department report** supported the presentation of both the consolidated and parent information on the face of the report. Using a Council report, another Audit committee member noted the report does not consolidate the one small organisation for reasons of materiality. They felt showing the group on the face of the financial statements is what you want to see.

However, including parent information in the notes to the financial statements is useful. This interviewee noted that local governments in their jurisdiction cannot use reduced disclosures. They did not think reduced disclosure diminishes accountability as recognition and measurement remain the same.

One Audit committee member who had chosen a **Federal Department report** noted departments typically do not have subsidiaries. However, subsidiaries are relevant to the coordinating department.

Consolidation as Whole of Government of Public Non-Financial Corporations (PNFC), Public Financial Corporations (PFC) and General Government Sector (GGS) is not useful – of no value. Only two countries do this, Australia and the UK. Is there any user? Credit ratings agencies' interest is in the GGS (e.g., treasury bonds). If a Government Business Enterprise (GBE) issued bonds, a credit rating agency would rate them based on the GBE's financial statements with a note that the government was the ultimate shareholder. Treasury bonds are rated against GGS as that is largely budget funded. This interviewee felt separate consolidations of PNFC, PFC and GGS were useful.

A **State/Territory Body report** was the choice of another Audit committee member, who noted their organisation did not have subsidiaries. In principle, they would like to see the overall consolidated position on the face of the financial report. Disclosed in a note, they would like to see how the subsidiary has contributed to the consolidated result. They strongly felt it important the organisation is not carrying a subsidiary that is dying in a ditch; those subsidiaries are contributing too.

Using a **State/Territory Body report**, another Audit committee member thought it should be both consolidated and parent information on the face of the financial report and illustrated their thinking using an example. Last year, another State/Territory Statutory Body made a surplus at the parent organisation level, but it made a deficit at a group level. While the numbers are quite small, somebody should be able to say what is happening in those subsidiaries, why they make losses or tell us about them, or if it is a parent making a loss, but the group is making a surplus, vice versa.

The interviewee thought it important that if there are subsidiaries and the subsidiaries are providing services at a reasonably material level, then the information around what is happening in those subsidiaries should be available. This interviewee noted that organisations could not take advantage of reduced disclosures in their jurisdiction because the relevant coordinating department mandates compliance with the complete set of accounting standards.

However, this interviewee was open to using reduced disclosures. They noted many small organisations are not included in the consolidation process for reasons of materiality. It does not mean they should not still prepare financial reports, and they should not still be accountable, but the interviewee felt there is no need for a full set – reduced disclosures would be appropriate.

5.9.2 Are consolidated and parent financial statements needed for accountability and is reduced disclosure reporting acceptable for accountability? – Councillors

One councillor using a **Council report** commented as their organisation did not have any subsidiaries, there was no consolidated reporting. They noted ministerial approval is needed to operate subsidiaries, and the applicable reporting requirement would what applies to the organisation under the local government legislation. This interviewee observed that reduced disclosure reporting is not an option for the organisation due to the legislation in their jurisdiction.

A second Councillor, also using a **Council report**, noted the organisation did not consolidate as it had no subsidiaries. They were not aware of the organisation's position on the application of reduced disclosure requirements.

5.9.3 Are consolidated and parent financial statements needed for accountability and is reduced disclosure reporting acceptable for accountability? – Media representatives

One media representative who had chosen a **State/Territory Department report** believed the fact that organisations go through that consolidation process is important. The **Whole of Government report** has value. Regarding reduced disclosure, this interviewee's preference is for more information rather than less, and they noted that once information is removed, it is invariably lost forever.

Another representative from the media chose a **Federal Statutory Body report** and observed there is useful information in seeing where the parent sits versus the consolidated context, but that can be communicated elsewhere and not necessarily on the face of the financial report.

Thinking about reduced disclosure, they felt government organisations should be reporting against the most stringent requirements to set an example for the broader community.

5.9.4 Are consolidated and parent financial statements needed for accountability and is reduced disclosure reporting acceptable for accountability? – Members of the public

Members of the public using a **State/Territory Department and Council report** felt both consolidated and parent financial statements are needed for accountability.

5.9.5 Are consolidated and parent financial statements needed for accountability and is reduced disclosure reporting acceptable for accountability? – Monitors

One monitor who had chosen a **Council report** did not think the group and parent approach on the face of the financial report adds much. The interviewee did not think it useful to clutter the financial statements with an extra two columns the whole way through. They felt the current position that local government is not controlled and therefore not consolidated up is a really interesting discussion.

The argument is they are not controlled because councillors are elected. This interviewee felt the reality is different; Councils are controlled because if the Minister sees fit, they can remove the Council and appoint a different set of management at their discretion. Also, although it varies, almost all councils are economically dependent on state / territory government funding to some extent and federal government funding to a lesser extent.

Taking a step back, does the relevant Minister have the ability to control councils? Yes, was the answer from this interviewee. On the face of it, should they be consolidated into the state / territory? This Monitor felt a little uncomfortable with how they are not consolidated. Conceptually, they felt they should be consolidated under the accounting framework. They noted it is another question as to whether that is a good idea.

This interviewee noted council organisations in this jurisdiction do not use reduced disclosures. The case study in that space is the federal government sector, which has two tiers of financial reporting. The interviewee does not think that takes anything away from the accountability piece. If anything, they felt reduced disclosure possibly increases accountability because it creates a higher level of transparency and probably raises the understandability.

The problem is that whenever you are introducing a degree of discretion into a framework, it creates challenges as well. They noted the financial size of councils is highly variable, which presents challenges in identifying who should do what.

Choosing a **State/Territory Department report**, one Monitor identified consolidation as a discussion point they had been following for a while. Looking at parent versus consolidated at the department level, they had only 10% of departments with controlled organisations, so it was not an issue in their jurisdiction.

At the local government level, with a focus on materiality, about 13% do both. There is little difference looking at the figures side by side, parent and consolidated. There is a small number with equity accounting for some utilities, but there is no difference. At the state level, several statutory bodies with employees operate an organisation to employ those staff separate from the statutory body. This Monitor noted that budgets are for the legal organisation, department and the statutory body, not the consolidated sets. Ideally, it would be consolidated rather than parent and consolidated, but the budget rules do not allow that. And what is accountability? Normally, it is consolidated accountability that is important.

If we go to the **State/Territory Whole of Government report**, about 25-30% of the reported value of all assets is land under roads, so large that you cannot get a feel for what is happening at the lower level. This interviewee did not think that just a **Whole of Government report** is sufficient. There is a need for some sort of accountability at the department level. Having audited financial statements focuses the mind on needing to account for this money. We have improved financial reporting by cutting the clutter. If we move to service performance reporting and if it is the right indicators, then yes, that would be much better than what we have. But to not have financial reporting would not be a good idea.

This Monitor felt asset management reporting was not done well. There is a lot of fair value measurement used in public sector financial reporting, and this interviewee would like to see linking of that fair value with replacement cost with long-term asset management plans. Some asset management plans for roads are for over 50 years, with other asset management plans for 10 years. With schools and the hospitals, are we going to get to a certain situation where we are deferring maintenance, and then suddenly we have 5 or 10 hospitals to build within a few years?

