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Performance Reporting: A Review of Literature in the Public Sector and Statutory Bodies

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Abstract: This paper reviews the literature on performance reporting in the public sector. The performance reporting is one of the techniques used in measuring the performance of organization. It is a mean to discharge the accountability of the organization to the public. It is hope that this paper will provide guidance in understanding about the performance reporting practices in public sector as well as statutory bodies.

Keywords: Accountability, Performance Reporting, Public Sector, Statutory Bodies

1. Introduction

Over the past decades, public awareness has been raise regarding the accountability of public sector. Robinson (2003) defined the accountability for the public sector as an outcome of the delegation of government authority to the public rather than merely reporting of government's activities publicly. The government controls public sector resources and uses them to fulfill certain economic roles; therefore it is the duty of public officers to report their actions to the citizens. According to Jones and Pendlebury (1992), the citizens have the right to take appropriate actions to any of public officers who fail to perform their duties properly.

In an organizational context, the definition of accountability might imply responsibility to an oversight agency with formal record keeping and reporting requirements as a means of demonstrating compliance, and explicit standards of performance or assessment by this higher authority. Accounting is not only record keeping the monetary and non-monetary transactions but it should fulfill the needs of their users (Rauf et al, 2003). The users of any organization need to have enough information, which then help them in making the economic decision.

The performance reporting or performance information is part of performance measurement done by the public sector to broaden their accountability. When discussing about the performance reporting, it is actually concern on the reporting practices of any organizations. The reporting practices for public sector normally concern on the input, output, effectiveness and also efficiency aspects.

2. Performance Reporting in Public Sector

The performance reporting or performance information is one of the efforts done under performance measurement, which could be seen in their annual report. The annual report is a medium of the organization to discharge accountability to their stakeholders (Connolly and Hyndman, 2004). A huge body of literature discussed on the performance reporting in the public sector using annual report as a mean to discharge accountability to the stakeholders, specifically in the developed countries. In this part of discussion, a review of literature discussed only on the public sector organization other than statutory bodies.

Prior study in the performance reporting of public sector focused on different types of issues such as compliance and the function of performance reporting in discharging accountability to the stakeholders. Connolly and Hyndman (2004) examined the compliance issue in the annual report of British and Irish charities organization. The main objectives of the paper are: (1) to review the linkages between accounting and accountability, highlighting particularly the importance of performance information in discharging accountability by charities; and (2) to conduct an empirical analysis of recent annual reports of charities, distinguishing between British and Irish. They studied on the information provided outside of the financial statement and seek to identify the type and extent of the reporting of performance information by these organizations.

The analysis reported in the paper focuses on the annual reports and financial statements of British and Irish charities in two size related groups, small (those with incomes between £100,000 and £650,000) and large (those with income greater than £650,000). In total, usable responses from 332 charities were analyzed, compared and reported. They developed a simple disclosure index (which they called performance checklist) and analyzing the data using chi-square test. In the study, they found that the British charities were more compliant (compatible) with accounting recommendations than Irish charities. They stated that the reliability of external reported performance information is an important issue to the publication of performance information. There should be more guidance relating to performance information issued by concerned parties both in Britain and Ireland. Further, Connolly and Hyndman (2004) found that the performance reporting practices by British charities are considerably better than Irish, although both charities have increased their performance reporting over time. They also found that, larger charities (both in Britain and Ireland) provide more extensive performance information than smaller charities.

The annual reports also played as means of discharging accountability to potential stakeholders. Steccolini (2004) conducted an empirical analysis on a sample of Italian local governments in order to investigate the actual categories of users of the annual report, the degree of users' interest in the annual report as perceived by preparers, the actual use of 'term statements' or alternative means of communicating results to users, and the amount and the mix of information disclosed in the annual reports. The results show that annual reports are seemingly used to discharge accountability to 'internal' users, even if it is not clear if they are actually read. At the same time, they have no significant role in communicating to external users.