This Monitor supported the principle of reduced disclosure and felt departments should be able to apply Tier 2 reduced disclosures or what they referred to as Tier 2 plus to get some consolidated information. This interviewee did not want Tier 2 reduced disclosures for local government but rather the application of materiality.

Another Monitor relying on a **State/Territory Department report** felt the **Whole of Government report** is the most important financial report since it is where all decisions and organisations' transactions and balances are combined into a single statement. This statement is where understanding of state/territory debt is and where we understand questions of intergenerational debt and equity. For this Monitor, it was the preeminent report and others, from a general government sector perspective, are much more secondary.

This interviewee sees the statement as an accountability document back to ratepayers, residents and taxpayers, the key accountability document of the government, which wants people to be able to interpret and understand it better. What does it actually mean? What does this year's result mean? What do the trends look like? That's where we should focus our energy and attention in terms of financial reporting. This Monitor supports a reduced disclosure regime in principle because it is meaningless for many small organisations to have a full set of general purpose financial reporting standards overlaid on them.

They liked the New Zealand model, where some organisations produce just cash statements. Thinking about departments, if departments are still going to have to produce a standalone financial report, this interviewee felt they could do it with much-reduced disclosure and not lose anything in terms of an accountability equation. It is now time to challenge some fundamental assumptions.

Over time we have challenged how we run government. But there has always been this almost sacrosanct rule that you cannot question the fact these organisations must produce a general purpose financial report. That's why we don't have any tier 2 reporters. You've got the uninformed being led by the uncritical.

Another Monitor using a **State/Territory Department report** noted local government reports are not consolidated. They considered this a problem, given the central command and control from the co-ordinating department is different from treasury or finance coordinating departments at the state/territory level or federal level. There is no overarching consolidation and accountability happens at the individual council level.

This monitor felt that both consolidated and **Whole of Government reports** are needed. For this Monitor, the focus is always going to be on Whole of Government, and that is the same for the treasury and finance co-ordinating department CEO, the Treasurer and Premier/Chief Minister, and the Prime Minister of the day. Really everything else below that is about individual CEO or accountable authority discharge of duties to the Parliament through their Minister.

In our jurisdiction, we have done a reduced disclosure reporting adoption, and this interviewee thinks that works well and has achieved the intention of reduced disclosure. The local government sector is going through the same change. The local government coordinating department was increasing support for the sector, including around the financial framework.

When consultation with the sector occurs, stakeholders may find the things they plan to pull out of the mandatory reporting framework for the sector interesting. This person felt that reduced disclosure is acceptable for accountability purposes.

Another Monitor relying on a **State/Territory Department report** observed that feedback received from some stakeholders is the reduced disclosure reporting requirements (Tier 2) is not cut down enough to move away from Tier 1. Something a bit simpler might be helpful because, when you look at it practically, the difference between Tier 1 and Tier 2 is not that substantial. The other feedback is some stakeholders see it as being less accountable because they are producing less. It is just that mentality as well. That's also quite important, particularly for politicians.

Another Monitor using a **State/Territory Statutory Body report** did not support Whole of Government reporting; however, they did think PNFCs should prepare reports separately. They felt the governing department should bring information about sectors like this together so that people can adequately analyse the sector's performance through financial and non-financial analysis.

This interviewee noted some PNFCs had controlled organisations, and it depended on how significant the controlled organisations were whether the financial statements show group performance and position or the principal and group. They felt showing the parent performance is important if the group is also shown and the nature of the services and giving people knowledge when looking at a consolidated set of accounts. Legally, reduced disclosure can be used, but they had been talking with the coordinating department for some time about rolling that out in government but had not received a lot of traction.

But there is an argument between reduced disclosure and streamlining, and they thought if you were effectively streamlining, using the principles in the practice statement around materiality, then an RDR framework was not necessary.

A similar outcome can be achieved if you are preparing accounts under proper streamlined concepts and materiality. Organisations are reluctant to streamline, and there is fear of what the auditor is going to say. There is a fear of customising or deviating from Accounting Standards or proforma model accounts. It is really interesting.

Every organisation controlled by the government is rolled up into the **Whole of Government report**, and material or not, they prepare audited general purpose financial statements, so a differential reporting framework is a possibility to be explored in government. Is it efficient, or are there other ways in which we can have public sector reporting occur? Is there a need for all these smaller organisations to be dealing with that compliance burden? All jurisdictions have their own funding and legislation, and our public account processes; it is tricky to understand.

You've got to understand the legislation to really understand what you are looking at, and then you've got to understand the inner workings of government because there are reports on outputs and the like. If you do not understand that, you are not going to understand what you are reading. You would have to explore whether the funding models of each jurisdiction present any barriers to be able to get a conforming framework for reporting.

Choosing a **Council report**, another Monitor felt consolidated financial statements and information about the parent organisation was important. They also felt a tiered reporting system was reasonable given the disparity in resources that exists. They noted a common chart of accounts to be applied across the jurisdiction could be worthwhile.

5.9.6 Are consolidated and parent financial statements needed for accountability and is reduced disclosure reporting acceptable for accountability? – Parliamentarians

One Parliamentary interviewee using a **State/Territory Department report** felt consolidation was important. Another Parliamentary relying on a **State/Territory Department report** noted consolidated financial statements are useful for accountability for the big picture and good for examining the size of government and the taxation and expenditure overall.

It is particularly useful because stakeholders can see the overall big picture trend of government rather than looking at individual organisations. This interviewee was open-minded about not having separate department financial statements and only consolidated accounts. Many departments become somewhat insular and siloed, and if there is a way to break down those silos, then they would be open-minded about how you might do that. This interviewee felt it depends on the specifics of what is planned to be produced regarding reduced disclosures.

Using a **Council report**, the third Parliamentary noted the organisation under review was a single organisation. However, consolidated and parent reports should be presented if subsidiaries existed. Commenting on reduced disclosures, this interviewee notes the organisation produced a full set of accounts and a summary document.

The summary document is okay and probably helpful for a lot of people if you do not have to wade through pages of notes. This Parliamentary would like to see both the full statements to meet the needs of sophisticated users and the reduced disclosure statements. This Parliamentary believed the average person does not need everything and does not understand most of it anyway.

A reduced disclosure report or summary document plus the full ones would overcome some issues of complexity and information overload. There is scope now for abridged financials, but again, you must be careful about signing off on those to ensure it is not misleading. It adds extra complications and their rule these days seems to be more disclosure rather than less. A summary document suitable for people to read what they can cope with along with the full financial statements, so it does not exclude anyone from digging deeper if they want to, would be a good outcome.

5.9.7 Are consolidated and parent financial statements needed for accountability and is reduced disclosure reporting acceptable for accountability? – Report preparers

One report preparer who had chosen a **Council report** noted consolidation did not apply as they did not have subsidiaries. They were unaware of the organisation's position on applying reduced disclosure requirements.

A second report preparer relying on a **Council report** noted they do not consolidate the financial report as they have no material subsidiaries. This interviewee indicated that full accounting standards must be used because of the jurisdiction's legislation, so reduced disclosure reporting was not an option. The interviewee would like to be able to reduce disclosures. However, every time the organisation talked with its auditors, the outcome was more disclosures, not less. This Report preparer felt reduction would be helpful as the current volume of disclosure turns people off reading beyond the initial four pages of the report.

Another Report preparer who had chosen a **State/Territory Department report** felt consolidation was very important at the Whole of Government level to credit rating agencies in assessing the credit rating of a jurisdiction. However, they did not see this report replacing reporting by individual departments within that jurisdiction.

On reduced disclosure requirements, they noted the level of effort that goes into preparing the notes of the financial statements for fair value, and sometimes it does feel as if it is reporting for the sake of reporting. Some elements of reduced disclosure would be good to take advantage of. They noted during COVID, special treasurer instructions regarding disclosure were useful.

Another Report preparer who had chosen a **State/Territory Department report** felt both consolidated and parent financial statements were important. This interviewee was interested to know the reported monetary value of the organisation's physical asset and its ratio as a component of the Whole of Government at the state level. They noted transfers of assets between government organisations occur and the need to ensure their recording was consistent.

The interviewee felt reduced disclosure requirements introduced more complexity, for example, how what is a large and small organisation were defined. They expected every year there would be a new ministerial direction to organisations which would mean having to set up the model financial statements from scratch.

Again, using a chosen **State/Territory Department report**, a Report preparer felt both the group consolidated and parent financial statements were needed for accountability and reduced disclosure reporting appropriate. Another Report preparer who had chosen a **Federal Statutory Body report** believed both the group consolidated and parent financial statements are needed for accountability. They noted their organisation does not have subsidiaries and, accordingly, they prepare consolidated financial statements.

This interviewee felt the approach should be consistent for the public sector. Therefore, the smallest organisation should not have access to reduced disclosure for consistency. This Report preparer noted their organisation could not use the reduced disclosure requirements.

Another Report preparer with a chosen **State/Territory Department report** questioned the usefulness of financial reporting at a Whole of Government level given the diversity of consolidated organisations. They felt it was challenging to derive

meaningful information when the information was aggregated into the billions of dollars without understanding its spread and complexity.

This interviewee felt reduced disclosure requirements are restrictive regarding the available reduced disclosures. Consequently, even though the organisation was potentially able to access some reduced disclosures. The directive it operates under is to comply with the standard anyway.

One of the discussions around the leasing standard led the organisation to consider the purpose of general purpose financial statements. The interviewee felt general purpose financial statements serve a purpose when there is no other source of information. But because the budget papers are more informative about future trends, it is a case of asking what value was in the financial statements. It raises questions about undertaking activities concerning the leasing standard when the future viability of those leases was more clearly identified through the budget papers than through that level of accounting in an annual report.

A Report preparer with a chosen **State/Territory Whole of Government report** felt both WGR and Department level reports are needed. If consolidated only, something will be missed, some committees will be lost, and outcomes might be missed. Also, stakeholders need a set of departmental financial statements complying with accounting standards to assess governance. At the conceptual level, practical issues must be addressed to get to totals. In terms of presentation, recognition and measurement requirements are the same. This interviewee felt there is more to do under the reduced disclosure regime in achieving a consistent basis of reporting accounting policies that can be reflected in the model accounts as they apply to departments and the Whole of Government.

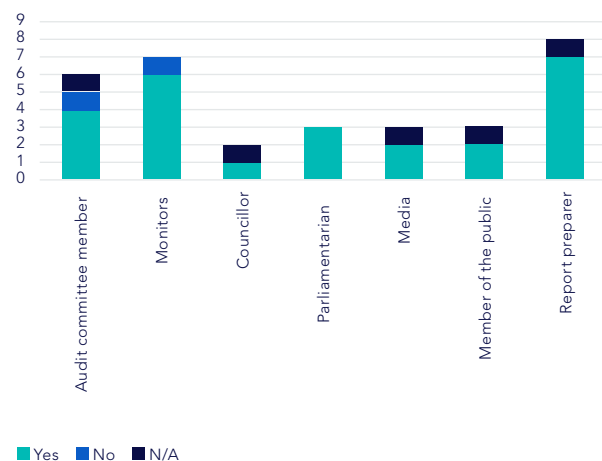
5.9.8 Summary Statistics

As reported in Table 12, 25 (78%) of the 32 interviewees that both consolidated and parent financial statements were needed to demonstrate accountability. Only 16 interviewees (50%) felt that reduced disclosure reporting was acceptable for accountability.

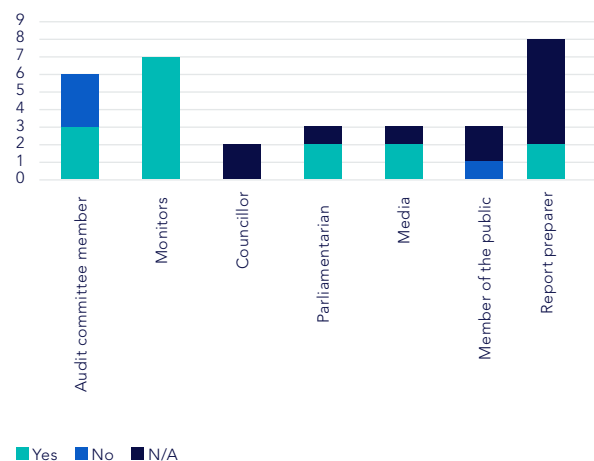
Table 12. Group consolidated and parent financial statements

	Are group consolidated and parent financial statements needed for accountability?			Are reduced disclosures acceptable for accountability?		
	Yes	No	N/A	Yes	No	N/A
Audit Committee member	4	1	1	3		3
Councillor	1		1			2
Media	2		1	2		1
Member of the public	2		1		1	2
Monitors	6	1		7		
Parliamentarian	3			2		1
Report preparer	7		1	2		6
Grand Total	25	2	5	16	1	15
Grand Total -Per cent	78%	6%	16%	50%	3%	47%

Are group consolidated and parent financial statements needed for accountability?



Do you think reduced disclosures are acceptable for accountability?



5.10 Challenges in preparing the financial report – Accounting Standards

Question 17 asked interviewees to explain any challenges faced or observed in preparing the financial report. A summary of their paraphrased response to the challenges of accounting standards, proforma guidance and COVID-19 are provided next and in Sections 4.11 and 4.12.

No comments on standards were made by Councillors, Media representatives and Members of the public.

5.10.1 Accounting Standard challenges in preparing the financial report – Audit committee members

Several Audit committee members highlighted the public sector challenges, which are different from in the corporate sector, of interpreting and applying certain Accounting Standards, such as *leases* and *revenue*. One Audit committee member believed a single framework to be appropriate for all sectors, provided the standard setter could do more to help local government and government departments apply the accounting standards (e.g., the revenue standard, which was a real challenge).

Commenting on accounting standards, another Audit committee member expressed that every new accounting standard presents logistical challenges, and they would like to see closer alignment with International Public Sector Accounting Standards (IPSAS). The revenue recognition standard was a challenge, particularly when bringing revenue to account in the public sector, said another Audit committee member.