A study conducted by Wisniewski and Stewart (2004), identified the stakeholders of Scottish local authorities to include: local citizens, clients, consumers, users, the media, elected representative, central government, regulatory, managers and also the employees. The study was based on a case study of 24 councils, where they concluded that different stakeholders need different types of information. Thus, they found that the financial reporting of public sector failed to satisfy the information need by the stakeholders due to: (1) the end users of the financial reports are not clearly identified; (2) financial reports are prepared merely to fulfill the regulatory, thus the issue of performance information of public sector are not up to the level that would satisfy the needs of stakeholders; (3) the emphasis for monetary term reporting has left behind the measurement of effectiveness or efficiency of the services provided by local authorities, which usually prepared on the basis of judgment or possess a non-monetary nature.

For the Malaysian context, very minimal studies found to discuss on the performance reporting in the public sector. Coombs and Tayib (2004) discussed the variety issues pertaining to the disclosure practice of local authorities (LAs) in Malaysia. This is a comparative study conducted between LAs in United Kingdom (UK) and Malaysia. The study used 10 samples of LAs, which 5 samples of LAs in UK and another 5 samples selected from LAs in Malaysia. They have scrutinized the financial reports and accounts of these LAs for the year 1994 or 1995. They employed the disclosure index methodology, which was developed by Chartered Institute of Public Finance and Accountancy (CIOFA) code of practice. The results indicate a significance difference in the accounting disclosure in both countries especially in the revenue

account, although in term of format and notes they were quite close. UK LAs found to be more responsive to all items listed in the index. The reason for lower level of compliance for Malaysia was less details in the accounts as compared to their UK counterparts. Further, the study revealed, the historical relationship has not influenced the present structure and system of the Malaysian LAs published in financial accounting statements. Instead, the development of LAs accounting in these countries was very much influenced by the level of interest expressed by the central or state government, professional bodies as well as user groups.

Osman (2004) outlined the role of the Accountant General's Department (AGD) in the development of the State and Local Governments accounting and reporting. She narrates the various rules and regulations applicable. The study found that the AGD's role in the Local Governments accounting and reporting has been minimal so far, and the State and Local Governments accounting and reporting are not standardize. These have resulted in various problems and weaknesses (due to inexpediences and inadequate qualified accounting personnel), which are highlighted annually by the Auditor General. The current accounting developments and initiatives undertaken by the AGD directly or indirectly influence the accounting system of the State and Local Governments. The main developments and initiatives are the development of the State Government Standardized Computerized Accounting System (SPEKS); documentation of Public Sector Accounting Standards; establishment of the National Institute of Accountancy; implementation of the Standard Accounting System for Government Agencies (SAGA) and the development and implementation of the Electronic Government – Accountant General Integrated System. The AGD will continue to play an active role in the development of the State and Local Government accounting system and reporting to enhance the quality of financial management, accounting and reporting.

In other study, Syed Ismail et al. (2004) discussed the reasons that might contribute to the lag in reporting of local government financial report. The lag refers to the difference between the audit report date and the balance sheet date. They investigated the factors that might influence the timeliness of the reporting in the Malaysia environment. The studied used 15 samples of financial reports in 11 local governments in Kedah. This local governments classified into two categories; town councils and district councils. The study found that the variable used in the study (i.e. total assets, total expenditure, numbers of fund) have a negative relationship between the financial reporting lag. However, other variables (i.e. type of auditors and type of local government) have positive relationship to the financial audit lag.

3. Performance Reporting in Statutory Bodies

Numbers of studies found to discuss on the performance reporting in statutory bodies. For example, Rutherford (1996) studied on the structure and content of the published financial statements of executive agencies. Further, McCrae and Aiken (1988) reviewed the Commonwealth Government Statutory Authorities (CSAs) in Australia, which emphasizing on the features that cause grave concern about the adequacy of their financial accountability to Government and the public. Pendlebury and Karbhari (1997) found to study on the management and accounting developments in Executive Agencies.

In the UK, the executive agencies were established to improve service delivery, with changes being supported by an increasing focus on quantification. These agencies have the similar function as the Malaysian Statutory Bodies (MSBs). Pendlebury et al. (1992) show that the creation of an agency doest not means a significant change in treasury control. The agency stays under the traditional control. Agencies were established to improve service delivery, with changes being supported by an increasing focus on quantification.

Then, in Pendlebury et al. (1992), they investigated the development of accountability and their financial reporting practices of UK Executive Agencies. Their primary objective is to determine the extent to which the new agencies had moved away from central Treasury control. In other words, the study reports on one aspect of how accounting is being used in the establishment of Executive Agencies in the UK civil service. They also want to determine the

role of annual reports and accounts of the agencies. They examined 53 annual reports of UK Executive Agencies for the year ended 31 March 1992. The UK Executive Agencies in the study were classified into trading and non-trading fund agencies. The measures/indicators that were reported and a standard checklist were used as a basis for obtaining the data. Generally, the study reveals some wide variations in progression towards full accruals accounting. Based on the study, they found that the non-trading fund agencies shows much wider variability in the presentation, content and measurement based used as compare to the trading fund agencies. Moreover, they also found that the most frequently encountered financial indicators were the cost reduction type and for non-financial performance indicators were procedural efficiency.

Furthermore, Hyndman and Eden (2002) discussed the connection between targeting and reporting performance in UK executive agencies. This empirical analysis ascertained the extent to which targets in the planning documents of agencies are used as a basis for external reporting via a medium of the annual report. They analyzed the performance information in the 24 annual reports of the agencies. They provide evidence that key targets in planning documents of agencies provide a useful platform for external reporting, although improvement can still be made.

The other aspect discussed by the prior study is on the presentation of the annual report. For example, Rutherford (1996) surveyed the structure and content of the published financial statements of executive agencies entering the Fifth Price Waterhouse Best Agency Report and Accounts Competition for the period of 1993/1994). The study revealed there are variety of practice in relation to disclosure, format and terminology which is not always obviously related to substantial differences in the circumstances of the agency or the underlying transactions and events. The effect of this variety on lay users of the financial statements will obviously depend on the extent to which users examine the statement of more than one agency.

Meanwhile, Christensen and Skaerbaek (2007) explained why public sector performance reporting emphasizes external accountability may turn out differently from the official stated aims. They used a comparative case study method, where two different accountability innovations are examined using framing and overflowing ideas. They found that accountability reports became bureaucratic communications between the reporting and central agencies. The reports were transformed because the performance reporting produced a number of overflows and reduced the importance of broad audience (e.g. citizens). Thus, the accountability purpose ended up being mostly reduced to disclose of traditional input and output measures and some insignificant stories to avoid public criticism of the accountability reform but also to hinder others in identifying objects for cost cutting (various method of study-interviews, annual reports, and documents).

Hyndman and Anderson (1998) discussed the importance of performance information in the discharge of accountability by agencies through the medium of the annual report. It presents a time-series empirical analysis of the performance information in four sets of agency annual reports. They examined the role of performance information in the discharge of accountability by Agencies and discuss the contribution that performance reporting can make to the achievement of some of the objectives of the Next Steps Initiatives. The study analyzed the annual reports from the first 57 Agencies which were published from the year 1992 to 1993. They found that there was significant proportion of Agencies reporting little or no information on efficiency and effectiveness and the various component parts of performance. However, they did not attempt to judge the appropriateness of particular measures or whether targets set were 'reasonable'. Moreover, this study indicated that the Agencies' annual reports contain significantly more performance information than annual reports from other not-for-profit organizations.

However, Christensen and Yoshimi (2001) concluded that the path taken to performance reporting developments cannot be fully explained by New Public Management, and contingencies could be understood better if other governance variables would be taken into account.

4. Conclusion

The review has demonstrated the need to discharge accountability in the public sector. Numbers of study found to discuss on the performance reporting in public sector. There are several issues discussed in the prior study in light of performance reporting; compliance, disclosure, performance indicator and also the role of annual report in discharging accountability to the users. However, very minimal studies found to discuss the topic in the Malaysia context, specifically on the statutory bodies.

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