They observed that capital grants should be shown as part of equity movements on the balance sheet, similar to state-owned companies. Grants can be an equity or operating contribution nominated by the relevant coordinating department.

If an equity contribution, it should be treated as shareholders' equity, but government organisations do not do this, was the view of an Audit committee member. Another Audit committee member questioned how justifiable the treatment of underspending as deferred revenue was.

Non-GAAP measures are relevant to explaining the numbers was one Audit committee member's view. For instance, net debt, net financial liabilities, etc., are useful measures but sit outside the financial statements.

Another example given was land under roads being valued when that land cannot be sold or is located on contaminated soil and so can be perceived as having no or lower value, which affects depreciation too. Additionally, a change of audit firm is accompanied by a change in valuer who may adopt different principles or apply principles differently, creating more issues with changed valuations and depreciation.

5.10.2 Accounting Standard challenges in preparing the financial report – Monitors

Many Monitors felt the Accounting Standards are written for for-profit entities and applying those standards at all levels of government is a challenge. Accounting standards for service concession arrangements, leasing, income, revenue, fair value, and grant funding were particularly challenging. The revenue recognition standard was 'tricky' regarding grant incomes and specific performance obligations, and working through capital grants added more complexity, was the view of another Monitor. Another Monitor questioned the impact of grant and emergency relief funding on revenue and income.

One Monitor felt income, revenue and service concession standards did not support the public sector, given the extent of judgment needed. According to this Monitor, some grey areas are present in these standards (e.g., research grants – interpretation of what is and is not a service concession is problematic).

Another Monitor stated that fair value was one area that could be improved on or made more efficient. The use of a hypothetical market participant was questioned for applicability in the public sector. It was suggested to consider public sector definitions. There is a question about what land under roads, schools, hospitals, etc represents. This interviewee further suggested linking fair value to related asset management plans. It was further observed that asset management is different from financial reporting, with this disconnection making things difficult for valuation in financial reporting.

The same interviewee explained the accounting problem arising with matching grants, arguing that Australia does not have a better answer for this, but international public sector standards do. This Monitor indicated that another problem was reporting remuneration disclosure, which had not been updated for Tier 2-type disclosures to statutory bodies, at a very high level.

One participant in this category also highlighted the lack of technically skilled accounting personnel in the local government or public sector and the challenges in applying standards. Holding a similar view, another Monitor explained that entities do not have a readily available skill set to cater for changes in accounting standards, which impacts entities' financial statement preparation and audit programs.

5.10.3 Accounting Standard challenges in preparing the financial report – Parliamentarians

Parliamentarians highlighted the variety of challenges in financial reporting. One Parliamentarian's view was that international accounting standards had derailed the profession in Australia and requiring everyone to comply with the same standards had added little but increased the notes to financial statements by 30 to 40 pages.

Another Parliamentarian emphasised the requirement to review the Accounting Standards regularly to ensure they meet the needs of report preparers and consumers of public sector reports. Another interviewee in this category felt accruals accounting provided an unclear view of the reality of the situation in the public sector.

This interviewee felt delaying the budget made year to year comparison difficult. Instead, treasurers make advances and funds are released, and later, funds are allocated.

5.10.4 Accounting Standard challenges in preparing the financial report – Report preparers

Several Report preparers mentioned they faced challenges in interpreting and applying certain accounting standards such as AASB 16 Leases, AASB 13 Fair Value, AASB 15 Revenue from Contracts with Customers, AAS1058 Income of Not-for-Profit Entities, and AASB 1059 Service Concession Arrangements – Grantors) in a public sector setting. One Report preparer explained that those standards were fundamentally trying to address the private sector's general purpose financial reporting realm. Another Report preparer explained issues with timing for certain items and different interpretations of treatments under these accounting standards.

One Report preparer mentioned that AASB 1058 was meant to be applied to not-for-profit organisations' revenue. Based on an initial assessment, their organisation had recognised contract revenue based on AASB 15; however, the auditor had asked for recognition under AASB 1058, drawing on a certain line in the guidelines saying that it catered for all government-related assets.

Another Report preparer said that leases and fair value could be challenging for infrastructure assets, and the lease standard had a massive impact on their organisation's net debt. In terms of fair value, it is difficult to measure against revenue, given that assets are 70% to 80% subsidised. What is the fair value for such assets, they asked? For example, what does it cost to replace an entire public transport network?

Further commenting on that issue, another Report preparer explained the inherent problems with valuation given the long-lived nature of infrastructure, especially from a community service perspective rather than an income generating perspective.

Moreover, a Report preparer acknowledged issues around the interpretation of leasing standards, particularly when applied to construction contracts. For example, boring machines for building new tunnels were defined as a lease.

So, the question arises whether to recognise the lease of the tunnel boring machine as a separate asset in the financial statements even though it was a cost of a work in progress to build a capital asset. What value is there in identifying a lease on a piece of equipment being used to construct an asset, they asked? The same Report preparer further commented on the number of standards, such as service recognition, concessions and content services, that had created issues for them.

Another interviewee in this category said that fair value brings volatility into accounts (e.g., volatility in bond rights, infrastructure assets, etc.). Volatility depends on several factors, such as a shortage of contractors or the absence of competition with events cancelled due to COVID. Unless the auditor requires it, they prefer not to make such adjustments to the accounts, the same Report preparer commented.

Another Report preparer felt that changes in accounting standards are not a problem. The problem was insufficient funding to accommodate such changes effectively due to a shortage of staff or buying or establishing good systems to extract data when required. Without these, manual work that takes a lot of time is needed.

Non-GAAP measures are important for uniformity across jurisdictions, another Report preparer explained. The new revenue standard, AASB 15, was a fundamental change but provided more useful information about capital invested. AASB 1058 created a circular assessment of revenue. With the new lease standard, government outcomes showed a price tag of increased net debt.

The Report preparer claimed that financial instruments at fair value were too hard to aggregate, and accounting standards need to mandate rather than allow discretion and judgment. This interviewee felt adapting for-profit accounting standards to the public sector was really difficult, and therefore the AASB should help the public sector more.

For example, with grants and financial risk disclosure, this interviewee questioned the use of knowing the government's financial risk?

Additionally, they lamented that IPSASB standards are not sufficiently progressed, while AASB 1058 was challenging and did not go far enough.

It is important to note that, some interviewee categories such as Councillors, Media representatives and Members of the public did not comment on accounting standards challenges in preparing financial statements.

One Report preparer felt the complexity of accounting rules limited people's ability to understand. The common person's understanding is not necessarily consistent with applying accounting rules and how an item 'looks' to the average person is important to consider/manage.

This interviewee observed that arguments internal to the organisation about accounting treatments often occurred because requirements of the accounting standards could distort the interpretation of external stakeholders.

An example was an operating surplus being construed as more rates charged than needed. However, the timing with which other levels of government distribute grants, which can be for their own political purposes, influences the surplus at the period's end.

Surpluses need to be managed in terms of community perceptions and how money flows in one period for activities occurring in another since constraints exist in the public sector on carrying money forward.

5.11 Challenges in preparing the financial report – Proforma Guidance

No comments on proforma guidance were made by Councillors, Parliamentarians, Councillors, Media representatives, Members of the public and Parliamentarians.

5.11.1 Proforma Guidance challenges in preparing the financial report – Audit committee members

One Audit committee member said that proforma guidance is useful, but auditors use it as a normative model. Another agreed proforma guidance was taken as a model (not a guide) and followed to the letter even if not relevant to that agency. Proforma guidance may be restrictive instead of an enabler, said another Audit committee member, who also stated that it required clarity and granular principles.

5.11.2 Proforma Guidance challenges in preparing the financial report – Monitors

Commenting on proforma guidance, one Monitor believed it was 'okay' but should include something more advanced than an Excel spreadsheet. Another Monitor felt there were many problems with the model accounts with organisations preparing everything in the model accounts irrespective of materiality. People do not apply judgement, diluting the usefulness of accounts as some information is pointless. One interviewee commented on governance guidelines and stated that they were strong and included a great deal of information.

5.11.3 Proforma challenges in preparing the financial report – Report preparers

One Report preparer indicated the government proforma guidance might not necessarily provide the level of direction sought; instead, an element of interpretation of the guidance was needed. Another interviewee mentioned treasury had powers to override standards and normally provided advice about inconsistency, so all government organisations follow the same accounting treatments.

However, the information does not come in good time. Sometimes treasury sends significant changes to guidelines when organisations are finalising the accounts, and sometimes, treasury directives are ambiguous.

Proforma guidance is a good thing to maintain comparability, was a view held by another Report preparer. Another Report preparer supported this view, indicating that proforma guidance is very well prepared. However, another Report preparer mentioned the guidance was restrictive of the information presented and created red tape. This interviewee further explained the templates could be challenging for cyber security.

The proforma came as a macro-enabled Excel spreadsheet, and most government organisations have disabled macros at their end, so they cannot use these Excel sheets. If the function is outsourced, enabling macros is again disabled, so the spreadsheet cannot be used. This Report preparer mentioned having faced such a challenge when undertaking the leave liability calculations.

Another Report preparer believed there is some value in proforma guidance. However, the value varied depending on how each organisation captured its data, the accuracy and validity of data captured and how that related to different matters in terms of external reporting requirements versus internal management requirements.

This interviewee further explained that Accounting Standards are applied as the sole source of information in the private sector. However, in the public sector, information is present in the budget papers and mid-year review process, plus the annual budget process. Therefore, these sources provide more timely information than annual reports. When looking at what is publicly available and what value each adds, the situation needs to be seen from a combined perspective, this interviewee felt. Otherwise, too much emphasis is placed on complying with Standards that are driven more by the private sector than is necessarily useful for the public sector.

5.12 Challenges – in preparing the financial report – COVID-19

No comments on COVID-19 were made by Councillors, Media representatives Members of the public and Parliamentarians.

During the interview process, we asked some interviewees, particularly Audit committee members, Monitors and Report preparers, about the impact of COVID-19 in preparing and auditing public sector financial statements. Most respondents said COVID-19 brought many challenges, while some mentioned that COVID-19 had a positive impact on their operations.

Examples of challenges highlighted were making appropriate disclosures about the COVID-impact, the ability to work remotely, additional costs from complying with COVID-rules (e.g., cleaning and sanitisation) and providing additional services (e.g., specific services provided to transport people to and from quarantine), delays in finalising the accounts and audits (mostly in the first year of COVID-19), staff shortages, training new staff virtually, increased staff anxiety due to limited space and a lack of social interaction, and for audit, the lack of physical access to clients to undertake certain audit tests. Some of the positives of COVID-19 mentioned include new, more efficient operational practices, the introduction of flexible working arrangements (working from home, working different hours), acceleration of work due to remote work, and increased client base and revenue (for certain audit firms).

5.13 Does the annual report include any non-financial sustainability information (e.g., environmental, social)? Is it important that this information be included? Explain.

Question 18 asked interviewees whether their chosen annual report included any non-financial sustainability information. A summary of their paraphrased responses to the question is provided next.

The majority in all interviewee categories except Audit committee members said non-financial sustainability information was included in their chosen annual reports. Further, except for Parliamentarians, the majority in each category responded that it was important to them that sustainability information was included in public sector reports.

The most commonly reported sustainability information was waste management information, landscaping, planting trees and electric vehicle adoption policies. One Audit committee member was critical of not having an accepted definition of 'sustainability' and the absence of a commonly agreed framework in the government sector against which information could be prepared.

One Report preparer stated that their organisation followed the GRI Framework and UN SDGs for sustainability reporting. Some interviewees explained that sustainability reporting in the sector should be linked with environmental and social issues and focus on outcome reporting. Further, some Monitors commented that sustainability reporting should link with responsibility for the infrastructure dealing with adverse weather events. For instance, adequate drainage systems and plans for new developments and redevelopments and their adequacy for the weather conditions, managing heat waves or bushfires.

One Parliamentarian viewed sustainability reporting as just a way of using political influence on organisations to push them in certain directions that may not be right for that organisation.

We also asked Report preparers about climate risk reporting in the government sector and their readiness for it (Question 19). It is evident from the discussion with Report preparers that climate-related risk financial disclosures (TCFD) is a new area for public sector entities, and the public sector is not yet prepared to report on this aspect.

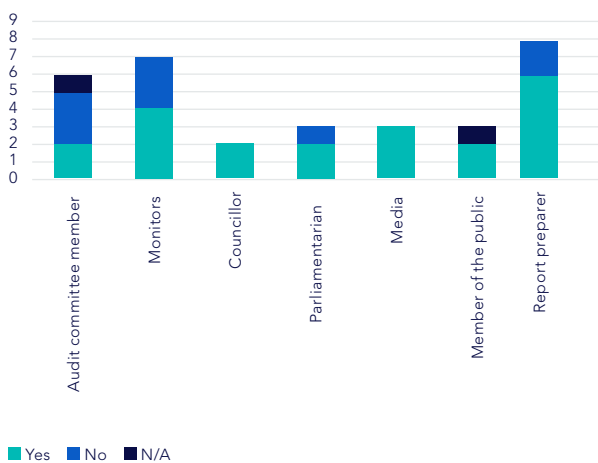
5.13.1 Summary Statistics

Table 13 reports that environmental or social information was reported in the chosen reports of 21 (66%) of the 32 interviewees. However, 27 interviewees or 84%, stated that this type of non-financial information was important to them.

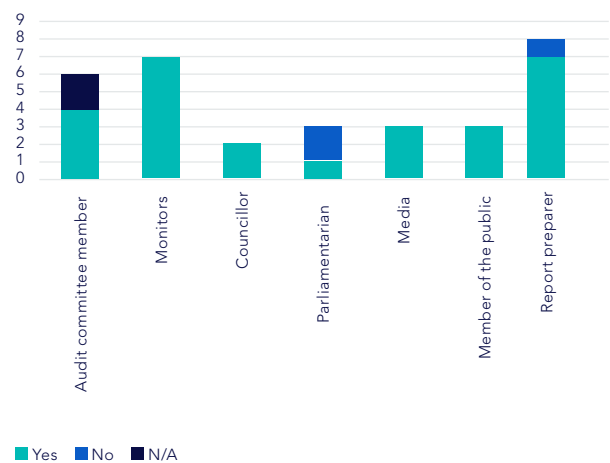
Table 13. Sustainability information Statistics

	Is it present?			Important?		
	Yes	No	N/A	Yes	No	N/A
Audit Committee member	2	3	1	4		2
Councillor	2			2		
Media	3			3		
Member of the public	2		1	3		
Monitor	4	3		7		
Parliamentarian	2	1		1	2	
Report preparer	6	2		7	1	
Grand Total	21	9	2	27	3	2
Grand Total -Per cent	66%	28%	6%	84%	9%	6%

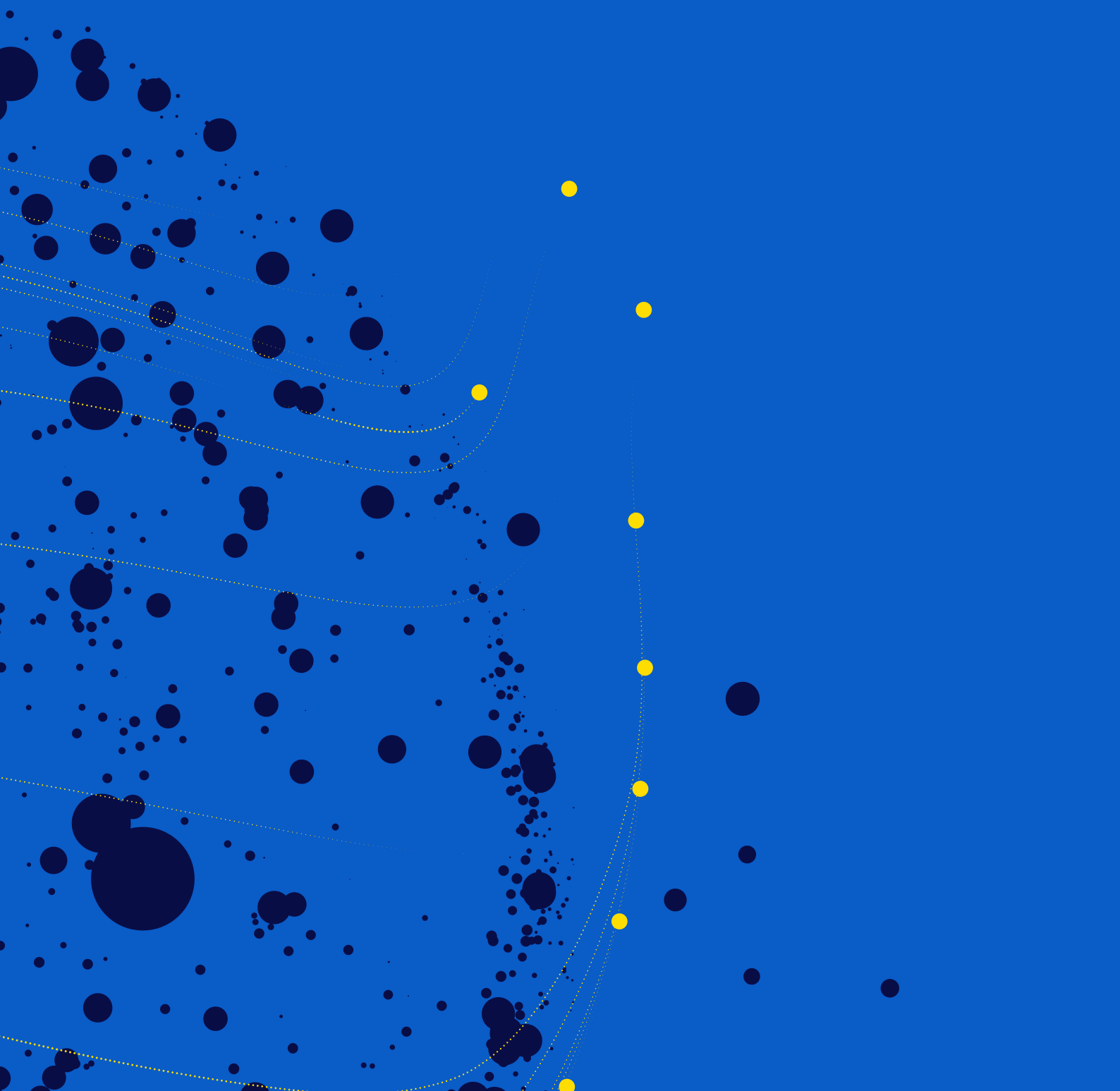
Annual Report includes 'sustainability' information?



Is 'sustainability' information important to include?



6. Concluding Remarks



6.1 Concluding Remarks

This section provides concluding remarks.

6.1.1 Complexity remains a challenge

While public sector reporting based on Australia's 'transaction neutral' approach to Accounting Standards is bedded down, and there is no sense of a revolution about that, it would be misguided to think universal satisfaction with the approach and system is present for those working in the sector.

This project, drawing on the views of many parties, repeatedly heard mystification over how consumers of public sector annual reports, financial reports within them, and government finances in general, could be expected to understand the information within a jurisdiction, let alone across jurisdictions. Not only does legislation regarding reporting vary across levels of government (local, state / territory / federal) across Australia, the quality of reporting within those levels can vary across a single jurisdiction. Further, the issue of information overload and the complexity of financial reporting was often raised.

However, others wanted greater program-specific detail. Creating 'concise' financial reports with full and better-connected information, both within annual reports and from annual reports to external sources, represents one solution to this dilemma.

6.1.2 Service performance reporting

One of the most frequent critiques raised was the absence of meaningful outcomes reporting and reporting against long-term plans of 10 years or more. What is it that the public sector organisation does, and what outcomes can it claim, both qualitatively in terms of social benefit and quantitatively in terms of economical delivery, efficiency and effectiveness?

Several interviewees commented on the inability to track from the financial report to entities' objectives, financial plans, asset plans or outcomes and the challenge of seeing links between strategies and risks. Too often, it is outputs rather than outcomes that are the focus of reporting. The irony of reliance on an 'edifice' of accounting standards designed for the private sector when no standard exists for outcomes reporting, arguably the most important aspect of public service delivery, was not lost on interviewees.

The need for training in designing and implementing fit-for-purpose service performance indicators and a standard to guide disclosures would seem to be a solution to the widespread interviewee dissatisfaction with current reporting in this area.

6.1.3 Budgetary information

Several interviewees, particularly parliamentarians, commented on the usefulness of budget information and appropriations and lamented the difficulty of comparing reported financial accounting numbers with original and revised budgets. This ability is linked to key performance indicators for outcomes too.

6.1.4 More guidance needed

From a report preparer perspective, there were calls for more assistance by the AASB to help implement new accounting standards in the sector.

The resources to apply new standards in terms of skillsets and the resources to create systems are not always present in public sector settings, and interpreting requirements in a public sector context can be challenging.

6.1.5 Sustainability and other emerging areas of reporting

One area of weakness in much public sector reporting is non-financial information (environmental, social and governance) when arguably the sector should be exemplary. The need for a unified approach to reporting on climate-related risks, the UN SDGs and other ESG information rather than each government level and jurisdiction acting alone was prominent.

In this respect, the IPSASB's Consultation Paper 'Advancing Public Sector Sustainability Reporting' issued in May 2022 and the intersection with the IFRS Foundation establishment of the International Sustainability Standards Board (ISSB) needs to be considered.

6.1.6 Digital reporting

The timeliness of and access to public sector reporting, both financial and non-financial, would be facilitated by digitising reporting through XBRL or other means. Despite the complexity, public sector reports are used for several other purposes: media stories and reports, preparation for consulting and advocacy, evaluation of rates or charges levels, among others, and digitisation would enable this use for other purposes too.

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Appendix 1

CPA Public Sector research questionnaire

We will first confirm that you have read the Project's Information Statement and consent to being interviewed virtually and audio recording of the interview.

Purpose

The purpose of this questionnaire instrument is to understand what the information provided in public sector annual reports means to a selection of public sector stakeholders by gathering information from them.

Please tick one or more boxes to explain your role:

- | | | |
|---|--|-------------------------------------|
| <input type="checkbox"/> Auditor General | <input type="checkbox"/> Parliamentarian | <input type="checkbox"/> Councillor |
| <input type="checkbox"/> Report preparer | <input type="checkbox"/> Media | <input type="checkbox"/> Regulator |
| <input type="checkbox"/> Member of the public | <input type="checkbox"/> Auditor | <input type="checkbox"/> Monitors |
| <input type="checkbox"/> Other (please explain) | | |

First, you will be asked to answer questions concerning accountability. Second, you will be asked to answer questions that focus on the information in one of the annual reports of a public sector entity you use and what/if any information is missing. In addition, you will be asked some questions concerning demographic details. There are no 'trick' questions, and there are no right or wrong answers to the questions asked.

Question 1

Contemporary society demands more accountability in all aspects of individual, social, organisational and institutional arrangements. Accountability is a significant and ubiquitous concept and often debated. Using your professional knowledge to think about accountability in the context of governments of the Federal of Australia and the states and territories, what is the meaning you give to accountability?

Question 2

Thinking about your answer to Question 1 is your conceptualisation of accountability different for:

☐ Yes ☐ No Describe how

Local government?

Federal government?

State/Territory governments?

Other government non-business entity?

For example:

"Governments have coercive powers to tax. Monies raised through taxation are allocated to spending, both recurrent (e.g., paying wages to public sector employees) and capital (e.g., spending on major infrastructure projects, such as roads and railways), for the benefit of the country and its citizens. This responsibility obliges governments (government departments and other government non-business entities) to discharge their accountability by demonstrating the manner in which they have effectively and efficiently used the resources at their disposal...Providing complete information...demonstrates accountability and stewardship; reinforces credibility; and provides clear and comprehensive information regarding the financial consequences of economic, political, and social decisions."

Andreas Bergman Accountability. Now. We Must Enhance Government Accountability and Transparency October 2014
ifac.org/knowledge-gateway/contributing-global-economy/discussion/accountability-now-we-must-enhance-government-accountability-and-transparency

Question 3

Thinking about a **public sector entity annual report you** are **familiar with**, is the annual report for a:

☐ Yes ☐ No

Council?

State/territory department?

Federal department? Other? Please describe

Question 4

Thinking about your chosen annual report, **in general**, does that *annual report include information*:

☐ Yes ☐ No

That shows how the entity is **accountable** for its **management** and **use of resources** to those that provide them with resources, and to those that depend on them to use those resources to deliver necessary services?

That is **understandable** and **could be acted upon**?

That shows the care (**stewardship**) the entity takes with public money and other assets?

For **other** uses or purposes? Please describe

Question 5

Thinking about *your chosen annual report*, what **additional information**, if any, would you like included in the annual report? Please describe and rank up to 5 items by importance, with number 1 being the most important.

Question 6

Thinking about *your chosen annual report*, is there current **information included** you think is **NOT** useful?

Please describe and rank if you can, with number 1 being least useful.

Question 7

Thinking about *your chosen annual report*, does it **meet your needs** for information: ☐ Yes ☐ No

i. That shows how the entity is **accountable** for its management and use of resources to those that provide them with resources, and to those that depend on them to use those resources to deliver necessary services?

ii. That **I understand** and can **act upon**?

iii. That shows the care (**stewardship**) the entity takes with public money and other assets?

iv. For **other** purpose(s)?

If yes, please rank i, ii, iii, or iv in meeting your needs where no. 1 best meets your needs (joint rank if needed).

Which need (if for other uses or purpose(s), please be specific)?

Question 8

Thinking about your chosen annual report, does the **financial report section** of the annual report meet your needs for information: ☐ Yes ☐ No

i. That shows how the entity is **accountable** for its management and use of resources to those that provide them with resources, and to those that depend on them to use those resources to deliver necessary services?

ii. That I **understand** and can **act upon**?

iii. That shows the care (**stewardship**) the entity takes with public money and other assets?

iv. For **other** purpose(s)?

If yes, please rank i, ii, iii, or iv in meeting your needs where no. 1 best meets your needs (joint rank if needed).

Which need (if for other uses or purpose(s), please be specific)?

Question 9

☐ Yes ☐ No

(a) Thinking about your chosen annual report, does the annual report include information that enables **comparison of financial results with budget**?

(b) Is information that enables the comparison of financial results with budget **important to you**?

(c) **Why** is it important to you/why not?

Question 10

Thinking about your chosen annual report, does the **annual report** include **information** on: ☐ Yes ☐ No

(a) The long-term sustainability of finances?

(b) Key programs?

(c) Key performance indicators?

(d) are (a), (b) or (c) important to you? Please rank from 1-3 with no. 1 the most important.

(e) Why is each important/why not?

Question 11

To be useful, information in the annual report should possess certain characteristics. Thinking about your chosen annual report, please respond to each of the following statements. The information I obtain from the **annual report**:

Is capable of **making a difference** to my assessment of how the entity is **accountable** for its **management** and **use of resources** to those that provide them with resources, and to those that depend on them to use those resources to deliver necessary services.

- ☐ Strongly disagree ☐ Somewhat disagree ☐ Neither agree or disagree
☐ Somewhat agree ☐ Strongly agree ☐ Not relevant

Is capable of making a difference to my **actions**.

- ☐ Strongly disagree ☐ Somewhat disagree ☐ Neither agree or disagree
☐ Somewhat agree ☐ Strongly agree ☐ Not relevant

Is capable of making a difference to **my other purpose assessments** (if applicable).

- ☐ Strongly disagree ☐ Somewhat disagree ☐ Neither agree or disagree
☐ Somewhat agree ☐ Strongly agree ☐ Not relevant

Is a depiction of the phenomenon it purports to represent that is **complete, neutral** and **free from material error**.

- ☐ Strongly disagree ☐ Somewhat disagree ☐ Neither agree or disagree
☐ Somewhat agree ☐ Strongly agree ☐ Not relevant

Is **understandable**.

- ☐ Strongly disagree ☐ Somewhat disagree ☐ Neither agree or disagree
☐ Somewhat agree ☐ Strongly agree ☐ Not relevant

Is available in **time** to be useful.

- ☐ Strongly disagree ☐ Somewhat disagree ☐ Neither agree or disagree
☐ Somewhat agree ☐ Strongly agree ☐ Not relevant

Is comparable across time and with like public sector entities.

- ☐ Strongly disagree ☐ Somewhat disagree ☐ Neither agree or disagree
☐ Somewhat agree ☐ Strongly agree ☐ Not relevant

Is of a quality that helps assure me the information presented **faithfully represents** the economic and other phenomena it purports to represent.

- ☐ Strongly disagree ☐ Somewhat disagree ☐ Neither agree or disagree
☐ Somewhat agree ☐ Strongly agree ☐ Not relevant

Question 12

To be useful, information in the **financial report section** of the annual report should possess certain characteristics. Thinking about my use of the **financial report section** of my chosen annual report, the information I obtain:

Is capable of making a difference to my assessment of how the entity is accountable for its management and use of resources to those that provide them with resources, and to those that depend on them to use those resources to deliver necessary services.

- ☐ Strongly disagree ☐ Somewhat disagree ☐ Neither agree or disagree
☐ Somewhat agree ☐ Strongly agree ☐ Not relevant

Is capable of making a difference to my actions.

- ☐ Strongly disagree ☐ Somewhat disagree ☐ Neither agree or disagree
☐ Somewhat agree ☐ Strongly agree ☐ Not relevant

Is capable of making a difference to my other purpose assessments (if applicable).

- ☐ Strongly disagree ☐ Somewhat disagree ☐ Neither agree or disagree
☐ Somewhat agree ☐ Strongly agree ☐ Not relevant

Is a depiction of the phenomenon it purports to represent that is complete, neutral and free from material error.

- ☐ Strongly disagree ☐ Somewhat disagree ☐ Neither agree or disagree
☐ Somewhat agree ☐ Strongly agree ☐ Not relevant

Is available in time to be useful.

- ☐ Strongly disagree ☐ Somewhat disagree ☐ Neither agree or disagree
☐ Somewhat agree ☐ Strongly agree ☐ Not relevant

Is comparable across time and with like public sector entities.

- ☐ Strongly disagree ☐ Somewhat disagree ☐ Neither agree or disagree
☐ Somewhat agree ☐ Strongly agree ☐ Not relevant

Is of a quality that helps assure me the information presented faithfully represents the economic and other phenomena it purports to represent.

- ☐ Strongly disagree ☐ Somewhat disagree ☐ Neither agree or disagree
☐ Somewhat agree ☐ Strongly agree ☐ Not relevant

Question 13

To be useful, the reporting of performance information in the annual report should possess certain characteristics. Thinking about my use of service performance information, if any, in my chosen annual report, I assess the reporting of **service performance information**:

Is capable of making a difference to my assessment of how the entity is accountable for its management and use of resources to those that provide them with resources, and to those that depend on them to use those resources to deliver necessary services.

- ☐ Strongly disagree ☐ Somewhat disagree ☐ Neither agree or disagree
☐ Somewhat agree ☐ Strongly agree ☐ Not relevant

Is capable of making a difference to my actions.

- ☐ Strongly disagree ☐ Somewhat disagree ☐ Neither agree or disagree
☐ Somewhat agree ☐ Strongly agree ☐ Not relevant

Is capable of making a difference to my other purpose assessments.

- ☐ Strongly disagree ☐ Somewhat disagree ☐ Neither agree or disagree
☐ Somewhat agree ☐ Strongly agree ☐ Not relevant

Is a depiction of the phenomenon it purports to represent that is complete, neutral and free from material error.

- ☐ Strongly disagree ☐ Somewhat disagree ☐ Neither agree or disagree
☐ Somewhat agree ☐ Strongly agree ☐ Not relevant

Is understandable.

- ☐ Strongly disagree ☐ Somewhat disagree ☐ Neither agree or disagree
☐ Somewhat agree ☐ Strongly agree ☐ Not relevant

Is available in time to be useful.

- ☐ Strongly disagree ☐ Somewhat disagree ☐ Neither agree or disagree
☐ Somewhat agree ☐ Strongly agree ☐ Not relevant

Is comparable across time and with like public sector entities.

- ☐ Strongly disagree ☐ Somewhat disagree ☐ Neither agree or disagree
☐ Somewhat agree ☐ Strongly agree ☐ Not relevant

Is of a quality that helps assure me the information presented faithfully represents the economic and other phenomena it purports to represent.

- ☐ Strongly disagree ☐ Somewhat disagree ☐ Neither agree or disagree
☐ Somewhat agree ☐ Strongly agree ☐ Not relevant

Question 14

Thinking about the audit report contained in your chosen annual report, is the **audit report** important to you?

☐ Yes ☐ No

Why is it important/why not?

Question 15

☐ Yes ☐ No

Thinking about the **governance information** in your chosen annual report, is this information important to you?

Why is it important/why not?

Question 16

☐ Yes ☐ No

Are both group consolidated as well as parent financial statements needed for accountability?

Do you think full financial reporting or reduced disclosures are acceptable for accountability?

Would you like to expand on your reasoning for these responses?

Question 17

Can you explain any **challenges** you face (or have seen others face) in **preparing** the financial report:

- (a) Accounting standards are appropriate
- (b) The Government pro forma guidance
- (c) The relevant Act(s)
- (d) Governance guidelines
- (e) Accounting and Professional Ethical Standards Board pronouncements
- (f) Do you face any specific challenges in using (or auditing the use of) the Accounting Standards?
- (g) Other?

Question 18

Does your chosen annual report include any **'sustainability'** information (e.g. about environmental or social issues) other than in the context of financial reporting? ☐ Yes ☐ No

1. Do you consider 'sustainability' (e.g. about environmental or social issues) information important for inclusion in public sector reporting?
2. What type of environmental or social information do you think is important to be included?
3. Why is it important/why not?

Question 19

Preparers only. If you are not a preparer, please skip this question. ☐ Yes ☐ No

Do you apply the Task Force on Climate-related Risk Disclosure Recommendations?

If not, is there any discussion about reporting on TCFDs in your organisation?

Is your organisation required to report under the *National Greenhouse Energy Reporting Act 2007* or any similar State-based Act?

What environmental/social reporting framework(s) do you use, if any?

If you use such a framework, do you have any challenges in applying this framework?

What is/are the driver(s) of adopting environmental/social reporting in your organisation?

Have there been any changes in measuring or reporting on your organisation's environmental or social impact since the initial reporting on these issues?

Demographic characteristics

1. Are you ☐ Male ☐ Female ☐ Other ☐ Prefer not to answer

2. What is your age? ☐ Under 20 years ☐ 20-24 years ☐ 25-34 years ☐ 35-44 years
☐ 45-54 years ☐ 55 or older ☐ Prefer not to answer

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